EFFECTS OF THE RECESSION ON MARYLAND COMMUNITIES

1132

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OF THE

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EFFECTS OF THE RECESSION ON MARYLAND COMMUNITIES

MONDAY, JANUARY 11, 1982

Congress of the United States,
Subcommittee on Investment, Jobs, and Prices
of the Joint Economic Committee,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:15 a.m., in room 215, Baltimore City Hall, Baltimore, Md., Hon. Paul S. Sarbanes (member of the subcommittee) presiding.

Present: Senator Sarbanes.

Also present: Betty Maddox, assistant director for administration; and William R. Buechner, professional staff member.

Opening Statement of Senator Sarbanes, Presiding

Senator Sarbanes. The subcommittee will come to order.

Today the Subcommittee on Investment, Jobs, and Prices of the Joint Economic Committee begins a series of hearings on the State of Maryland to review and document the effects of the recession on Maryland communities and their citizens.

In four hearings this week, in Baltimore, Cumberland, Salisbury, and Silver Spring, the subcommittee will hear from more than 70 knowledgeable witnesses about the severe challenge posed by current economic conditions to unemployment, business and business investment, homeownership and community economic development.

The hearings are being held at the request of Congressman Henry S. Reuss, chairman of the Joint Economic Committee, in connection with comprehensive hearings which the subcommittee will undertake beginning the week of January 18 and continuing through the month of February.

The Joint Economic Committee holds such hearings on the state of the economy every year, in accordance with the provisions of the Employment Act of 1946 directing the committee "to make a continuing study of matters relating to the Economic Report" which the President, pursuant also to provisions of the Employment Act, submits annually to the Congress.

While the hearings of the Joint Economic Committee on the state of the Nation's economy in Washington will receive testimony from Cabinet secretaries, other administration witnesses and leading experts from the private sector, the subcommittee hearings will focus on the local impact of the recession in communities across the State of Maryland.

The testimony received in the course of these hearings will constitute a valuable contribution to the work of the Joint Economic Committee in developing the policy recommendations that the committee in its annual report will make to the Congress.

The full committee will, for instance, be hearing on January 26 from Chairman Volcker of the Federal Reserve Board and on January 27 from Secretary of the Treasury Donald Regan.

The subcommittee hearings come at a critical time for local economies and communities in the State. The recession, which last fall began to spread beyond certain interest-sensitive sectors of the economy which were already in recession, pushed the national unemployment rate up to 8.9 percent in December, according to the figures presented last Friday at the full hearing of the Joint Economic Committee by the Bureau of Labor Statistics. The November unemployment rate for Maryland—the November rate—in other words, we lag a month behind, which was the latest available—stood at 7.9 percent higher than at any time since the Great Depression of the 1930's.

In the Baltimore area, where the hearings open today, the situation is especially serious. In the city of Baltimore, where the cooperative efforts of the public and private sectors have done so much over a sustained period of time to improve the lives of Baltimore citizens, unemployment today is well above 10 percent—making Baltimore the fourth ranking major city in the Nation in terms of unemployment.

Better than one in two black teenagers in Baltimore is out of school and out of a job. It is ironic that this should be the case at the same time that Baltimore continues to be a model for cities across the Nation of what leadership, commitment, and imagination and responsible use of resources can accomplish.

High unemployment is both a reflection of and a contributing factor to recession. It is not the only factor in recession, however. When the Subcommittee on Investment, Jobs, and Prices held hearings in Maryland just before Labor Day, I remarked that "It is no exaggeration to say that the problems created by continuing high interest rates are approaching crisis proportions." The statement remains as appropriate today as it was over 4 months ago.

The prime rate has fallen from a high of 20.50 percent in September to its current level of 15.75 percent, but that drop has not been effectively translated into significantly lower rates for homebuyers, homebuilders, auto dealers, or the small business community. Indeed, the Federal Home Loan Bank Board reported just last week that mortgage rates declined in early December from 18.16 percent to 17.54 percent nationwide, rates which remain far beyond the reach of all but a few Maryland families. 1981 auto sales nationally were the worst in 20 years.

A third factor in the current recession is the sudden and drastic reductions in Federal programs which in recent years have enabled the public and private sectors in Maryland communities to undertake important economic development and employment programs which would otherwise never have been undertaken. We are fortunate to be able to explore this matter today with members of Mayor Schaefer's administration.

The purpose of the hearings which open today is to document across the State, with testimony from those directly affected, the conditions to which rising unemployment, continuing high interest rates and other adverse economic indicators attest. These urgent issues will be examined at length on a nationwide scale in the hearings which begin in the Joint Economic Committee next week.

It is my expectation that the record of the Maryland experience established by these hearings will make an important contribution to the subcommittee's work and to the response which policymakers must undertake as they address the grave economic challenges now facing the Nation.

As our first witness—we have shifted the order a bit—we would like to have Frank Heintz, who is the executive director of the Maryland Employment Security Administration, come forward.

Frank will be followed by a panel from the city, assuming all its members at that time have arrived.

Mr. Heintz, we're pleased to welcome you and are prepared to receive your statement.

STATEMENT OF FRANK O. HEINTZ, EXECUTIVE DIRECTOR, EMPLOYMENT SECURITY ADMINISTRATION, MARYLAND DEPARTMENT OF HUMAN RESOURCES, BALTIMORE, MD.

Mr. HEINTZ. Senator Sarbanes, this information I will present simply confirms the very alarming statistics that you have already shared with us, that this area of the State, indeed the State at large, is in a very deep recession at this time and the outlook is certainly not for improvement over the next couple of months. But for a worsening economic situation. Your very presence speaks your alertness and concern over this despairing situation, and we appreciate your particular attention and action to help us resolve it.

The summary information which I will present simply confirms the alarming deterioration of the Baltimore area economy. And it would help understand the nature of that deterioration and suggest the outlook for the immediate future.

To summarize, except for the month of June, every month in 1981 we have seen unemployment rates which have exceeded the prior year. The unemployment rate in June 1980 and June 1981 was equal at 8.1 percent. But except for that month, we have dramatic increases in the unemployment rate compared with last year.

November's unemployment rate, as you stated, it was 9.1 percent, which is the highest on record since 1975. We don't have comparable statistics or data at an earlier time. But were we able to obtain that comparable statistics. I'm sure we'd find that November's unemployment rate in Maryland and in the Baltimore metropolitan area was, indeed, the highest since the Great Depression.

The corresponding rate in November of 1980 was 7 percent. So, in other words, we had 30 percent higher unemployment rate this November than we did in the prior year. And these statistics are dramatically higher than what we have seen over the past 5 years.

The absolute number of persons unemployed has grown each month. Each month during 1981 we've had a higher number of unemployed Baltimore residents and a higher number of unemployed Marylanders.

I'd like to convert some of these percentages into statistics. It's one thing to say 9.1-percent unemployment in the Baltimore metropolitan area. It's another to realize the numbers of persons—it's another thing to realize the number we're talking about: 96,600 persons in the metropolitan area were unemployed in November. In the city that's 43,600 persons who want jobs, are looking for jobs and are out of jobs.

Anne Arundel County, 10,700; Baltimore County, 27,000; Carroll County, 3,200; Harford County, 5,100; and Howard County, 2,200.

A total of 9.1 percent of our labor force is looking for a job, wants a job, and is unable to obtain a job to support the worker and his or her family. These compare with rates of 7 percent only a year ago. In other words, for every 1-percent increase in unemployment in the Baltimore area, we're talking about 19,600 additional unemployed area residents. And for the State, that converts into a much higher 21,000 number.

The employment trends are obviously opposite. We've had lower numbers of persons employed for each month in 1981, as compared to last year, except for the month of June. In November 1981, the number of employed persons was 20,000 less in this area than a year earlier. And the 11-month average is 13,000 fewer jobs than in 1980. All other years on record show significant annual average employment increases, except for 1981.

In sum, it is a bad circumstance in this area and is felt by 96,000 Baltimore area residents.

Let me analyze quickly some of the industry trends we see. We see almost uniformly every industry in the metropolitan area is suffering.

The primary metal industries, the unemployment has dropped from 26,400 last year down to 25,000 this year.

In nondurable goods, the employment has dropped from 64,500 down to 63,700.

In the nonmanufacturing area, from 799,000 only a year ago to 788,000 this time.

Construction is, perhaps, the most dramatic collapse of any of our industries in the area, and the employment there has dropped from 54,000 a year ago down to 43,000, a 20-percent drop in the number of jobs in that industry.

In the retail trade, we think there is strength. The employment there has dropped from 162,400 from a year ago to 157,000 this year.

Finally government, which all of us thought to be secure employment, the employment in all levels of government in this area has dropped from 211,000 down to 200,000. So even what has traditionally been considered to be a secure area of employment, we have seen dramatic drops.

I'd like to share with you even more current statistics on the number of persons in this area who are receiving unemployment insurance benefits, because they dramatize what has happened during December, the last 2 weeks.

Our claim load for the Baltimore metropolitan area in the last 2 weeks of December average 47,700 individuals dependent upon unemployment insurance benefits. That's 20 percent over a year ago and 51 percent over 2 years ago—51 percent in the number of persons who have to rely on unemployment insurance benefits. We're paying out $6 million a week in benefits.

And in the last week we reached the all-time record for new claims processed by our agency. We had 15,900 Marylanders come in to open up new claims with our agency. It is an all-time high.

The outlook—I offer this with some hesitancy because economists more learned than I have proved themselves wrong so many times—and so have I—in the past in making predictions. But certainly it's not good. We'll see worsened unemployment in January and February. It's safe to say that the Baltimore metropolitan area will have unemployment in excess of 12 percent.

As to whether we'll see any improvement, I think we'll see some seasonal improvement as the weather improves in March and April. I personally, though, don't see improvements of a structural nature until the summer or the fall at the earliest.

So I would say, in summary, the situation here is not good for persons who are seeking jobs. The number of job openings is decreasing. And I don't see anything in the immediate future that offers hope.

Senator SARBANES. Thank you very much, Frank.

[The prepared statement of Mr. Heintz follows:]

PREPARED STATEMENT OF FRANK O. HEINTZ

The severe and lingering economic distress in the Baltimore Area has been and continues to be widely discussed in the media and in public forums. Most of our citizens are aware (many, painfully aware) of the soaring unemployment levels experienced over the last 6-8 months in Baltimore. Joblessness resulting from Baltimore's ailing economy continues to grow, reaching previous record levels of unemployment and establishing new ones.

Your very presence bespeaks your alertness and concern over our despair. Nevertheless, I welcome the opportunity to officially and specifically confirm to you the alarming deterioration of the Baltimore Area economy; to help you understand the nature of the deterioration; and to suggest to you the economic conditions most likely ahead.

Total Unemployment, Employment - 1980/1981 (BMA)

Unemployment

Every month but one in 1981 unemployment (volume and rate) was above the corresponding month in 1980. The unemployment rate in June 1980 and June 1981 was equal at 8.1 percent. November's unemployment rate at 9.1 percent is the highest on record, and is nearly one-third higher than the corresponding 1980 rate which was 7.0 percent, (present data series begins in 1975 but in all probability the November rate is exceeded only during the depression if rates during both periods could be comparably calculated). The absolute number of persons unemployed has grown each month of 1981. In every month (June notwithstanding) the number was higher than the same period in 1980. The monthly difference in unemployment volume between the two years grew regularly (with some respite in summer when the difference was between one and seven thousand) throughout the year ending with November 1981 unemployment exceeding November 1980 unemployment by more than 22,000 persons. At this time almost 100,000 Baltimoreans were out of work. The December 1981 figure though not yet known has undoubtedly grown.

Employment

Employment trends are expectedly opposite. June 1981 employment was essentially equal to June 1980 (approximately 988,000 persons). In every other month of 1981 employment was lower than the corresponding period one year earlier. In November 1981, employment was more than 20,000 persons less than in November 1980. Monthly changes in employment during 1981 have been erratic. But the 11 month average (January-November) of 983,000 is approximately 13,000 below the 1980 annual average (970,000). All other years on record show significant annual average employment gains between successive years.

Assessment of Nonagricultural Employment

Manufacturing - so far in 1981 manufacturing's employment decline of approximately 3,000 jobs is less severe than the 1979-1980 loss of over 8,000 jobs.

NOTE: 11 month average 1981 (manufacturing) about 157,000

Most manufacturing employment sectors are weak. Some strength has been noted in electric/electronic equipment with employment stronger by 1,300 jobs. However, transportation equipment and nonelectrical machinery are off collectively by over 3,300 jobs over the year.

Construction - employment in construction was surprisingly strong during the first half of 1981 but has been in decline since August. The late deterioration in this sector was due in part to heavy construction projects already underway.

Transportation, Communication and Public Utilities - employment in communications, public utilities and railroads remain stable. Erratic movements caused by stevedoring and trucking industries are evidenced but relatively small change in employment level has occurred over the year.

Trade - in November, trade employment was 2,400 jobs below the year ago level (November 1980). Despite weakness in this sector, stability and possibly small growth will be provided by employment at Hunt Valley, White Marsh and the Columbia malls as well as Harborplace and other developments in the counties.

Finance, Insurance, and Real Estate - despite high interest rates, inflation and a very depressed real estate market, employment in this sector has grown moderately.

Services - November 1981 employment in services industries was up more than 11,000 jobs since November 1980. Possibly accounting for this strength are:

- o increased and more regularly automobile servicing
- o substitution of inhouse activities (EG accounting) with outside service contracts.

Government - government employment in November 1981 had fallen approximately 11,000 over the year. More cutbacks are expected.

1982

Unemployment is expected to continue to reach new highs throughout at least February or March 1982. Unemployment rates exceeding 10 percent are expected. Some improvement should be experienced in the spring due to normal seasonal developments. Hopefully we will also experience some signs of recovery from the recession at that time--but average unemployment throughout the year will probably be 9.5-10.0 percent in the Baltimore Area.

Employment growth if experienced will be sluggish at best. In most instances, 1980 employment levels will not be matched. Manufacturing will remain depressed amidst continued layoffs. Government employment will further decline. Services and trade industries are not expected to change dramatically. Construction may experience very modest improvement.

Most hopeful development is that by mid to late 1982 an economic recovery may have taken hold. Even so, it's effect on the year overall will be modest at best.

Unfortunately too many unknowns remain including the possibility that interest rates and/or inflation will remain high stalling even the start of an economic recovery.

Senator SARBANES. Last Friday, the Bureau of Labor Statistics announced the national unemployment figures for the month of December. That rate was 8.9 percent. The national unemployment rate was 7 percent in July. It's gone from 7 percent to 8.9 percent in 5 months. That is the highest unemployment rate we've had since World War II, with the exception of May 1975, when it reached 9 percent. The indicators suggest that the unemployment will worsen.

Now, the State unemployment rate figures lag a month; is that correct?

Mr. HEINTZ. Yes.

Senator SARBANES. What is the latest figure you have available, statewide?

Mr. HEINTZ. The latest is November, which was 8.9 percent. We will not have December statistics for another 2 weeks.

Senator SARBANES. In another 2 weeks you will have the December statistics?

Mr. HEINTZ. Yes.

Senator SARBANES. Federal testimony on Friday indicated that almost all of the rise in unemployment was due to job losses, not to new entrants in the labor force. Since July, 2 million more people who are out of work or cannot find work, have been added to the unemployed. Almost all of those, 1.8 million over that period, are people who have lost their jobs, not new people coming into the labor force, looking for jobs.

Do you have any information on that trend in Maryland?

Mr. HEINTZ. The trend in Maryland is exactly the same, new persons coming into the labor force are unable to find jobs. But the dramatic increase in unemployment is due to the loss of jobs by those who held them previously.

Senator SARBANES. What's the situation with people exhausting their unemployment benefits?

Mr. HEINTZ. I'm very concerned about that. Typically, we have 25 percent of our claimants who exhaust benefits. We're trending up now to 40 percent. And I'm concerned that in February or March we will have over 50 percent of claims going to 26 weeks, using up their full entitlement and therefore being left without any support during the balance of their period of unemployment.

Senator SARBANES. The changes imposed by the new administration cutback the length of unemployment compensation now to 26 weeks; is that correct?

Mr. HEINTZ. That's correct. The Reagan administration did two things:

Number one, they eliminated a national trigger that used to turn on the extended benefits program. Had that not been eliminated, we would be paying an additional 13 weeks to Maryland unemployed persons right now.

Second, in another 5 months the Reagan administration's legislation will require that the State triggers be increased to such levels that the extended benefits program will go on only in a severe depression.

Senator SARBANES. Are the budget cuts, which your department has experienced, affecting the ability of your department to deal with the increased problems that it confronts because of the rising unemployment? How severely have you been affected?

Mr. HEINTZ. Very severely. For example, since last year, our funding for processing unemployment insurance claims has been cut back. We have the smallest staff now we have had in 5 years. Yet we have the largest claim load.

I'm becoming very alarmed by the daily long lines we have at our local offices, and I'm really worried about our capacity to handle a sustained period of unemployment.

Indeed, we have just sustained another round of budget cuts and we will have staff cutbacks in our agency within the next month and a half.

Senator SARBANES. Doesn't that simply mean that the people you serve will have to wait longer?

Mr. HEINTZ. We'll have longer lines. Our checks will be delayed in getting out. We'll have more errors in making payments. In sum, at a time when we ought to be improving our capacity to help the unemployed, the current Reagan administration is indeed reducing substantially our capacity to serve the unemployed.

Senator SARBANES. As a matter of curiosity, how long is it, ordinarily, from the time a person files a claim before he starts to draw an unemployment check?

Mr. HEINTZ. Typically we issue a first benefits check, 87 percent of them will go out within 21 days of the claim being filed.

Senator SARBANES. At what point can he file the claim? At that point must he be out of work?

Mr. HEINTZ. Yes, the first day the individual is out of work he or she may file a claim, and within 21 days 87 percent will get the first check.

Senator SARBANES. That means he or she has to bridge a 3-week period without an income; is that right?

Mr. HEINTZ. That's correct.

Senator SARBANES. And then the other 13 percent are within a short period thereafter?

Mr. HEINTZ. They may have disqualification disputes which hold up their check.

Senator SARBANES. Have you been able to maintain that thus far, despite the cutbacks?

Mr. HEINTZ. We have through the quarter ending in September. I think your quarterly statistics ending December are not going to be up to that, and I think we'll see steady deterioration. Senator, in the 5 years I've headed up this agency, we've never had lines of the kind that we have been seeing over the last 2 weeks.

Senator SARBANES. Thank you very much for your testimony. It's been very helpful.

I see that the county executive of Baltimore County is with us, Donald Hutchinson, Donald, I think we would be prepared to take you right now, if that suits you.

STATEMENT OF DONALD P. HUTCHINSON, BALTIMORE COUNTY EXECUTIVE, TOWSON, MD.

Mr. HUTCHINSON. Thank you, Senator, and we do have a handout, Senator, for your use and for the use of your other committee members.

I appreciate the opportunity to come and speak to you, Senator, for a few minutes concerning unemployment and the impact that it has on Baltimore County and its residents. The simple message that I can give you is that the situation is bad and getting worse in Baltimore County. Unemployment in Baltimore County now is at its highest in its history, 9.3 percent, which is significantly higher than the unemployment rate on a national level.

Senator SARBANES. What is it?

Mr. HUTCHINSON. 9.3 percent. That's the highest in its history. The thing that I think is important to know is that in Baltimore County the unemployment rate is geographical in nature; that if you take the county as it surrounds Baltimore City and go to the eastern and westernmost points, that's where we have the most significant unemployment rates. When Bethlehem Steel and General Motors and Easton Stainless Steel have significant layoffs, that means unemployment rates in those communities are sometimes as high as in the mid-teens. That's a situation that we are approaching now in eastern and in western Baltimore County. The figure is not as severe in central Baltimore County, as I said. It is located geographically around the outskirts of the county.

The decline in the economy is somewhat significant. If Bethlehem Steel loses 5,000 workers and they're collecting unemployment in subpay rather than full paychecks, the combined spending power in the community is reduced about $1 million per week; $1 million per week, which of course has a tremendous impact on the economy of the entire county.

We cannot tolerate a continued decline in the major industries of Baltimore County. Foreign steel imports are capturing 20 percent of today's U.S. steel market, three times the share of several years ago. The domestic steel industry is operating at 58 percent of capacity, with 22 percent of its workers laid off nationally. The import share of the U.S. steel market is now comparable to Japan's share of the domestic auto market.

It is clear that the Federal Government must become more aggressive in its enforcement of antidumping laws in order to give American industry the time it needs to modernize its facilities and increase its competitiveness. I believe that Bethlehem Steel's decision to spend $375 million on modernization of its Sparrows Point plant in Baltimore County is just one example of American industry's commitment to modernize. But we cannot reasonably expect wholesale modernization to occur without simultaneous action by the Federal Government to curb foreign dumping in U.S. markets.

As you know, local government has few tools it can use to combat unemployment directly. CETA jobs, particularly, were one way that we could help them combat unemployment. Job training programs through the CETA administration has been very critical to this county. Last year Baltimore County was forced, the Government itself, was forced to lay off almost 1,000 employees, 1,000 employees out of a total work force of about 6,000 people, people who went on to unemployment lines and who would ultimately have to go to social service benefit programs in order to be able to make out and to be able to survive within our community.

Baltimore County's CETA job training program has served some 12,735 residents since 1979. It currently places half of its clients in private sector jobs. Another 30 percent are placed in advanced training programs. Within 2 years after training the typical program participant will have reimbursed us for all training costs in terms of income taxes paid into the system. That's within 2 years.

There are other paybacks as well. For example, the program provides counseling, education, and job training to youngsters who are school dropouts and criminal offenders. The cost is about $1,700 per youth. Some 4,000 young people have been enrolled in the CETA program; 80 percent found jobs or returned to school. That's 80 percent. Helping deter a youth from a life of crime has obvious social benefits and substantial cost-saving benefits. The cost of incarceration today is about $20,000 per year.

Serious cuts to the CETA job training program at this time will directly reduce the number of persons we can serve and the kinds of services we can offer. Senator, we still have a significant CETA program in Baltimore County. It is, of course, directed toward the private sector and not the public sector. But that private sector CETA programing is of critical importance to this county. When our unemployment levels reach an unprecedented high, we're talking about the possibility of reducing the Federal jobs program even more. It seems to me that's going to place a significant increase in burden on Balitmore County residents.

If unemployment does not soon abate and our ability to train people for employment is further reduced, it seems plausible to assume that local demand for public assistance and basic social services will increase. Current Federal levels of support in these areas are becoming increasingly inadequate. I'm sure Mr. Heintz has just described some of that to you.

Between 1976 and 1981 Baltimore County experienced a 53-percent increase in its AFDC caseload and a 94-percent increase in individuals assisted by food stamps. The county led the State in the percentage increases over this time period. Staff to provide these services has increased at less than half that rate. Cutbacks in administrative staffing seems to make good sense from a distance, but in reality they are critical. Staffing is critical, in order to provide the services that are essential to the people of our community. For example, Baltimore County, like other subdivisions today, is currently showing a surplus of day care funds, and that's simply because staffing is unavailable. It is not provided. Without the administration for these programs, the services never reach the people who need them.

It is clear that the so-called safety net, Senator, is fast losing its capacity to support all who are landing within it. The safety net is for those who are supposed to be the truly needy. The increased numbers of the truly needy within our subdivision are growing so quickly that it is impossible for that safety net to hold on.

Local governments and the volunteer sector are going to be asked to take care of the burden. I find it somewhat ironic, to be quite frank. The United Way of Central Maryland raised more money this year, at least in commitments, than it has ever received before. A large part of the people who are making commitments to the United Way are the people that work at General Motors and the people that work at Bethlehem Steel and the people that work at Easton Stainless Steel Co. The people that are giving financial support are the people that are going to be losing their jobs. They are not going to be able to be expected to pay for that volunteer support. The dollars aren't going to be available and the private sector is not going to be able to make up, because these people are losing the income that is in support of the private sector, the volunteer sector. So the premise is somewhat ludicrous, because we're taking dollars away in large part from some of the same people that are supporting our volunteer efforts.

It is also, I think—and I said this to the congressional committee that met here in this same building several weeks ago—it is also, I think, unfair to believe that local governments are going to be able to begin to make up the difference. If we had the available tax structure, perhaps we could do it, but the fact of the matter is that local governments have available to them that form of taxes which is most unpopular, and that's the property tax structure. If local government is expected to make up some of the needed, I think, improvements of social service programs, then the fact of the matter is that we're going to have to have other financial resources, resources that have long been monopolized by the Federal Government and by the State government. Local government officials are not going to make up the difference through property taxes. If they do, they will no longer be local government officials, pure and simple, and no one is going to be able and be willing to make that kind of financial commitment.

Last year in Baltimore County I suggested a 10-cent property tax rate that would have taken its property taxes to above $3. The county council reduced it by 5 cents. We are constantly increasing the commitment that we are making to social service progams, to aging programs, to health programs; but the fact of the matter is that we're not going to be able to keep up because our largest responsibility is going to have to be to those traditional services that those people consider to be the most required: education, public safety, police protection, and fire protection. That's where the large dollars are going to be spent by all local governments across all of the United States, not just in Baltimore County. And we're not going to be able to make up in those programs that have traditionally been the responsibility of the Federal and State governments. So as unemployment increases, as our rate goes from 9-plus percent and higher, the fact of the matter is that we're going to have a greater burden, greater number of people are going to require social service benefits at the same time that the Federal Government is making cutbacks in these programs.

It seems to me that the safety net is falling apart. It is increasing in reality when, on a Federal level, the Federal Government is assuming that it's going to be reduced in size; and the fact of the matter is it's not going to have the capacity to care for all those people that are presently within it.

The President had suggested, and the President's economists have suggested, that the trickling down impact of the economy, the trickling down impact of making more dollars available to industry and the corporations, ultimately will get down to the work force. I think, Senator, it's fallacious in one major way, and that is to think that people can survive 2, 3, or 4 years until the trickle hits the bottom. I think that is most unfortunate, and I think that that's what we're going through in this county and it's something that many of our residents cannot afford to see happen to them or to their families.

Thank you very much.

[The prepared statement of Mr. Hutchinson follows:]

PREPARED STATEMENT OF DONALD P. HUTCHINSON

Thank you, Mr. Chairman.

I appreciate this opportunity to respond to your inquiry regarding the impact of unemployment and the recession on local jurisdictions. And I hope that at the conclusion of this series of hearings, you will have the documentation you need to deliver a clear and simple message to your fellow members of Congress.

The message is:

"The situation is bad and getting worse."

In Baltimore County, which is in many ways a microcosm of the national economy, the problem is twofold. On the one hand, high interest rates, foreign competition and outdated production facilities are driving up jobless rates at a staggering pace. At the same time, federal funding cutbacks in such areas as social services and job-training are seriously inhibiting the ability of local government to meet the growing human needs created by unemployment.

Today, Baltimore County is experiencing an unemployment level that is unprecedented in its history--9.3 percent, or nearly 30,000 people out of work. Contrary to normal seasonal trends, the jobless rate has climbed steadily since September, and shows no real signs of declining. Here, as elsewhere in the nation, downturns in the homebuilding, auto and steel industries are creating unpleasant economic realities not just for laid-off workers but for the overall economy. For example, when 5,000 workers from Bethlehem Steel are collecting unemployment compensation and sub-pay rather than full paychecks, their combined spending power in the community is reduced by about $1 million per week.

Obviously, we cannot tolerate a continued decline in these major industries. Foreign steel imports are capturing 20 percent of today's U.S. steel market--three times their share several years ago. The domestic steel industry is operating at 58 percent of capacity, with 22 percent of its workers laid off nationally. The import share of the U.S. steel market is now comparable to Japan's share of the domestic auto market. It is clear that the federal government must become more aggressive in its enforcement of anti-dumping laws in order to give American industry the time it needs to modernize its facilities and increase its competitiveness. I believe that Bethlehem Steel's decision to spend some $375 million on modernization of its Sparrows Point plant in Baltimore County is just one example of American industry's commitment to modernize. But we cannot reasonably expect wholesale modernization to occur without simultaneous action by the federal government to curb foreign dumping in U.S. markets.

As you know, local government has few tools it can use to combat unemployment directly. And the few tools we have been using--such as job-training and Industrial Revenue Bonding--are now being threatened at the federal level. Since 1979, Baltimore County has used the IRB program to authorize nearly $174 million in local capital expansion funding. This action has created or retained some 6,000 jobs. I am hopeful that if changes are made in this program, they will be aimed directly at eliminating isolated cases of abuse, rather than at the overall program itself.

I am not so optimistic where federal job-training programs are concerned. The elimination last year of the Public Service Employment portion of the Comprehensive Employment and Training Act program forced Baltimore County to lay off about 1,000 workers. Further cutbacks in the job-training program would seriously jeopardize our ability to help unemployed persons develop basic job skills. Cutbacks would also greatly reduce local government's ability to provide the special skill training that is becoming more essential as industry modernizes. The capacity of a jurisdiction like Baltimore County to offer a technologically skilled workforce is critical not only in terms of local employment levels, but also in terms of attracting new industry to the area.

Baltimore County's CETA job-training program has served some 12,735 residents since 1979 and currently places half its clients in private sector jobs. Another 30 percent are placed in advanced training programs. Within two years after training, the typical program participant will have reimbursed us for all training costs in terms of income taxes paid into the system. There are other pay-backs as well. For example, the program provides counseling, education and job-training to youngsters who are school drop-outs and criminal offenders. The cost is about $1,700 per youth. Of the some 4,000 youths who've been enrolled in the CETA program, 80 percent found jobs or returned to school. Helping deter a youth from a life of crime has obvious social benefits, and also cost-savings, since we must spend between $15,000 and $20,000 per year to incarcerate just one person.

Serious cuts to the CETA job-training program at this time will directly reduce the number of persons we can serve and the kinds of services we can offer--just at the time when our unemployment level has reached unprecedented highs. The only other local mechanism we have to train the jobless is local public education. We have greatly increased the communication between schools and industry, in an effort to provide the skill training local industry needs. But for the jobless adult, there are two drawbacks: First, higher education isn't free, and second, jobless people lose unemployment benefits the minute they enroll in a credited community college course. The unemployment system itself acts as a disincentive to advanced skill training.

If unemployment does not soon abate, and if our ability to train people for employment is further reduced, it seems plausible to assume that the local demand for public assistance and basic social services will increase. Current federal levels of support in these areas are becoming increasingly inadequate. Between 1976 and 1981, Baltimore County experienced a 53 percent increase in its AFDC caseload, and a 94 percent increase in individuals assisted by food stamps. The County led the state in percentage increases for both categories. During the past decade, the public assistance and social services caseload in Baltimore County has nearly quadrupled. Yet staff to provide these services has increased at less than half that rate. Cutbacks in administrative staffing seem to make good sense--from a distance. Certainly, they are easy cuts to make since there is no powerful lobby supporting administrative staff. But without adequate staffing to determine income eligibility for entitlement programs and to oversee such services as foster care, adoption, and child abuse programs, we invite both fraud and limitations on service. For example, like many other local subdivisions, Baltimore County is currently showing a surplus in daycare funds because staffing is simply not available to administer the funds under current guidelines.

I believe it is clear that the so-called safety net is fast losing its capacity to support all who are landing within it.

And it is equally clear that local governments have neither the dollars nor the mechanisms needed to pick up the slack. We all know that the graduated federal income tax is the nation's only progressive tax. Most local subdivisions gain the majority of their revenues from the local property tax--one of the nation's most regressive taxes. It is both unrealistic and unfair to assume that enough new property taxes can be raised to compensate for existing and proposed federal cutbacks. Many older and low-income homeowners are already making hard choices between eating and heating. Drastic increases in their local property taxes would force many of them from their homes. In addition, increased local responsibility for social programs would further widen the disparity of basic services between the so-called rich states and the poorer states. The federal government is the only level of government prepared to provide an equitable redistribution of wealth in this nation.

And the plain fact is that if the federal government ignores its responsibility to provide a secure safety net for those in need, there will soon be no safety net at all. Locally-elected officials who try to raise local taxes sufficiently to maintain services had best be prepared to bid farewell to public office. Because the local property taxpayer simply can't and won't accept the increased burden.

I do not quarrel with the goal of reduced federal spending and increased efficiency. But I cannot support a budgetary process which pretends to save dollars when, in fact, it merely shifts the burdens. Individuals who lost CETA jobs turned to unemployment compensation. Persons cut recently from public assistance are applying for more food stamps. Where will they go from there? Private charitable groups in Baltimore County are increasing their generosity in these bad economic times, but they can scarcely be expected to compensate for the $183,000 per month cutback in public assistance payments here.

A year ago, we were promised that the federal government would cut its costs by reforming its procedures, streamlining its programs, increasing accountability. Instead, we are seeing not reform, but wholesale elimination of programs.

If we are forced to swiftly dismantle many supportive services for the needy and the jobless at a time when demand for those services is so high, we will seriously jeopardize the welfare of all Americans. I strongly urge you to give states and local jurisdictions the time they need to absorb existing cutbacks and to refrain from making future reductions in essential social services. The safety net is sorely strained. America cannot afford to let it fall.

Senator SARBANES. Thank you very much, Mr. Hutchinson.

Let me ask you this question. You have done an extremely effective job in Baltimore County encouraging economic growth and development. A lot of attention is focused on what's been done in the city, and it ought to be because there have been major accomplishments there. But I think at the same time in Baltimore County a comparable sort of development and growth are taking place. That's a tribute to some very effective leadership.

What effect do you anticipate that the growing recession—as you say, the highest unemployment now in the county since World War II—and the budget cuts are going to have on your ability to sustain the momentum with respect to growth and development in Baltimore.

Mr. HUTCHINSON. We see it already, of course. We see it particularly in the housing industry. The housing industry has always been a very significant industry in Baltimore County. We are virtually at a standstill with new growth in the housing industry. The recession will have a tremendous impact there, particularly if interest rates stay somewhat at the level that they are now. They are now leveled off at—there theory is, of course, that interest rates will begin to go down, and they have gone down somewhat. The fact is that if you are still talking about a housing market that calls for interest rates anywhere from 13 to 17 percent, at the same time people are unemployed, people's family members are unemployed, that housing market is never going to improve. So the recession will have a tremendous impact upon that.

We have had a very significant industrial revenue bond usage in Baltimore County in the last 3 years. During my administration we've used almost $180 in industrial revenue bonds. That is something that is of very great significance to us in order to combat the recession. At the same time, our unemployment rate is still going up. The interesting thing I think you have to note is our industrial revenue bond program oftentimes is directed at the small business person—the person that's doing $1 million improvement or $2 million improvement or $3 million improvement. Oftentimes that job program or the jobs that come in as a result of that industrial revenue bond is in the skilled labor force—the technicians, data processing, computer programs—people who have had the opportunity to go to advanced educational institutions in order to achieve some kind of special learning. The fact of the matter is it doesn't impact Bethlehem Steel; it does impact General Motors. When those industries are down, our unemployment is going to be up significantly. So we can use the mechanisms available to us, but the fact of the matter is unless something is done to help the large industries in our subdivision, unemployment is going to continue to increase.

Senator SARBANES. You've had a very imaginative program to redevelop the older centers of the county, and I have been struck by the fact that even within a jurisdiction geographically as small as Baltimore County you have something comparable to the Sun Belt/Frost Belt phenomenon. You have some areas that are able to move ahead, and then you have other areas that really need revitalization and redevelopment. Is it your perception that the recession affects disproportionately those older areas, and affects your ability to do what you're trying to do in—what do you call that program?

Mr. HUTCHINSON. We call it revitalization, our "Town Center Revitalization Program"; and there's no question it's going to have an impact. The town centers that have suffered, the commercial town centers that have suffered financially, suffered because of a lot of things that happened to them over the past 20 or 25 years. I'm not going to go through that. There's no reason to go through that today.

The fact of the matter is, though, that those town centers are the focal point for most of our older communities in the county—Essex, Dunkirk, Catonsville, and Louello—locations like that that have a disproportionate number of senior citizens in our county. They are the people who've always had significant financial limitations placed upon them. They are even today seeing more financial limitations being placed upon them. That means that their buying power that would normally go toward revitalization—revitalizing the town center is not going to be there. A town center can only be revitalized ultimately if people decide to spend their dollars within that community. The people that can be expected to spend their dollars within that community are the people that live there.

I was just this morning—just an hour and a half ago—at a ground breaking program in Essex for a senior citizens center that is financed, in part, by some Federal dollars and by some State dollars, and also by mostly local dollars. If those dollars weren't available from the Federal level we may not have been able to do that particular project. That would have meant that those seniors would have been located and would have stayed in their homes for lack of any other place to go.

Those are the kinds of people programs that we think are critical. And while they do not necessarily have a direct impact upon the recession and unemployment, they certainly have an impact upon those people that are indirectly affected by that recession, indirectly affected by lack of Federal programs and Federal dollars. And I think the more you're going to see an increase in cutbacks in Federal funding, the more you're going to see people depending upon the kind of programs we're going to put together in our county.

Senator SARBANES. Thank you very much. We know you have an intense schedule this morning. We appreciate your coming.

Mr. HUTCHINSON. Thank you very much. We appreciate it.

Senator SARBANES. We will hear from the city panel, Mark Wasserman, Bernie Berkowitz, and Marion Pines.

Mr. Wasserman, please proceed.

STATEMENT OF MARK WASSERMAN, REPRESENTING HON. WILLIAM DONALD SCHAEFER, MAYOR, CITY OF BALTIMORE, MD.

Mr. WASSERMAN. Senator, on behalf of Mayor Schaefer, who cannot be with you this morning and genuinely regrets that, we welcome you and this subcommittee to city hall. I can't think of a more appropriate place for you to kick off these hearings than here in Baltimore, where the problem is deepest and most severe.

As I understand it, this field hearing is to be followed by full committees, which will ultimately result in the preparation of your annual report on the state of the Nation's economy.

Let me say for the mayor's part that he would have an interest in testifying when the full hearings are held, because this is a subject about which he cares very deeply. He has been through the issue of unemployment with his cabinet. It's priority No. 1, 2, and 3. It is our first priority. We can't speak in national terms, that's beyond our scope, but we can tell you—and so can the man and the woman in the street just outside these doors—that the state of our local economy is dismal; it's grim.

The effects of this partially calculated recession have been harsh and real. And they can't be glossed over in trickle-down economic philosophy. There's reason to be concerned by the current state of our local economy. Interest rates stand at levels all of us would have thought to have been unthinkable only a few short months ago. This is having a chilling effect on new investment. Construction activity is disturbingly low. Layoffs at our major plants around the metropolitan area are creating serious economic uncertainty among many families.

When has unemployment been higher in this city? Over 11 percent and climbing. Can any reasonable person stand still when employment has climbed steadily among our people to the point where it's above 11 percent? This is a matter of grave concern to us and to you, and we don't have much time to waste.

I don't think anyone could paint the picture more eloquently than Mr. Heintz did just a few moments ago.

Many months ago, as you know, as the shape of new Federal policy unfolded, the mayor spoke out in indignation. His concern was that our people, particularly the young, disadvantaged, minority, the elderly, and the handicapped, would hear the brunt of this new Federal economic policy. He warned that we wouldn't be able to wait for the dawn of this promised new economic era in cities like Baltimore. He warned that we would be stripped of many of the tools we need and have helped develop to maintain our economic recovery. Yet today, a year later, with unemployment growing month by month, economists disagree among themselves and when recovery will occur is anybody's guess.

We submit to this subcommittee that our people cannot simply be put on hold while the consequences mount. Later during this hearing you'll hear from Bernie and Marion in more specific detail, but let me just point to you three interrelated concerns we have as we grapple with the growing menace of swelled unemployment.

First, we're troubled by the flimsiness of the commitment to that essential network of support services to which the poor and the unemployed have access. We can't walk away from our responsibility to these people who have been bypassed either temporarily or permanently by our economy.

Second, we're being left without an effective response to the deeply rooted shortcomings of a segment of our labor force. In particular, minority unemployment is a challenge which must be met in this country and in the city. Minority youth unemployment is intolerably high. Creating good work habits and attitudes, providing meaningful work and training experiences for those poorly equipped to do so on their own in the private sector, and providing constructive summer employment for our young people is a vital, if not critical role for our Government to be playing. This need only magnifies during this time of recession. We're talking about survival skills. We're talking about providing entree into that private sector which fuels our economy. People like Marion Pines can supply that bridge, but it takes money to take on this challenge, and it's not there today.

Finally, a word about our economic development efforts. Baltimore has assumed the role of economic development activist, as this gentleman to my right can attest. We must assume a key role in a complex competitive environment. If a major urban area like ours is to survive and grow economically, we have to actively stimulate job production. This means finding and developing sites, assisting with financing—in short, doing whatever it takes to tip investment in our direction. We can't have both of our hands tied behind our backs and accomplish this.

The Federal Government must acknowledge its role in facilitating job creation and economic development in the Nation's urban areas.

Let me conclude by again applauding the effort of the Joint Economic Committee in getting out of Washington and hearing firsthand the toll which unemployment is taking in Baltimore. Please carry the message back. There are deep economic and social, even human consequences, involved in watching passively while unemployment surges in Baltimore and its sister cities. The tools we've used to combat the evils of unemployment are being removed at the very time when they're needed most. We will survive. We will search for a reserve of resiliency, and the private sector may and probably will help us develop some new responses. But the Federal Government cannot, must not ignore its obligation to help us address this most serious of challenges.

Senator SARBANES. Thank you for a very thoughtful statement.

Ms. Pines, please proceed, as you wish.

STATEMENT OF MARION W. PINES, EXECUTIVE DIRECTOR, MAYOR'S OFFICE OF MANPOWER RESOURCES, CITY OF BALTIMORE, MD.

Ms. PINES. Thank you, Senator. It's good to have you in Baltimore, and I again applaud your sensitivity in coming here where we're faced with such serious problems now. I don't want to repeat what everyone has said this morning. I'm beginning to feel a little bit like I'm in a Fellini movie, where I've been asked to come and play tennis, and I can't find the ball, and I can't find the net.

And that's kind of the problem that we're faced with now. We have these very serious problems at a time where we have no resources or such shrinking resources we can hardly cope with them.

I think Mark very eloquently stated the mayor's philosophy. "We will survive," but we're surviving at a very serious cost, and I think we have to look at who is paying that cost.

We have—in the area of job training and job creation, we have seriously reduced our efforts. We probably had more than 40,000 people that received our services last year. Not probably, but we had more than 40,000 people that received services through the manpower training system last year. We're going to have under 15,000 who will get those services this year, if we're lucky. That's at the point where the budget now stands. Who knows where it's going to end up after appropriations, or if we get appropriations.

In the area of summer programs, we had over 10,000 kids in gainful employment last summer. We're looking at something like maybe half that this summer.

Yes, we have reduced administrative costs. What does that mean? That means we laid off 115 people last Monday to save administrative costs. They are now over standing in line, probably out at Frank Heintz's shop.

You have stated and so many people here have stated it also, while we're trying to solve the country's long-term economic problems, we really must look at what short-term costs are doing and who is bearing that cost. And what concerns us is what productive use is being made of funds that surely are being spent, and they're being spent in unemployment insurance and social service payments.

Would it not be better to have people engaged in productive activities as taxpayers and in terms of the kind of self-pride that's generated from doing productive work.

It seems to us the job ahead of your subcommittee is to come out with not only assistance in long-term strategies for strengthening the economy of this country, but in developing some kind of short-term strategies, so that we wait for this miracle of the "trickle-down" theory to take place or come about, and I guess we're all praying it's going to come, but certainly even the administration is recognizing it's trickling a lot slower than anybody would have anticipated. And over these next 2 to 3 years, we have got to have a short-term, non-inflationary policy that is going to do something in terms of job creation and developing the productivity of the labor force.

It is out there. It is waiting to have its skills channeled and developed. And it is just an unbelievable waste of human resources. An unbelievable waste of human capital to let that lie fallow. So I think the challenge among all of us to convince the American people that this is a very nonproductive course to take.

[The prepared statement of Ms. Pines follows:]

PREPARED STATEMENT OF MARION W. PINES

I WANT TO THANK THE MEMBERS OF THE JOINT ECONOMIC COMMITTEE FOR TRAVELING TO BALTIMORE TO LOOK FIRST-HAND AT THE IMPACT OF TODAY'S RECESSION ON A CITY THAT HAS TURNED THE CORNER FROM URBAN DETERIORATION AND IS NOW ON THE MOVE TO URBAN PROSPERITY. THE CURRENT RECESSION COMPOUNDS THE HARDSHIP CAUSED BY THE BUDGET REDUCTIONS, PARTICULARLY IN AREAS LIKE BALTIMORE WHERE THE PROBLEMS OF THE POOR AND DISADVANTAGED ARE CONCENTRATED. BUT BALTIMORE IS AND WILL REMAIN ON THE FOREFRONT BECAUSE WE HAVE LEARNED THROUGH EXPERIENCE HOW TO USE FEDERAL, STATE AND LOCAL INITIATIVES TO REBUILD OUR INDUSTRIAL BASE, TO EXPAND OUR LOCAL SERVICE ECONOMY, AND TO REVITALIZE OUR NEIGHBORHOODS. IN SHORT, WE HAVE LEARNED HOW TO ENCOURAGE THE CREATION OF NEW JOBS AND TO PREPARE OUR RESIDENTS TO FILL THOSE JOBS.

BECAUSE OF BALTIMORE'S TRADITIONAL INDUSTRIAL ECONOMY, THE CITY AND ITS SURROUNDING AREAS HAVE BEEN HIT ESPECIALLY HARD BY THE CURRENT RECESSION.

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PRIOR TO THE DOWN-TURN, INDUSTRIES LIKE GENERAL MOTORS AND BETHLEHEM STEEL-TWO OF THE AREAS LARGEST EMPLOYERS - WERE ALREADY FEELING THE EFFECT OF HIGH INTEREST RATES AND FOREIGN COMPETITION. WITH THE RECESSION CAME HIGHER INTEREST RATES, REDUCTIONS IN CONSUMER PURCHASING POWER AND A GENERAL SLOW-DOWN IN ALL PHASES OF THE ECONOMY. THE RECESSION HAS THEREFORE CRIPPLED THE HIRING CAPACITY OF MANY OF BALTIMORE'S LARGEST MANUFACTURERS. COUPLED WITH THE LONG-TERM SHIFT AWAY FROM MANUFACTURING AND TOWARD SERVICE INDUSTRIES, BALTIMORE AND THE REST OF THE NATION MAY HAVE PERMANENTLY LOST A LARGE PORTION OF AN IMPORTANT SECTOR. FOR THESE REASONS, I BELIEVE THE FEDERAL GOVERNMENT HAS A RESPONSIBILITY TO PROVIDE RETRAINING AND OTHER MEASURES TO HELP THE MILLIONS OF AMERICANS HURT BY THE RECESSION MOVE BACK INTO THE LABOR MARKET.

MAYOR SCHAEFER HAS TOLD YOU ABOUT THE SACRIFICES THIS CITY HAS MADE TO ABSORB THE FEDERAL BUDGET CUTS. THE CETA PROGRAM IN PARTICULAR HAS BEEN SLASHED BY 70% IN ONE YEAR, AND AS A RESULT 3,000 ECONOMICALLY DISADVANTAGED PUBLIC SERVICE EMPLOYEES HAVE LOST THEIR JOBS; THERE WILL BE 1800 FEWER SKILL TRAINING OPPORTUNITIES FOR STRUCTURALLY UNEMPLOYED CITY RESIDENTS THIS YEAR; AND WE HAVE HAD TO ELIMINATE MORE THAN 8,000

EMPLOYMENT AND TRAINING SLOTS FOR POOR AND UNEMPLOYED YOUTHS. THIS COMES AT A TIME WHEN THERE ARE OVER 44,000 UNEMPLOYED ADULTS AND 25,000 UNEMPLOYED MINORITY YOUTHS IN BALTIMORE CITY. PUT SIMPLY, THE BUDGET CUTS HAVE LEFT THE NATION, AS WELL AS LOCAL GOVERNMENTS, UNABLE TO TRAIN AND EMPLOY MORE THAN A FRACTION OF OUR UNEMPLOYED TAX USERS. BUT BALTIMORE'S MANPOWER PROGRAM WILL MAKE DO WITH WHAT REMAINS - WE HAVE ELIMINATED SOME VERY FINE TRAINING PROGRAMS, CUT BACK ON OTHERS, AND CONSOLIDATED STILL MORE; TO SAVE PARTICIPANT WAGE COSTS WHICH ANNUALLY CONSUME 67% OF OUR PROGRAM BUDGET, WE WILL PAY A SMALL WEEKLY STIPEND TO MANY OF OUR TRAINEES; TO SAVE ADMINISTRATIVE COSTS, WE HAVE REDUCED OUR WORKFORCE 70 PERCENT AND CURTAILED OUR OUTREACH AND PLACEMENT EFFORTS. BUT EVEN THESE STEPS CAN HARDLY OFFSET THE HUGH LOSS IN CETA RESOURCES. THE BOTTOM LINE IS, OF COURSE, FEWER AND FEWER EMPLOYMENT AND TRAINING SERVICES FOR THOSE MOST IN NEED - THE STRUCTURALLY UNEMPLOYED AND THE ECONOMICALLY DISADVANTAGED.

IT IS A SAD IRONY THAT AS THE REAL NEED FOR EMPLOYMENT AND TRAINING PROGRAMS IS RISING, THE FEDERAL COMMITMENT TO HELPING THOSE IN NEED IS DISAPPEARING. CETA IS A PROGRAM THAT WORKS. THE CONTINUOUS LONGITUDINAL MANPOWER SURVEY, WHICH HAS BEEN TRACKING CETA PARTICIPANTS FOR ALMOST FIVE

YEARS, SHOWS SIGNIFICANT INCREASES IN BOTH THE FREQUENCY AND DURATION OF UNSUBSIDIZED EMPLOYMENT, AS WELL AS POST-CETA WAGE GAINS, FOR CETA TRAINED INDIVIDUALS COMPARED TO A NON-CETA CONTROL GROUP. SIMILAR STUDIES, INCLUDING THE TAGGART COST-BENEFIT ANALYSES AND THE RECENT JOHNS HOPKINS UNIVERSITY STUDY, HAVE SUPPORTED THIS EVIDENCE.

MANPOWER PROGRAMS MUST BE CONSIDERED AS AN INVESTMENT IN HUMAN CAPITAL. STUDIES HAVE SHOWN, FOR EXAMPLE, THAT EVERY DOLLAR SPENT BY THE FEDERAL GOVERNMENT ON ON-THE-JOB TRAINING RETURNS $2.28 TO THE ECONOMY THROUGH INCREASED PRODUCTIVITY, HIGHER TAX REVENUES, AND LOWER INCOME MAINTENANCE EXPENDITURES. SIMILARLY, EVERY DOLLAR SPENT ON CLASSROOM TRAINING RETURNS $1.14 TO THE ECONOMY. WHAT THESE NUMBERS DO NOT REFLECT, HOWEVER, ARE THE PERSONAL BENEFITS OF BEING EMPLOYED - INCREASED SELF-SUFFICIENCY AND SELF-RESPECT.

UNFORTUNATELY, FEDERAL EMPLOYMENT AND TRAINING PROGRAMS, INCLUDING CETA, ARE RARELY VIEWED AS AN INVESTMENT. THE COSTS TO THE TAXPAYERS OF TRAINING AN UNSKILLED WELFARE RECIPIENT MUST BE RELATED TO THE BENEFITS OF LOWER WELFARE PAYMENTS AND HIGHER TAX REVENUES ONCE THAT INDIVIDUAL BECOMES EMPLOYED. WHEN LOOKED AT IN THESE TERMS, THE OUTLAYS

FOR CETA APPEAR COMPARATIVELY SMALL NEXT TO THE COSTS OF INCOME MAINTENANCE PROGRAMS.

WE HAVE A SUCCESSFUL CETA PROGRAM IN BALTIMORE BECAUSE WE HAVE LEARNED HOW TO USE CETA TO SIMULTANEOUSLY ACHIEVE NATIONAL AND LOCAL OBJECTIVES. AS A MEANS OF EMPLOYING THIS NATION'S AND THIS CITY'S UNEMPLOYED TAX CONSUMERS, WE PROVIDE MARKETABLE SKILLS TO THE STRUCTURALLY UNEMPLOYED. THROUGH LARGE SCALE "CLASSROOM SKILL TRAINING", WE ARE ABLE TO PROVIDE SPECIFIC OCCUPATIONAL SKILLS IN RESPONSE TO ANTICIPATED LABOR MARKET DEMANDS; "ON-THE-JOB TRAINING" PROGRAMS TRAIN UNEMPLOYED PARTICIPANTS IN EMPLOYER-SPECIFIC SKILLS; "UPGRADE TRAINING" NOT ONLY PAVES THE WAY FOR PARTICIPANT CAREER ADVANCEMENT, BUT ALSO OPENS UP ENTRY-LEVEL JOB OPPORTUNITIES TO WHICH WE CAN REFER OTHER UNEMPLOYED PERSONS; "RETRAINING" PROGRAMS TRAIN WORKERS WHOSE SKILLS HAVE BEEN MADE OBSOLETE BY TECHNOLOGICAL CHANGES AND WHOSE ONLY RECOURSE WOULD BE UNEMPLOYMENT COMPENSATION; LASTLY, WE OFFER "EMPLOYABILITY DEVELOPMENT" AIMED AT EASING THE MOVE INTO THE PRIVATE LABOR MARKET - WORK EXPERIENCE TO TEACH GOOD WORK HABITS, REMEDIATION OF BASIC MATH AND COMMUNICATIONS SKILLS, AND JOB SEARCH WORKSHOPS TO

TEACH PEOPLE HOW TO FIND, GET, AND KEEP A JOB.

TO INSURE COST-EFFECTIVE TRAINING, WE TAILOR OUR PROGRAMS TO REAL LABOR MARKET NEEDS. OUR "PRIVATE INDUSTRY COUNCIL" PROVIDES CONSTANT LABOR MARKET ANALYSES AND ADVICE IN EMPLOYMENT TRENDS. WE HAVE CREATED "LABOR MARKET ADVISORY COUNCILS" IN EACH OF THE MAJOR OCCUPATIONAL AREAS IN WHICH WE TRAIN. THESE GROUPS, EACH MADE UP OF ACTUAL EMPLOYERS IN THE FIELD, MEET REGULARLY TO DISCUSS SHORT AND LONG TERM EMPLOYMENT NEEDS, AND ADVISE US ACCORDINGLY. AS A FINAL MEANS OF GUARANTEEING COST-EFFECTIVE PROGRAMS, WE OPERATE MOST TRAINING PROGRAMS THROUGH "PERFORMANCE BASED" CONTRACTS. UNDER THESE ARRANGEMENTS, TRAINING SUBCONTRACTORS ARE PAID ACCORDING TO ACTUAL PERFORMANCE: PAYMENTS ARE MADE FOR EACH ENROLLMENT, FOR EACH PARTICIPANT STILL IN THE PROGRAM AT THE MIDPOINT, FOR EACH PARTICIPANT SUCCESSFULLY COMPLETING THE PROGRAM, AND LASTLY, FOR EACH JOB PLACEMENT.

ANOTHER WAY WE HAVE LEARNED TO USE EMPLOYMENT AND TRAINING PROGRAMS TO MEET BOTH NATIONAL AND LOCAL OBJECTIVES IS TO LOOK AT CETA AS A POWERFUL ECONOMIC DEVELOPMENT TOOL. UNFORTUNATELY, CETA IS OFTEN OVER-LOOKED AS A MEANS OF ENCOURAGING BUSINESS EXPANSION AND NEW JOB CREATION, BUT THE POTENTIAL IS GREAT. WE FINANCE TWO POSITIONS IN BALTIMORE

SPECIFICALLY AIMED AT EASING THE AVAILABILITY OF ECONOMIC DEVELOPMENT LOANS TO NEW BUSINESS INTERESTS - IN RETURN, MANY NEW JOBS ARE EARMARKED FOR CETA TRAINED INDIVIDUALS. CETA IS INVOLVED IN DEVELOPING BALTIMORE'S LARGEST NEW INDUSTRIAL AREA, WITH A FIVE YEAR GOAL OF TRAINING AND EMPLOYING UP TO 2,500 PEOPLE. NEW AND EXISTING BUSINESSES ARE ATTRACTED BY THE AVAILABILITY OF A TRAINED AND EMPLOYABLE LOCAL WORKFORCE. LAST YEAR WHEN BALTIMORE'S "HARBORPLACE" OPENED, AND AGAIN THIS YEAR WITH THE NEW HYATT HOTEL, MY OFFICE SET UP A REFERRAL SERVICE THROUGH WHICH CETA REGISTRANTS WERE SCREENED AND REFERRED TO THE NEW JOBS. BECAUSE OF THIS ARRANGEMENT, 1,000 PREVIOUSLY UNEMPLOYED PERSONS FOUND JOBS AT HARBORPLACE, AND 475 MORE AT THE HYATT. THE SAME MODEL WAS USED TO CREATE A CITY-WIDE REFERRAL SERVICE FOR CETA-TRAINED INDIVIDUALS. THIS SERVICE IS FREE TO ALL AREA BUSINESSMEN.

WE HAVE ALSO USED CETA INCOME AND EMPLOYMENT GENERATING ACTIVITIES TO HELP COMMUNITIES ESTABLISH THEIR OWN LOCALLY OPERATED BUSINESSES. WITH FINANCIAL SUPPORT AND TRAINING RESOURCES PROVIDED THROUGH CETA, ONE BALTIMORE COMMUNITY HAS CREATED AN ELABORATE RECYCLING OPERATION. THIS ORGANIZATION HAS CONTRACTED WITH DOZENS OF OFFICES AROUND THE CITY TO PROCESS THEIR PAPER WASTES WEEKLY. BY SPRING, THE BUSINESS WILL BE

COMPLETELY INDEPENDENT OF ALL GOVERNMENT SUPPORT AND 20 JOBS WILL HAVE BEEN CREATED FOR PREVIOUSLY UNEMPLOYED PERSONS. WE HAVE USED A SIMILAR DESIGN TO CREATE A SMALL HOME MAINTENANCE AND REHABILITATION SERVICE FOR LOW-INCOME HOMEOWNERS. THE PROJECT TRAINS YOUNG ADULTS IN ALL PHASES OF CARPENTRY AND HOME MAINTENANCE AND WILL SOON BE AN INDEPENDENT, SELF-SUFFICIENT PRIVATE ENTERPRISE.

WE HAVE ALSO LEARNED THAT CETA CAN BE AN IMPORTANT TOOL FOR INSURING COMMUNITY STABILITY. WHILE THE <u>ECONOMIC</u> CONSEQUENCES OF HIGH UNEMPLOYMENT ARE WELL KNOWN, WE OFTEN TEND TO OVERLOOK THE PERSONAL AND SOCIAL COSTS OF JOBLESSNESS. BALTIMORE CITY IS UNIQUELY DEPENDENT ON HER INDIVIDUAL COMMUNITIES, AND WHEN ONE IN EVERY NINE ADULTS IS OUT OF WORK, THE STRONG NEIGHBORHOOD TIES BEGIN TO BREAK DOWN. AS A RESULT, CETA PLAYS A DUAL ROLE BY HELPING RESIDENTS FIND WORK, AND BY SIMULTANEOUSLY EASING THE PRESSURES OF HIGH LOCAL UNEMPLOYMENT. OUR SUMMER YOUTH EMPLOYMENT PROGRAM AND OUR WORK EXPERIENCE PROGRAMS NOT ONLY PROVIDE MEANINGFUL EMPLOYMENT AND SUBSISTENCE INCOMES AS AN ALTERNATIVE TO WELFARE, BUT ALSO GIVE VALUABLE WORK HABITS AND NECESSARY WORK HISTORIES. SIMILARLY, OUR IN-SCHOOL CETA YOUTH PROGRAMS ENCOURAGE KIDS TO STAY IN SCHOOL, THEREBY LOWERING

DROPOUT RATES AND THE ASSOCIATED PROBLEMS OF MORE CRIME AND HIGHER UNEMPLOYMENT. FINALLY, WE ARE PROVIDING SOME VALUABLE SERVICES TO LOW INCOME COMMUNITIES THROUGH OUR TRAINING AND WORK EXPERIENCE PROGRAMS. DAYCARE FOR WORKING MOTHERS, HEALTH CARE FOR HOME-BOUND ELDERLY PERSONS, THE WEATHERIZATION OF OLD HOMES, AND THE RENOVATION OF VACANT HOUSES PROVIDES REAL EMPLOYMENT SKILLS FOR CETA PARTICIPANTS AND MUCH NEEDED SERVICES TO OUR COMMUNITIES.

SO CETA CAN BE USED IN A VARIETY OF WAYS. AS A TRAINING TOOL, IT CAN HELP PUT THE NATION'S UNEMPLOYED TO WORK AND TO REDUCE PUBLIC ASSISTANCE PAYMENTS. AS AN ECONOMIC DEVELOPMENT TOOL, CETA CAN HELP BUSINESSES EXPAND AND CREATE NEW JOBS. AND AS A COMMUNITY STABILIZATION TOOL, CETA BENEFITS NOT ONLY THE PARTICIPANTS THEMSELVES, BUT THE LOCAL COMMUNITIES AND NEIGHBORHOODS AS WELL. AS YOU CAN SEE, CETA IS MUCH MORE THAN JUST A MEANS OF ADDRESSING SHORT-TERM UNEMPLOYMENT.

THE COSTS OF UNEMPLOYMENT- WELFARE, CRIME, AND SOCIAL UNREST - AFFECT EVERYONE. EVEN AS NEW JOBS OPEN UP, THE STRUCTURALLY UNEMPLOYED WILL FIND IT DIFFICULT, AND IN SOME CASES IMPOSSIBLE, TO GET THOSE JOBS. THE NEED

FOR EMPLOYMENT AND TRAINING SERVICES WILL GO UP, REGARDLESS OF WHAT HAPPENS TO THE CETA BUDGET. THIS IS WHY WE MUST LOOK AT THE ALTERNATIVES WE HAVE TO MEET THIS NEED. WE CAN TURN TO THE PRIVATE SECTOR FOR HELP, BUT THERE ARE LIMITATIONS ON HOW MUCH HELP WE CAN EXPECT. BECAUSE THE GREAT MAJORITY OF JOBS ARE IN THE PRIVATE SECTOR, EMPLOYMENT AND TRAINING PROGRAMS MUST RELY ON PRIVATE EMPLOYERS FOR BOTH JOB OPENINGS AND TRAINING OPPORTUNITIES. BUT SEVERAL FORCES AT WORK TODAY MAKE THIS INCREASINGLY DIFFICULT. THE MOST IMMEDIATE FORCE IS THE CURRENT RECESSION. SINCE JULY 1981, OVER 1 MILLION AMERICANS HAVE LOST THEIR JOBS, MANY PERMANENTLY. THE PRESIDENT'S OWN ADVISERS PREDICT THIS TREND TO CONTINUE THROUGHOUT 1982. SO THE PARADOX IS OBVIOUS: AS EMPLOYMENT AND TRAINING OPERATORS FACE AN UNPRECEDENTED DEMAND FOR THEIR SERVICES, THEY MUST MARKET THEIR PRODUCTS - TRAINED, READY-TO-WORK PERSONS - IN AN INCREASINGLY TIGHT PRIVATE LABOR MARKET. WITHOUT NEW CAPITAL INVESTMENT AND AN UPSURGE IN AGGREGATE DEMAND FOR GOODS AND SERVICES, THIS PARADOX WILL REMAIN WITH US. UNFORTUNATELY, THE PRESIDENT'S ECONOMIC POLICIES HAVE SERIOUSLY WEAKENED AGGREGATE DEMAND AND FURTHER REDUCTIONS IN INCOME MAINTENANCE PROGRAMS AS WELL AS OVERALL GOVERNMENT SPENDING WILL CONTINUE TO PUSH CONSUMER DEMAND TO THREATENINGLY LOW LEVELS.

ANOTHER FORCE AT WORK WHICH MAKES PLACING CETA TRAINEES IN PRIVATE SECTOR JOBS DIFFICULT IS THE VERY NATURE OF THE CLIENTS THEMSELVES. LAST YEAR 95% OF ALL CETA ENROLLEES IN BALTIMORE WERE ECONOMICALLY DISADVANTAGED; 81% WERE MINORITIES, 61% LACKED A HIGH SCHOOL EDUCATION, AND 71% WERE UNDER THE AGE OF 20. HISTORICALLY, THESE GROUPS HAVE BEEN THE MOST DIFFICULT TO EMPLOY IN THE PRIVATE SECTOR, ESPECIALLY IN TIGHT LABOR MARKETS. FOR SIMPLE ECONOMIC REASONS, PROFIT MOTIVATED EMPLOYERS MUST CHOOSE THE MOST PRODUCTIVE, BEST EDUCATED, MOST EXPERIENCED JOB APPLICANTS. CETA TRAINEES, THEN, FACE AN ADDED BARRIER TO THE PRIVATE SECTOR - COMPETITION WITH BETTER QUALIFIED, MORE EXPERIENCED WORKERS.

NEGATIVE LABELING OF CETA TRAINEES PRESENTS ANOTHER OBSTACLE FOR EMPLOYMENT AND TRAINING OPERATORS. PRIVATE EMPLOYERS HAVE A DEEPLY ROOTED PERCEPTION OF CETA CLIENTS AS UNEDUCATED, UNPRODUCTIVE AND UNMOTIVATED PERSONS - HARDLY DESIRABLE TRAITS FOR PERSONS SEEKING A JOB. ALTHOUGH SIGNIFICANT ADVANCES HAVE BEEN MADE TO DISPEL THIS PERCEPTION, MANY EMPLOYERS STILL WILL HAVE NOTHING TO DO WITH PUBLICLY SPONSORED EMPLOYMENT AND TRAINING PROGRAMS. TO BREAK THIS BARRIER OF NEGATIVE LABELING, EMPLOYMENT AND TRAINING OPERATORS MUST DEMONSTRATE THAT THEIR CLIENTS <u>ARE</u>

MOTIVATED AND PRODUCTIVE EMPLOYEES. BUT THAT ALONE WILL NOT SOLVE THE PROBLEM. THE ENTIRE PRIVATE SECTOR MUST RESPOND WITH A COMMITMENT TO HIRING THE DISADVANTAGED. ADMITTEDLY THIS IS A DIFFICULT ISSUE, BUT IN LIGHT OF THE MASSIVE REDUCTIONS IN VIRTUALLY ALL GOVERNMENT SERVICES, ONE THAT MUST BE EXPLORED.

FEDERAL EMPLOYMENT AND TRAINING PROGRAMS CAN, AND DO, LOWER THE COSTS OF DOING BUSINESS. THE TRADITIONAL SKILL TRAINING PROGRAMS PROVIDE PRODUCTIVE, READY-TO-WORK INDIVIDUALS, THEREBY LOWERING THE INITIAL HIRING AND TRAINING COSTS FOR EMPLOYERS. ON-THE-JOB TRAINING PROGRAMS, IN WHICH 50% OF THE TRAINEES' WAGES ARE PAID, ENABLE EMPLOYERS TO TRAIN ACCORDING TO INDIVIDUAL AND HIGHLY SPECIFIC JOB DESCRIPTIONS, AGAIN REDUCING EMPLOYERS' LABOR COSTS. ALTERNATIVE AND REMEDIAL EDUCATION PROGRAMS OFFER A SECOND CHANCE TO YOUTHS AND ADULTS WHO HAVE FAILED IN THE EDUCATIONAL SYSTEM, AND ENABLE THEM TO COMPETE IN THE LABOR MARKET. FINALLY, TAX-BASED INCENTIVES FOR HIRING THE DISADVANTAGED AND UNEMPLOYED, INCLUDING THE TARGETED JOBS TAX CREDIT AND THE INCENTIVES UNDER THE PROPOSED ENTERPRISE ZONE BILLS, DIRECTLY OFFSET THE COSTS TO EMPLOYERS OF HIRING AND TRAINING THOSE HARD TO EMPLOY INDIVIDUALS. THESE PROGRAMS GO A LONG WAY TO REDUCE PRIVATE EMPLOYERS' LABOR COSTS AND AS A RESULT, CAN FREE OTHER RESOURCES

FOR MORE INVESTMENT - BOTH IN HUMAN AND PHYSICAL CAPITAL.

SO RELYING ON THE PRIVATE SECTOR TO PICK UP THE SLACK OF EMPLOYMENT AND TRAINING CUTBACKS HAS ITS LIMITATIONS. PRIVATE BUSINESSMEN CAN ONLY DO SO MUCH - THEY SIMPLY CANNOT AFFORD TO STEP IN AND PICK UP WHERE THE FEDERAL GOVERNMENT LEFT OFF.

THERE IS A BALANCE BETWEEN WHAT THE ROLE OF THE FEDERAL GOVERNMENT AND THE PRIVATE SECTOR SHOULD BE IN THE AREA OF EMPLOYMENT AND TRAINING. WHILE NEITHER CAN BEAR THE ENTIRE BURDEN, THE FEDERAL GOVERNMENT MUST ACCEPT THE INITIAL RESPONSIBILITY OF CREATING A TRAINING MECHANISM THROUGH WHICH THE STRUCTURALLY UNEMPLOYED CAN PREPARE THEMSELVES FOR THE LABOR MARKET. THE FIRST STEP MUST BE THE ESTABLISHMENT OF A CLEAR NATIONAL EMPLOYMENT POLICY - WHAT ARE WE ATTEMPTING TO ACCOMPLISH? OUR GOAL MUST BE TO HELP THOSE MEMBERS OF THE LABOR FORCE WHO CANNOT SUCCEED IN THE LABOR MARKET WITHOUT SOME INTERVENTION TO BECOME EMPLOYABLE. UNLESS AND UNTIL THESE INDIVIDUALS GET A JOB AND BEGIN PAYING TAXES, WE CAN EXPECT ONLY MORE TAX CONSUMPTION THROUGH FEDERAL, STATE, AND LOCAL INCOME MAINTENANCE PROGRAMS. NEXT WE MUST DECIDE HOW WE WILL HELP THESE INDIVIDUALS.THROUGH A VARIETY OF EMPLOYMENT AND TRAINING STRATEGIES, SUCH AS THOSE I HAVE DESCRIBED TODAY, WE CAN MOVE THE UNEMPLOYED INTO THE

UNSUBSIDIZED JOB MARKET. THIS REQUIRES NOT ONLY ADEQUATE LOCAL FLEXIBILITY TO TAILOR SERVICES TO THE NEEDS OF THE PARTICIPANTS AND THE LOCAL LABOR MARKET, BUT ALSO THE INTELLIGENT TARGETING OF RESOURCES TO THOSE AREAS WITH THE GREATEST NEEDS. IN THESE DAYS OF LIMITED PUBLIC EXPENDITURES, TARGETING FUNDS TO THE GEOGRAPHIC AREAS IN NEED WILL ENSURE THAT THOSE INDIVIDUALS IN NEED ACTUALLY RECEIVE THE SERVICES.

IT IS ONLY WHEN THE FEDERAL GOVERNMENT DEMONSTRATES THIS TYPE OF COMMITMENT TO HELPING THE STRUCTURALLY UNEMPLOYED THAT THE PRIVATE SECTOR CAN AFFORD TO HIRE OUR UNEMPLOYED. WE HAVE SHOWN THIS TO BE TRUE IN BALTIMORE.

IN CLOSING, I WOULD LIKE TO REPEAT MY APPRECIATION FOR YOUR INTEREST IN BALTIMORE. THE SACRIFICES THE CITY AND THE CETA PROGRAM HAVE ALREADY MADE HAVE TRIMMED OUR SERVICES TO THE BONE. FURTHER CUTBACKS WILL LEAVE THE PROGRAMS UNABLE TO ACHIEVE EVEN THE NARROWEST OBJECTIVES OF HELPING THE UNEMPLOYED HELP THEMSELVES. I WILL BE HAPPY TO ANSWER ANY QUESTIONS YOU HAVE.

Senator SARBANES. Thank you.
Mr. Berkowitz, please proceed, as you wish.

STATEMENT OF BERNARD BERKOWITZ, PRESIDENT, BALTIMORE ECONOMIC DEVELOPMENT CORP., BALTIMORE, MD.

Mr. BERKOWITZ. Senator, I too want to thank you for the opportunity of testifying on this really critically important subject and commend the committee for holding hearings in places like Baltimore, which are, in a sense, a microcosm of the kind of effects that are being suffered throughout the country as a result of recession.

With your permission, I would like to read a statement.

Like most older American cities, Baltimore suffers from a relatively high unemployment rate and contains a disproportionately large share of the metropolitan area's poor and disadvantaged population. Even under so-called normal prosperous times, the unemployment rate in the city tends to be 2 to 3 percentage points above the national average. The unemployment rate for residents of the surrounding suburban counties and of the State as a whole usually is somewhat less than the national average.

In order to address the unemployment and income problem and the related fiscal problem, Baltimore City has a multifaceted economic development program involving commercial and tourism development downtown; revitalization of older existing industrial and commercial districts; creation of new industrial parks; financing to retain and expand business; and other business assistance services. Our objectives are to reduce unemployment, now officially 11 percent, and stimulate growth of the city's tax base. Particular emphasis is placed on increasing employment and business development in the black community which, as elsewhere in the United States, has disproportionately high unemployment.

Assistance from the Federal Government through the UDAG, EDA, HUD, CDBG, CETA, and SBA programs has been essential to Baltimore's economic development program. Baltimore has a national representation for using these programs effectively. Unfortunately, funding for all of these programs has been reduced, and they all face extinction or severe reductions under contemplated national administration budget proposals. The impact of such further budget reductions would seriously hamper the economic development efforts of Baltimore and other cities.

The effects of the current recession on Baltimore are aggravated by, and interrelated causally with, the adverse effects of the reduction of Federal assistance to State and local governments, but especially to the city, and the severe impact of import competition on key industries and automobile manufacturing.

In most recessions, manufacturing employment, especially durable goods manufacturing, is hardest hit. That is certainly true in the Baltimore area in this recession, but in addition, State and local governments employment, including public service employment, has declined significantly, as Frank Heintz has pointed out, during the past year as a direct consequence of Federal budget cuts.

Just within the past week or two the press reported two relatively small examples of what's been happening. Eastern Stainless Steel in

Baltimore County, suffering from reduced demand for capital goods, announced the layoff of another 134 employees, and Marion's office, the mayor's office of manpower resources, was forced to eliminate 115 jobs because of cuts in CETA funding.

Thousands of steel, automobile assembly, and ship repair employees are laid off as a result of the combined effect of recession and import competition.

High interest rates during most of 1981 have probably played a major part in bringing about the current recession. This was probably an inevitable consequences of the combination of market conditions and the heavy reliance on tight monetary policy to control inflation. In any case, high interest rates have had a very depressing effect on the housing and automobile industries and on related industries like steel and appliance manufacturers. Among the Baltimore area plants affected are the General Motors assembly plant of the city and the General Electric appliance division of Columbia.

The reduced demand for automobiles during the past year or so has turned a positive future for the city's GM assembly plant into what is currently a bleak picture and what could be an even worse future. As you know, based on a HUD UDAG grant to improve traffic movement and the city's willingness to sell 50 acres of the Holabird Industrial Park to GM, the company started a $250 to $500 million modernization program in 1980, with the intention of producing front-wheel fuel-efficient cars at Broening Highway. 5,000 jobs were, thereby, assured for Baltimore. After GM had already expended $35 million and committed another $45 million, Baltimore was shocked by GM's decision to indefinitely delay the modernization project. The reduced demand for GM cars and related drastic reduction of cash flow have caused GM to reconsider its ambitious modernization and new plant investment plans in Baltimore, Kansas City, and elsewhere. Furthermore, thousands of GM workers here are still on layoff and the future of the plant beyond the next few years is uncertain. Needless to say, the UDAG grant is in jeopardy.

For the past 2 years, high interest rates have constrained commercial and industrial development. Many firms sought and obtained industrial development revenue bond financing as a means of achieving reduced debt service cost, but even the interest rate on tax-exempt financing has been too high for many projects to proceed. High interest costs for working capital has also been eroding the cash flow of many businesses with especially serious impact on small and/or new firms.

Investment in the city's industrial parks like Bayview, Crossroads, and Holabird has nevertheless been brisk during 1981, to a large extent as a result of earlier investment decisions. However, BEDCO is seeing more and more situations where prospect firms are deferring investment decisions because of decreased demand and uncertainty about the economy. I am sorry that I cannot reveal names of such companies because of the confidentiality of the relationship with client firms. In any case, a continuation of this pattern can only mean a lower rate of land sales or leases, reduced job creation, and less additions to the city's tax base.

In concluding my testimony, I would like to underscore not only the need for policies and programs that will produce a high level of economic activity without undue inflationary pressure, but also measures that provide incentives for companies to invest in new plants and the modernization and expansion of existing plans in cities, underlined, like Baltimore. The Tax Act of 1981 provides powerful incentives for investment in new machinery, equipment, and buildings once interest rates and plant utilization levels are more satisfactory.

We don't want to see those incentives results in the relocation of city plans. We do want to see the investment occur in this and other cities. To assure the competitiveness of cities, additional tax and other incentives and other incentives are needed to spur investments in cities through such measures as, for example, the urban enterprise zone program.

In addition, the infrastructure and financing assistance provided on a targeted basis by UDAG, EDA, CETA, and SBA need to be continued.

I thank you and the subcommittee for the opportunity of testifying on this important subject.

Senator SARBANES. I want to thank the panel. One of the most frustrating things that emerges from a lot of this testimony is the point that Marion made and you have touched on, that you don't end up saving money. It's very frustrating. There's an ideological approach which will not look at the consequences of implementing the ideology, which are counterproductive to the announced goals. In other words, you had people learning skills, training, producing, and writing as they pass through your public operation, and eventually to the private sector. They have now been thrown out of work. They draw either unemployment or welfare. So there is a drain on the Treasury in order to support them and there's no return for that. There's no production.

Saturday morning, I was at the Bethlehem Shipyard for the commissioning of an oil-drilling rig. I want to take just a moment to talk about it, because I think it underscores the point I'm making. It is financed under a title XI program of the Merchant Marine Act of 1936. Under title XI, the Federal Government Maritime Administration will guarantee the bonds issued by private owners who seek to build ships and barges and oil-drilling rigs. The fact that the bonds are federally guaranteed is one of the most important aspects of the program, because it makes that investment eligible for many pension plans, teacher pension plans and others that for good reasons of their own have restricted investment portfolio available to them.

To participate in a title XI program, the person seeking to make use of those bonds must pay an application fee, an investigation fee, and then a premium on the loan, which goes into the financing fund for the program. The financing fund for the program has paid all costs associated with the program, all defaults which have taken place on the pay-
fund is currently showing a surplus of about $170 million. Yet the
ment of the bonds. There's a default rate of 0.7 of 1 percent and the fund is currently showing a surplus of about $170 million. Yet the Office of Management and Budget is proposing to slash the guarantees available in that program by more than 50 percent below the statutory limit.

Of course, that will simply mean that you won't be able to make as many guarantees. The jobs, therefore, will not be there. Our ability to compete with foreign shipyards will be diminished. There is no budgetary gain from it whatever. None whatever.

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Chairman Reuss said to me, when he asked me to hold these hearings, that it would be important to look at the effect of this and other policies on local communities and their citizens—to get on the record, as we're trying to do here and in other places in the State, just how this works out at the grassroots, because at that level much of it makes absolutely no sense at all. We've got to get that on the record.

Bernie, it is my understanding that in the programs you have been working with, the EDA and the UDAG's, and so forth, the leverage rate in Maryland of private funds to public funds is the highest in the country; is that correct? Do you know?

Mr. BERKOWITZ. I wouldn't be at all surprised. I know it's been quite high in the city?

Senator SARBANES. And the packages you have put together have really maximized the private investment in return for the public dollar; have they not? That's been one of your prime objectives.

Mr. BERKOWITZ. Yes.

Senator SARBANES. Given the momentum the city has developed, which obviously, you will continue in every respect you can, how severe a jolt is the recession, the worsening employment situation, and the cutbacks in many of the programs going to be on the city's position?

Ms. PINES. If Mayor Schaefer were here, you know what he would say. We are going to continue to move forward. It is taxing our ingenuity, I will tell you.

We are trying to look at everything we did critically, and to glean what were the most successful strategies. We are trying to elicit the assistance of the private sector. There is no way that they are going to be able to make up, no way.

We have gotten so far about $400,000 from the private sector through this effort, the mayor and corporate business leaders have started, called, Blue Chip-in, which has enabled us to continue a few of the public service projects. About 87 jobs have been able to be continued of the 3,000 that we lost.

That's about the level of that kind of an effort in terms of substitution of private and public. It is going to be very difficult. You can't do more with less. It's very hard to do the same with less. We're going to do less with less, and we are in the very unenviable position of trying to decide among 2,500 worthy needs, which ones get our first attention. And the mayor has said for this year, it's going to be survival. It's going to be food, clothing, and shelter. That's going to be our first priority for the poor, so that no one shall be without fuel, food, or shelter. But for a community to stay viable, we have to go beyond survival.

Senator SARBANES. We've been able in this community, I think, to develop a sense generally among the populace that things are getting better. Even though in some instances a specific person may not be experiencing that, there is a general sense that we are operating in such an environment.

Is there a growing bitterness, and intensity of feeling, that you sense out on the street as yet, or has that not happened?

Mr. BERKOWITZ. I'd like to drop back to your previous question, if I may, and sort of add a somewhat different perspective than the one that Marion has.

From the point of view of market demand, I think we have to differentiate among the sectors within the city and the sections of the city. You know, as far as downtown is concerned, there's a considerable momentum to the private investment thrust, and I think that Baltimore will continue to do well.

The Federal programs, UDAG and EDA, have been absolutely essential in getting that momentum started in the downtown redevelopment program, and they are still helpful with regard to the downtown development program. But downtown redevelopment will proceed even in the face of reductions in that funding.

But, we mustn't forget that much of the real economic base of Baltimore and the Baltimore area lies in its port and industrial activity. And if we look at the industrial side of our economic development program, what we have experienced in the last year or two is serious indeed, and a continuation of that would mean that whatever benefits we would be able to achieve through our industrial park development at Holabird, Park Circle, and Bayview, the jobs that would be added or retained in those industrial parks would only be a fraction of the jobs that have been lost or could be lost with a deepening of the recession.

At the Bethlehem Steel ship repair facility here in Baltimore, there are over 1,000 people who are on layoff. At GM there are over 2,000 people on layoff. At the Bethlehem Steel Sparrows Point plant there are thousands on layoff. You add all those up, that's far more than the additional employment that could be created by our industrial parks. And, as I pointed out, we're already beginning to see a hesitation and slowdown of investment decisions to go into those areas.

Senator SARBANES. Of course the GM investment in Holabird, which has now been put on hold, is probably the single most significant investment decision for the city of any that have been made. That was what, $500 million?

More than all that's gone into the inner harbor thus far.

Mr. BERKOWITZ. Senator, that's correct.

Mr. WASSERMAN. You know, in my view the significance of withdrawal and that particular investment decision should have all of us deeply concerned. When the American automobile industry rethinks investments of that magnitude, which obviously had a lot of care behind them, there's a reason to be concerned not just locally, but nationally.

Senator SARBANES. Thank you all very much. I appreciate your testimony.

Are Mr. Lakein and Mr. Jeffein here at this point? And Bill Boucher is here; we have representatives from the business community.

Gentlemen, I think we'd be happy to hear from you now. Do you have some order worked out amongst yourselves?

STATEMENT OF WARREN LAKEIN, LAKEIN JEWELERS OF HAMILTON, BALTIMORE, MD.

Mr. LAKEIN. I am Warren Lakein. My father and I own a jewelry store in the Hamilton area neighborhood of Baltimore. The business has been in the same location since 1934 and established in East Baltimore since 1912.

I am president of the Hamilton Business Association and treasurer of the Maryland-Delaware-District of Columbia Jewelers' Association.

Since I have been asked to testify at this hearing, I have been polling some of the small businesses in Baltimore City. For the most part, I have been told business has not been too bad. There are parts of the city that have not been affected yet, but they expect to be this year. These are businesses that have a high level of industrial construction workers as their customers.

There are also parts of the city where businesses have been drastically reduced since their customers are affected by the reduction in welfare and social security payments. One thing that we cannot forget about small businesses is that their customers are from a small geographical area, perhaps only city square blocks, blocks square. These businesses are only as good as their customers' ability to purchase their products.

It also does not help small business that there has been a mushrooming of shopping centers. This in itself has caused the Baltimore area to become overstored for the next 5 years. In this respect it might be a cause of the recession and takes responsibility of responsible city and county planning to prevent this.

Now we come to the heart of the matter: The recession and how small businesses are affected. When people are out of work, one of the first to be hurt, other than the jobless, is the small businessman and those who work for him. Next are his suppliers. When interest rates are high, as they are now, small business is hurt because almost always works with the bank's money. Next that are hurt are his customers, because they have to bear the added expense of those interest rates.

When people are constantly bombarded from all sides with the pessimistic news about how bad things are, as they are in the news media, people lose faith in their economy and stop buying. This hurts the small businessman because his business is at the roots of the economy.

How can you help? Not by pouring money into the economy. In fact, there are four ways that you can be effective and the most important tool is influence. There are a large number of people waiting to be called upon to retrain the jobless. There are people that are retired people that head the unions, in needs that are skilled in the work of America. There are small businessmen that can create jobs, with proper incentives. These incentives could possibly be a subsidy against taxes, possibly a credit against unemployment taxes, or direct subsidy on the part of the persons paying. Also, a lessening of minimum wage for a period of training. And, other things may be done in this area.

Now, in the area of interest rates, there are two thoughts. First, as a small businessman, since I extend credit to my customers and depend on the banks I have to charge a higher credit charge to make my expenses. Second, as a consumer, why should my loan cost so much? I have to raise my prices, and any businessman knows that higher prices reflect a lowering in sales somewhat.

Another area of concern to small business is bankruptcy loss. People are getting the idea that hiding behind the law is a way to shirk their responsibility. These laws were made so that a person or a business that cannot survive will be given a new chance. This is not what is being done. I think the personal bankruptcy laws should be amended to include a payback schedule of 10 to 15 years. This would show the consumer that he is fully responsible for all debts incurred. Bankruptcy is driving small business into a frenzy. It puts an added expense on the consumer.

Now to the subject of taxes, and please don't cringe. The small business operates from a cash flow that is not always strong or plentiful. We're not saying these companies are not profitable, but because they are small they cannot stand the burden of heavy taxation on profits; sometimes only appear on paper or taxation on inventories, which is a penalty tax. It seems to me the businesses that should be taxed are the large businesses with cash flow. The larger companies with large amounts of profits and cash businesses should bear a little bit more of the tax burden.

One, and perhaps the most important area of restoration is the restoration of optimism. God knows, we do not get it from the news media. Nobody likes to hear, day after day, how bad things are. Tell a person something long enough and they will believe it.

We have a right to reestablish positive goals and the use of all human resources at our command. This is to a large part what Baltimore has been doing over the past years. It's called putting your house in order, accepting responsibility for the future, and shaping of that future if need be.

It means revitalizing worn-out areas, supplying the neighborhood community leaders and businessmen with the goals and ambition to get the job done. There's nothing wrong with our economy that we can't fix.

Senator SARBANES. Thank you, Mr. Lakein.

Mr. Jeffein, please proceed as you wish.

STATEMENT OF GERALD JEFFEIN, WILLIAM KAUFMAN & CO., BALTIMORE, MD.

Mr. JEFFEIN. Thank you, Senator.

I will just make a very brief statement.

Senator SARBANES. We will include your full statement in the record, and you can submit it to us.

Mr. JEFFEIN. I'm the president of the Retail Furniture Association of Maryland; also an officer of the Old Town Merchants' Association. Our mall is about six blocks from here. We have about 60 businesses. Some are second-generation family businesses. About half the businesses are minority owned.

Many of our customers are receiving income from one of the various entitlement programs. Many of those working are entry level employees. We did poorly in 1981 and in 1982 we don't have much confidence, really. Our customers are hurt very badly by the economic—by the President's economic program. Unemployment, as you heard, is just terrible—worse, we believe, in our area than even Baltimore City.

From an operating viewpoint we are caught in a financial squeeze. The interest rates are really killing us. We are not prime borrowers. We pay between 2 and 5 points over prime money.

It gets to the point where it doesn't really pay to be in business, with money market funds paying 15 percent, with the risks involved in being in business, another 5 percent. If you can't make 20 percent on your investment you shouldn't be there. As a result of this, you're seeing people closing their businesses because they can't make it, and other people because it's just a good business decision not to be there. You can make more money investing in something than going through all this, and the risk is not worth the effort.

Senator SARBANES. So, in a sense even very good people, making rational decisions, get out of business because they can do better putting their money somewhere else than keeping it invested in their business?

Mr. JEFFEIN. Right. I had a business on Howard and Lexington Street. I don't want to say how much money was involved, but I had the bank's money; I was using the bank's money to run the business. I was paying at one point last year, 23 percent for money.

I can't make 23 percent on my investment. If I'm making 23 percent, the world would be going into that business. So, it just paid me to get out of business, so I closed the store. I serviced 5,000 inner city customers with credit. Between what the Fed did, and raising my cost and what the State does in keeping a cap on what I can charge, I lose money on every sale.

I think the Federal Government who caused the interest rate to go up should override the usury rates in Maryland. We're losing business to Delaware. We're losing employees to Delaware. The Federal Government has caused the States to fight each other, and Maryland is one of the losing States. I believe it's up to the Federal Government to really alleviate that situation. It's a terrible situation you place Maryland in.

I don't see relief coming but I think it is a responsibility.

The last thing is, we all read about the turnaround of the economy coming in the spring of 1982. Of course we have no guarantee that's going to be here, I mean the change in the economy. But suppose it doesn't happen. Is there a contingency plan?

To put it very mildly, we're very concerned about the future.

Senator SARBANES. Thank you, sir.

[The prepared statement of Mr. Jeffein follows:]

PREPARED STATEMENT OF GERALD JEFFEIN

My name is Gerald Jeffein. I own a retail clothing and furniture store on the Old Town Mall, about 6 blocks from here. I am President of the Furniture Association of Md., and an officer of the Old Town Merchants Association. On our Mall, we have about 60 stores who provide the community with most of the typical retail services. These stores are generally owner operated. Some of the stores, like mine, are 2nd generation family businesses. About one-half of the businesses are minority owned. We draw customers from all over the city to our mall. Our customers are mainly lower income families. Many of those working are entry level employees. Many of the families are receiving income from one of the various entitlement programs. I believe that our shopping area is typical of most retail neighborhood areas in the city of Baltimore.

In answer to the questions—How was 1981, and what do we see in 1982? In 1981, we did poorly. We do not have much confidence in 1982. We are not struggling to cope with the recession—we are struggling for survival.

First, our customers have been hurt very badly by the President's economic programs. Unemployment in our market is much higher than the average in Baltimore City, which itself is intolerable. The change in entitlement programs have severely hurt our customers. Some of the changes are so ridiculous that they have even created an incentive not to work.

Second, from an operating viewpoint, we are caught in a financial squeeze. As a result of the recession our sales are down from 15 percent to 20 percent. Operating costs are escalating. Social Security, unemployment insurance, workmen's compensation and many other costs are going up. Interest costs hurt us most severely. We are not prime borrowers and I would say that the average cost of money to the small merchant is between 2 percent and 5 percent over prime. Our loans are short term loans and are generally tied to prime. Besides being forced to pay these high interest costs we have been placed in the position of being asked to extend credit for less than our costs. The States are fighting each other. Maryland is losing jobs and business to Delaware. The ironic part of the usury statutes is that they hurt the very people whom they are trying to help—the lower income consumer is being virtually wiped out of the credit market. I realize that we exist in a political environment but what are the smaller merchants expected to do—we cannot be expected to lose money in our stores.

When you take a look at the bottom line—what is the return on our investment in our business and what must we earn to stay in business?—the picture becomes very clear. With money market funds paying 15 percent, add another 5 percent for the risks involved in being in business—I would say that unless we can earn a minimum of 20 percent, we shouldn't be in business. What you are seeing are businesses losing. Some can't survive the recession—some decide that the profit potential just isn't there.

In summation, we are willing to do our share to fight inflation and lower the budget deficit. We believe that the government has been unfair. About 70 percent of the budget cuts now in place come from programs affecting the poor. You can go down the line—education at all levels, jobs and training programs, medical assistance, housing aid, food stamps, school nutrition, etc. Combined with tax cuts that benefit mostly higher income people, this program adds up to a major redistribution of money in our society from the lower end to the upper end of the scale. We hear talk of another $30 billion tax cut. Where is it coming from? Can the poor bear any more of the burden?

We all read where a turn around in our economy is coming in the spring of 1982, Of course, we have no guarantees. Suppose this doesn't happen. Is there a contingency plan? To put it mildly—we are very concerned about the future.

Senator Sarbanes. Mr. Boucher, please proceed as you wish.

STATEMENT OF WILLIAM BOUCHER III, GENERAL MOTORS REPRESENTATIVE, BALTIMORE, MD.

Mr. Boucher. Senator, when I was thinking about what remarks I would make here, I went back to your request about the effect of the recession on Maryland and this area. And I was reminded that we are dealing somewhat in semantics. Recession—of course, I was reminded about 18 months ago. A candidate for the President contended at that point that we were in a depression unequal to the depression—any recession or downturn of the economy since the Great Depression of 1929. He won the election.

And as I looked at the figures—and I heard these figures today: I won't go over those again—he may have been right. Now he might be right in determining what we have, as a segment of our local economy, as a depression.

You're going to hear more from the housing industry. I don't think there's any question that the housing industry is severely impacted, and the mild term of "recession" doesn't apply to that impact. I don't think there's any question that the automobile industry is severely impacted. Not only at General Motors, but in the dealers around the State of Maryland that are facing perhaps the greatest threat to their viability since the Great Depression. We saw the figures the other day. The sales were low, lower than they had been in the last 20-some years.

And we think in terms of what it does to General Motors or Ford or big companies, but the people that are most severely hurt are the dealers and their salesmen, and the people who want—who need to buy cars to move around. That's affected by interest rate as well as basic decisions in the automobile industry that are negative to growth.

I don't think there's any question that in steel we have serious problems. But let's look at retail.

Someone said a little while ago that it indicated the strongest part of our economy; in many cases. I don't think—certainly I grew up in a retail family. There's no question in my mind that the sales I saw early on in December 1982 was disturbing. Sales before Christmas—it's almost unheard-of; sales after Christmas, OK.

But the figures—my point is, the figures you'll see on retailing in 1982 are somewhat distorted, because the volume created before Christmas was in many cases created by an unprecedented rash of sales——

Senator SARBANES. In effect, borrowing from the post-Christmas volume and putting it before Christmas.

Mr. BOUCHER. Exactly. And the point is that sometimes statistics are misleading. And I think in this case it may well be that the impact of this recession—depression, whatever you want to call it—on the retail industry is probably more severe than some of the figures would indicate.

I am concerned that those of us in business apparently don't believe in the economic course of this country.

I remember back in the spring, when most of us were supporting the effort—and still do—to get the budget under control, to reduce deficits and to provide some tax relief, that we didn't believe that—we were told and we believed that the impact of the decisions made in the spring would have an effect immediately, that we didn't have to wait until the effective date of October for the confidence to return to the economy.

It's clear that didn't happen between spring and October. It's clear that it hasn't happened yet. It's clear that "Wall Street," a term for business decisionmakers, has not yet bought the thrust of supplyside economics. It's clear to me that we have not yet seen the full effect of this depression—recession, whatever you want to call it—that the spring turnaround is going to be just misplaced optimism.

I think we're a victim of our rhetoric. I think we're getting to a point where we're not looking at the true cause of the economic decline. And in my judgment, when the Federal Government has to go—as they are in the first quarter of 1982, my understanding—to borrow $38 to $40 billion on this unprecedented deficit that we have, that the distortion of the economy as a result of that has not yet been fully felt by the economy and by the people.

The people are the ones who get hurt. We talk about 8.9-percent unemployment. We talk about 11 percent in the city. But when you look in certain areas of the city—there in the young Black citizens of this community—it's 40- to 50-percent unemployed.

You didn't get an answer to your question about: Is there a disturbance out there? It worries me very much, and it should worry all of us very much, about the effect of this decline in the economy on the people who are impacted first, don't have the resources to survive, and who take out those frustrations in a discontent, in ways that are adverse to a normal society.

Certainly business gets affected by a recession of this type. Postponement of investment decisions—we saw it even in downtown Baltimore redevelopment in 1974–75. We saw decisions deferred. Some of them are just beginning to surface again now, so the lead time is very long.

Certainly the Government is impacted. When the Government has to pay more in unemployment, pay more in welfare, pay more for survival of people who are impacted, it's affected.

So, my point—I'm not trying to be unduly pessimistic. My point is that we ought to look at the signs. We ought to look at the trend of our economy, get rid of some of the ideological reins we've placed on ourselves, get rid of some of the rhetoric, find out how we get productivity increased. Clearly that's one of the most important things heavy industry has to do—back to productivity.

And we can provide some incentives in taxation for productivity?

Can we provide ways that the industry can help itself meet the competition of an international economy, not limiting it to Baltimore, or Maryland, or to the United States, but international?

And I think we are so preoccupied with trying to prove a new and untested economic theory that we're missing the fact of reestablishing the kind of economy that made this country a very great country.

Mr. LAKEIN. I'd like to add something along with what the gentleman said, in a slightly different area.

I think the problem in our economy today is that we're going through a slight revolution. It's a revolution that we went through some time in the past, but we didn't have a depression; we did have other areas. Technology is changing. Job definition is changing. Jobs are changing. I don't believe that we will have the need for as large an industrial area, in certain areas that are affected today. I believe the auto worker, the industrial worker—once these plants are revitalized and brought up to date, will not employ the number of people it employed before.

I think the output of the factories, due to the fact that they do have new equipment, will produce more with less workers. Our real problem at the present time is how to take the jobless who are "skilled" in those areas and retrain them.

If you look at the paper today—and I don't mean to say there's lots of want ads and lots of jobs going begging—all I'm saying is that we have square pegs in round holes. We have to round off the pegs to fit in the holes. I think that what we really need to do is depend on some of the people who are working in the economy to help retrain the people who are jobless. If it means 6 to 8 months of retraining in certain areas. It think it needs to be done, because there are some jobs in computer sciences, and these aren't—although they sound very technical they are not.

It think what we have to do is retain people in the area where jobs are available.

Senator SARBANES. I think there's something to that point.

The other side that I see is that there are major industrial countries that are able to employ significant parts of their work force in some of these basic heavy industries, so there is a demand—and a lot of their production actually then comes into this country—so there is a demand for that kind of production.

It seems to me one of the questions we ought to be focusing on is: How do we improve our abilities within those established industries?

In other words, there is a worldwide shipbuilding industry. Now, is the United States, as the preeminent industrial country, simply going to abandon the notion that we are going to have a shipbuilding, ship repair, and ship operating capacity? That does not seem to me to be an acceptable proposition, especially in an area which obviously has important national security and defense implications as well.

And while it is true that to some extent we have to be shifting people into the different emerging fields that are at the edge of technology, at the same time there's much that can be done, in the existing established industries, which there is going to be a continuing need. Otherwise we're going to end up without that heavy industrial base, and if we do that, we're becoming tremendously dependent on foreign countries—not, I think, an acceptable situation.

The worker remuneration in those countries is now approaching our own. There's a whole complex of problems relating to competition, not the least of which, in my judgment, is that in many countries companies have greater access to our markets than we have to theirs. So you don't actually have a fair trade situation.

I think that can be structured and we can compete. I mentioned the title XI financing on the ships. The Japanese have worked out a relationship where their people get money at 5 to 7 percent. Our people, even with these guaranteed bonds, get it now at about 13 or 14 percent.

It's like the housing business. You take those interest rates and translate them into monthly payments—the difference between a 9-percent rate and an 18-percent rate—and it's a difference between being able to do the job and not being able to do it.

So, while I think it's a good point, I think we must also focus on what we need to do within the established industries—which obviously we need and are going to continue to need.

Let me ask the two small businessmen this question: I have been concerned about the potential under these economic circumstances for a growing concentration of economic power.

Do you see structural changes going on, where the small business person is being squeezed out, and instead, economic activity is being carried out, I guess in your instance by the large chains?

Mr. JEFFEIN. What's happening with the credit market, for example, about 60 percent of the furniture in the country is sold on credit. What's happening is the banks have the ability to move to Delaware and charge a rate on which they can make money; I do not have that ability. We will be forced out of the credit market.

The finance companies in Maryland are closing left and right. I think there were 300 offices in 1981; 50 of them closed.

Senator SARBANES. Who is selling the furniture now, to the extent it's being sold?

Is that being done by——

Mr. JEFFEIN. Mainly smaller merchants. Maryland is such a bad climate that the big ones want to get out.

Mr. LAKEIN. I'm in small business, and what I see in small business is that the small business, what it's founded on basically, does not look to what they make on their investment, as it does to support them with a base for living.

If you take a small business and he's making x amount of dollars; and he says, "Well, I've got 100,000 dollars' worth of inventory. That's a lot of money, but if I liquidate it I'm only going to get $50,000. Then where am I going to work?" He looks at his business. He says, "I'm supporting myself, supporting my family. I've got maybe 8, 10, 12, 15 employees; I'm supporting them and their families. Sure, I'd go out of business tomorrow, then I've got to go get a job. Where am I going to get a job?" So he stays in business.

He may have to become smarter than the bigger companies. He can't hide his mistakes as well as bigger companies. If a big company makes a $10,000 mistake and they have to wash out a profit area, it doesn't hurt them as much in the long run. A person in a small business makes a $1,000 mistake, he comes right off the bottom line. There's nowhere to hide it. You have one outlet, one location. You have to make your business strong enough to survive, and you have to do it a number of ways: You have to make your neighborhood strong enough. You have to be involved in the area.

Look, there are neighborhoods—the Hamilton neighborhood, to be exact. It's an older area. It was made up of foremen, blue-collar workers, foremen years ago. These are people that own their houses. These are people that are now retired. They are selling houses. They are moving to the retirement places, in many cases, and younger people are moving in. It's true they're going to be mortgage-poor to a certain extent, and it's true they're getting subsidized by parents, relatives, or whatever. But the houses in that area are selling for lower prices than the new developments. They're already built.

Sometimes a younger person will come in, completely gut the house, and rebuild it himself. It goes back to the thing where he has to do it himself, to make ends meet. And he's into his neighborhood for a period of 15 to 20 years. He's not going to move. And he wants his neighborhood to stay strong. And he knows, through the city planning, that his neighborhood merchants have to be strong so that his property value keeps up, and so that he has to keep them strong. And the businessman knows he has to provide a product that is reasonably priced—a good product—and run a business where the person will come back over and over again.

This is what I see as a small businessman, talking to people who own small businesses. There are people that come into a restaurant—a carry-out just opened up just next door to us. The store had been vacant for about 4 years—about 2 years or 3 years. A man opened the business, started a small carry-out. He's in the business of opening these businesses and then selling it to somebody already running it.

The two people in there are doing very nicely. They run a business. They care. They work some long hours, but it's a business. They have a personal investment of time, money, effort, in. He could be unemployed. It's easy to be unemployed; it's tough to stay in business. But if you run a small business you have to be tougher, you have to figure out where your money lies and how you are going to use it to the best advantage, as well as to give your customer a reasonably priced and good product.

Senator SARBANES. There are studies that show that most of the new job creation in our economy in this country is in the small business sector.

Mr. JEFFEIN. I think you will find there are many, many less small businesses in existence today than were in existence 3 years ago. And you know, small is a three-people——

Senator SARBANES. Of course, the business bankruptcy rate is up almost 50 percent.

Mr. LAKEIN. That's because you can't hide your mistakes.

Mr. JEFFEIN. You can't borrow money.

Senator SARBANES. Yes; you make a mistake, you're finished——

Mr. LAKEIN. You're not finished, but you have to be established. It's difficult, but you have to be willing to work with a going business.

Senator SARBANES. Bill, let me ask you this question:

In your tenure as the executive director of the Greater Baltimore Committee, you really have been the architect of a great deal of the renewal and revitalization of the city. First, I think we ought simply to recognize that fact.

Let me ask you this: Over the course of your efforts in that regard, what was the correlation between the revitalizing momentum here, as we try to accomplish things, and the mood in the national economy?

Mr. BOUCHER. I alluded to the 1974–75 experience, where one building coming onstream then had a very, very difficult time. The strength of the builder and the partners in it really allowed them to continue on, lose a substantial amount of money over a couple of years. However, that was a very unusual situation, because:

One, they were partly local;

Two, they were personal investors, not speculators; and

Three, they had great resources.

We have been in this up-and-down of the economy now, more than the mid 1970's. And there is a direct relationship between investment for speculation, for expansion of the commercial and office part of the center city, and recessions. And we not only suffer by decisions that are made, and get in trouble—the one I alluded to—but we suffer because people hold off.

There is a lack of confidence that develops, that has an effect for the next couple of years, not only for the year—I mean, if you pull out of this thing in the spring and the summer, the decisions in my experience were that it took a couple of years before somebody would come back and say, "OK, let's revive that project." And it has a very direct relationship to investment opportunities for the city, not only industry, but more particularly the commercial side of the city.

Mr. LAKEIN. Senator, I'd like to say one quick thing. Unless we get our budget under control somewhat, somehow, some way, we are really eroding everybody's money.

Senator SARBANES. Let me ask you: Did the tax bill give you any significant tax relief?

Mr. LAKEIN. I don't really think so.

Mr. JEFFEIN. One thing that bothers me about that is, if the Government were going to let us, if we lost money, take a tax loss—like they let Chrysler, selling to GE—what the Government should have done is buy back the tax losses. The Government would have made money; the small man who lost money could have gotten something back for his tax loss.

GE never expected, in the first place, to get that bonanza that they got. So, how could you let those big companies sell their tax losses, get money for it, and the Government is losing money? The small man has no way of doing anything like that.

It was just—it's so bad that it's hard for me to believe that it's happening. Twenty-eight billion dollars off the Federal budget from Federal income, for something like that to happen? It's unbelievable.

Why not let the small man have the same rights as the big man?

They didn't do that for me. If I had a $10,000 or $20,000 loss, it would probably cost me $50,000, with lawyers, to figure out how to get the money. You know, a guy can't do it.

Senator SARBANES. Gentlemen, we thank you. We appreciate your coming.

We will have our labor panel now please: Tom Bradley, president of the Maryland State and District of Columbia AFL–CIO; Jim Harmon of Shipbuilders' Local 33; and Henry Kollein, head of the AFL–CIO of Baltimore Council.

Mr. BRADLEY. Dave is not here so I'm going to have Phil Van Gelder and Mr. Kollein.

Senator SARBANES. Fine. After this panel we'll have the housing panel and then the concluding panel will be the college placement representatives, so that people know what the remainder of the schedule is.

STATEMENT OF TOM BRADLEY, PRESIDENT, MARYLAND STATE AND DISTRICT OF COLUMBIA AFL–CIO, ANNAPOLIS, MD.

Mr. BRADLEY. Senator, first I would like to apologize to you for not having my testimony. You said I could deliver it to you today.

I have ridden around down on the Eastern Shore trying to defend the unemployment benefits of 110 workers down there, who have been denied unemployment benefits due to the law in Maryland.

Senator, we of the Maryland State and District of Columbia AFL–CIO thank you for the opportunity to present our views before the Subcommittee on Investment, Jobs, and Prices of the Joint Economic Committee of Congress.

When the present Republican administration in Washington first announced its program last year of economic recovery, we spoke out against it because we believed it was a blueprint for economic disaster and said so. We further stated that those who would propose such a program, namely Reagan, Regan, Kemp, and Stockman, were pied pipers for that economic disaster. We need only to look at the Government's admitted figures of 9-percent unemployment nationally and 7.9 percent in Maryland, which if the truth were known that we are really in doubt-digit unemployment because of those people who are not seeking jobs and are no longer kept on the rolls.

Senator SARBANES. Mrs. Norwood is the Commissioner of the Bureau of Labor Standards—she testified that in the last quarter of 1981, 1.2 million people, according to their survey, have in effect stopped seeking jobs and are therefore not counted as part of the unemployment figure.

That is the highest number since they have started recording that particular index. So, that's at an all-time peak of what they call discouraged workers; workers who aren't even seeking jobs and therefore aren't even counted as being in the labor force and as being unemployed.

Mr. BRADLEY. Nationally and the State of Maryland would be in a double-digit unemployment. When you put that into the prime rate of 7.5 along with an inflation of over 9 percent, you can see that the administration's programs have put us into a position where we're almost in double digit—I believe we're in double-digit interest rates, double-digit unemployment and not too far from double-digit inflation.

I believe that this proves that the administration's programs and the purveyor of them and our estimate of them last year is absolutely correct. Furthermore, in 1980 Maryland's unemployment was 6.1 percent for November. In 1981 it's 7.9 percent.

When the administration budget went into effect in October of 1981 the national trigger for additional 13 weeks of unemployment was all but eliminated, resulting in 21,000 workers in Maryland being denied the 13-week extension for unemployment benefits. These folks are without jobs and without income. Either that, or they are put on the backs of the people who are working by going down and collecting welfare benefits which comes out of the pockets of the General Treasury which comes out of the pockets of other people who are working.

Further, as was stated here earlier and elaborated on by Jim—will be elaborated on by Jim Harmon, some of the jobs that have been lost at Bethlehem's shipyard—I have that in my testimony but I'm not going to allude to it because Jim is closer to the situation than I am.

Mr. Chairman, the statistics only tell half the story. The other half deals with the social ramifications which a depression and high unemployment can bring. Yes, I said depression, because I believe that's exactly what we're in. You know, in the labor movement we have a saying, recession is when your neighbor is laid off and a depression is when you are laid off.

Many of our neighbors are laid off, and because of it we believe that we are in a depression. It is my belief, Senator, that unemployment has reached the level where it will begin to feed on itself and we can expect to see double-digit unemployment as figures in the spring as high as 12 to 14 percent. And that means—with that in mind, we urge your committee to do everything possible to eliminate the Reagan economics.

We conclude by asking the same question the President asked during his campaign: are you better off now than you were a year ago. I would think that the question would be absolutely no. I would just like to point out one other thing that bothers me, and I heard a small business gentleman testify previously, in which he said that the interest rates were clobbering him and that he would like to see something done. He referred to the ceilings on the interest rates in Maryland be lifted.

I really believe there's a concentrated effort by those who contral the Federal Reserve Board to raise the interest rates to such a proportion that it will drive the small bankers out of business and will drive us away from the system of regional and small local banks to a system of national and multinational banks, and while lifting the usual rates in Maryland may seem like a short-term solution, I believe that it would be a long-term disaster because of the rise of the interest rates.

You have to try to understand that sooner or later these interest rates are going to interfere with the purchase of the manufactured product. We have seen this happen in the housing industry. Interest rates went so high, people aren't buying. It's the same way with automotive. Now they want to lift the interest rates in Maryland on everything else. And again, it may be a short-term solution but in the long run it's going to have the same effect on the manufacturing industry in this country as it did on the housing industry in this country because the worker only has so much money to go around.

If most of that income is going to be eaten up by the interest rates it has to pay to purchase the product, then he's not going to have enough money left to purchase the kind of products that are needed to keep the economy moving.

I think that that is something that the National Congress ought to look into. It's a very serious problem. I think it's a deliberate program by the big national banks in this country to destroy the small and regional banks and State banks so that we get into interstate banking, national banking and multinational banking which would be a disaster. Instead of borrowing from your neighbor you'll be borrowing from somebody you don't know about.

And what will happen to that money? The money will go—they will look for the money where they have to pay the cheapest interest rate, just like the multinational companies do with products, and then lend it out where they get the best return for their money.

We've already seen jobs leave the Northeast on the wings of our own money. You can imagine if we have an interstate banking, the kind of situation we'd be in. And I would hope that you and your committee would take this into consideration when you are looking at what that Federal Reserve Board is doing. If somebody don't stop them, this country is going to be in one terrible shape, owned by monopolistic banks and monopolistic countries of a multinational nature that none of us will ever be able to get the control on again.

Thank you.

Senator SARBANES. Mr. Kollein, please proceed.

STATEMENT OF HENRY KOLLEIN, JR., PRESIDENT, METROPOLITAN BALTIMORE COUNCIL AFL-CIO UNIONS, BALTIMORE, MD.

Mr. KOLLEIN. Senator Sarbanes, the name is Henry Kollein, Jr., president, Baltimore AFL-CIO Council.

Thank you for the privilege of being here. My statement—Reagan economics is tearing at the very fiber of our Nation, the No. 1 problem being unemployment that has reached record levels and is still increasing.

It is truly heartbreaking to see so many Americans crying out for decent jobs. Families are being torn apart, losing their homes, and much human suffering is taking place.

The No. 2 problem originates from the greed of the financial institutions and their exorbitant interest rates. The rates are forcing people out of the buyers' market, resulting in decreased sales and massive layoffs of working men and women. In spite of the fact that the money lenders are reaping record profits, their greed seems to be sending them to out of State locations where they can enjoy even greater profits.

Those Americans who are employed are finding their purchasing power in the marketplace falling far behind the rate of inflation. Tax reform under the Reagan administration is totally one-sided, balanced toward the wealthy; truly the rich are getting richer and the poor, poorer. The amount of human suffering in America is almost unbelievable.

A major contribution, contributing factor, must be recognized and this is imports. Here again, greed raises its ugly head as the profit motive carries jobs and factories halfway around the world. One of the priorities of Congress should be the balance of trade and the elimination of tax incentives that encourages multinational companies to run away, leaving the citizens of our Nation on the unemployment line. You may call it a recession, but to many it is a depression.

Mr. Chairman, truly the Congress and the Senate must respond. I personally feel that the President of this country has lied to the people. He certainly lied to me. And, I think that we're headed to the worst disaster, and if it keeps on I wouldn't be a bit surprised to see a revolution in this country; that's how serious it's going to get.

Senator SARBANES. Thank you, Mr. Kollein.

Mr. Harmon, please proceed.

STATEMENT OF JAMES C. HARMON, EXECUTIVE SECRETARY, LOCAL 33, INDUSTRIAL UNION OF MARINE AND SHIPBUILDING WORKERS OF AMERICA, AFL-CIO, BALTIMORE, MD.

Mr. HARMON. Senator, my name is James E. Harmon. I'm the executive secretary of Local 33 of the Industrial Union of Marine Shipbuilding Workers of America, AFL-CIO. I'm an elected union representative of approximately 3,000 highly skilled shipyard workers who work at the Bethlehem Steel Sparrows Point shipyard. We just commissioned the third oil rig built at the Sparrows Point Yard on Saturday, January 9, 1982, 6 full weeks ahead of schedule, saving the owners millions of dollars.

Senator SARBANES. I ought to mention, because I was there with you at the commissioning, that the new owners underscored the fact that they were receiving the rig 6 weeks ahead of schedule that that meant a lot to them in dollar terms.

Mr. HARMON. Between $8 million and $10 million, they said they saved.

Approximately 1,500 to 1,800 of my members are presently laid off and the entire work force of 1,200 highly skilled shipyard workers remaining will be laid off between now and July of this year, when all of the remaining work on order will be completed at the Sparrows Point Shipyard.

My members have not been able to find other jobs in the Maryland area. I receive hundreds of phone calls each day asking about work and information about possible jobs in other States.

The work picture has not been this bad for over 20 years for shipyard workers in the Port of Baltimore.

The repair shipyards are facing similar hard times. The Key Highway Shipyard had only nine workers working by the end of December 1981, out of a work force of 1,800. Maryland Drydock had a couple hundred working out of 1,700 workers.

My members are losing their cars and homes because they can't find work and can't keep up the payments on a weekly $140 unemployment benefit.

The condition is very serious and it's going to get a lot worse if we don't get some type of assistance immediately from Congress.

The lack of work at Sparrows Point Shipyard and the other yards in the Port of Baltimore also affects the work force at Bethlehem Steel Sparrows Point steel plant where the majority of the steel we use to build ships and oil rigs is produced. For every shipyard worker who loses his or her job, two workers who produce the materials that go into a ship or rig will lose their job.

Fifty percent of the cost of a rig or ship is the material used on that ship, and 25 percent of the steel. The metropolitan area, Baltimore area, cannot afford the loss of shipbuilding and ship repair jobs.

According to the testimony by general manager of the Sparrows Point Shipyard in 1979, and I quote:

> The Sparrows Point Yard has made substantial contribution to the economy of the nation and in particular to the state of Maryland. In the past 4 years the payroll at this shipbuilding facility has totalled in excess of $200 million. The bulk of this money cycles through the state in many ways. In the same period, the Sparrows Point Yard has purchased approximately $32 million of material and services from Baltimore area suppliers.

This doesn't include the cost of the steel.

> The impact of these factors on Maryland's economy is obvious. In the area of employment Sparrows Point is a major employer of minority groups.

I don't have the up-to-date figures, but 1980 and 1981 would be higher.

By June 1982 every one of my members will be laid off. This will not only hurt us, but the entire State of Maryland. And, if the yard closes down permanently it will be disastrous to everyone, including America's required shipbuilding base for national emergency.

For the immediate future, two very important steps should be taken.

Save and expand the ship financing program under title XI of the Merchant Marine Act.

The title XI program is to shipbuilding what VA and FHA are to homebuilding. Without title XI, companies who build ships, oil rigs, and barges today could not build, or would have to build foreign. Moreover, companies who build with title XI are required to build in the United States and use only U.S. materials.

One additional document, and others which I will forward at a future time, one of which is a fact sheet on title XI.

Title XI is not a subsidy. In the 38-year history of Title XI: Ship Financing Program, the cost of the program, including the cost of overhead and salaries as well as the coverage of losses, have been covered by user charges paid by the shipowners to utilize title XI financings. After paying all administrative costs and losses to date the fund has a cash balance of approximately $130 million.

During the present recession with its high unemployment in the steel industry and shipbuilding industry, to create jobs all Congress has to do is expand title XI financing which does not contribute to the budget deficit. Appropriated funds are not involved in title XI guarantees and the Government's liability is contingent only. As of September 30, 1981, the default ratio during the 38-year life of the program was seven-tenths of 1 percent, and all losses had been covered by users charges. Consequently the OMB cuts do not contribute to bringing the budget into balance.

It is my understanding that the Sparrows Point Shipyard could sell a couple oil rigs if financing were available under title XI, which would stop the layoff of my members.

It is also important to get some of the Navy work into the Port of Baltimore before the highly skilled shipyard workers are forced to lave the Maryland area to find jobs. The Navy is planning to expand by building an updated fleet.

The manpower and shipbuilding facilities are available now. We need the work now.

For the future, the time has come for a new approach, such as a cargo sharing program that most of our trading partners around the world have, guaranteeing a percent of all cargo to be carried on American built and manned ships. Cargo sharing would be beneficial to the Nation's trade balance, the U.S. internal economy, especially employment, and to maintain the required shipbuilding base for national emergency.

It is not healthy for any nation to allow over 96 percent of all its imports to be carried by foreign built and manned ships.

At a time of high unemployment in the steel, shipbuilding, and other major industries in America, it is time Congress pass a cargo-sharing program which could possibly eliminate unemployment partially if not completely in this country.

On behalf of my members and myself, I want to thank you for holding these hearings. And, I hope that you will be able to help us before it's too late. We are running out of time.

Senator SARBANES. Thank you for your very thoughtful statement and also for the attached fact sheet on the title XI program, which I had a chance to look over very quickly and which makes the points with respect to that title XI program very effectively.

There's just no commonsense rationale for this OMB-imposed limitation which has cut by over half our potential capacity to engage in this shipbuilding and reconstruction with American materials and American workers.

Mr. Van Gelder, please proceed.

STATEMENT OF PHILIP H. VAN GELDER, CHAIRMAN, MARYLAND-DISTRICT OF COLUMBIA AFL-CIO COMMITTEE ON UNEMPLOYMENT INSURANCE, BALTIMORE, MD.

Mr. VAN GELDER. Senator, my name is Philip H. Van Gelder. And I'm chairman of the Maryland-District of Columbia AFL-CIO Committee on Unemployment Insurance.

The last figures we have from the Employment Security Department of the State of Maryland report 170,000 unemployed in the

State as of November. At that time, in November, there were about 50,000 or 55,000 who were drawing unemployment insurance. So, less than one-third of the unemployed in the State of Maryland are being helped by unemployment insurance.

I would like to point out, in the last fiscal year, ending July 1, 1981, some 138,000 Marylanders drew unemployment insurance. But 65,000 were disqualified for nonmonetary reasons. In other words, out of every three who applied one was disqualified—approximately one out of three were disqualified for reasons submitted primarily by their employers, that they quit or they were discharged for cause, or for refusing to accept other work or not looking hard enough for work, not because they hadn't earned enough money, but for nonmonetary reasons.

Almost one-third of the unemployed claimants were disqualified for benefits.

Now, as to those who are drawing benefits in Maryland at the present time, we have a maximum benefit now of $140 a week. And this compares with the maximum benefit in the State of Pennsylvania of $183 a week; in West Virginia, $194 a week; in the District of Columbia, $206 a week.

Now, Maryland is the fourth wealthiest State in the country in respect to average personal income. This is a rich State. This is not a poor State. And yet there are at least 30 States that pay higher maximum benefit than the State of Maryland. The average benefit in the State of Maryland is $96 a week.

Now, we have tried—the AFL-CIO has been the chief spokesman for the unemployed in this State. We have made an effort to bring up our benefits at least to what the neighboring States are paying. And the fact of the matter is that because of the low benefits Maryland has been paying the unemployment fund is now at the highest point in history. There's over $400 million in the fund.

Now, to give you an idea what was paid out last year—was $199 million. In other words, there's twice as much in the fund right now as was paid out for the whole—in fiscal year of 1981. So, the money is there to pay a better benefit, but we met this very serious resistance from the business interests and the Chamber of Commerce, even though the tax rate for the employers that support the fund has decreased 50 percent in the last 2 years.

The average tax—I want to give you these figures, because they are generally unknown. The average tax on employers to support the unemployment insurance fund in Maryland has declined from 4 percent—this is a payroll tax—to 2 percent in the last 2 years.

Now, the tax is based on a taxable salary maximum of $6,000. In other words, for each employee, each full-time employee, the tax, the average tax now would be $240 a year. And the minimum tax now is one-tenth of 1 percent, or $6 a year. This is what some of the biggest, wealthiest corporations in Maryland are now contributing to the unemployment insurance fund, $6 per employee per year. That includes the utilities, big financial companies like U.S.F. & G., highly profitable companies which are making practically zero contributions to the unemployment fund, which we are supposed to use to help underpin the economy in these times of depression.

That is the main point I wanted to make here. There are one-third of the employers in Maryland paying the minimum rate; 33.4 percent are paying the maximum rate of one-tenth of 1 percent on each full-time employee, or a maximum of $6,000 a year or $6 per year.

Now, I think that these figures and these facts should be impressed upon the Government here, in the State of Maryland at least, to make some improvement in the unemployment benefits.

The other thing that I just want to mention briefly is that the Federal Government, because of their restrictions now on extended benefits, have sort of given a signal to the States to make the unemployment insurance system worse and lower instead of improving it. And they have adopted—the Federal Government has adopted a provision that anybody who does draw extended benefits after a few weeks, a certain number of weeks, must accept a job at the minimum wage or else he'll be cut off. In other words, we're telling a skilled worker and people who have spent years developing their skill and building up their income, that we are now going to drive them back into a poverty situation. And I think that's a very serious thing for this country to undertake at this time.

I hope that you will give very serious consideration to extending the benefits and to liberalizing them and not to use the unemployment insurance system as a method of driving people—of lowering wage standards and forcing people into minimum job pay.

Thank you very much.

Mr. BRADLEY. Senator, I'd just like to add something to this. You might wonder why we would make a presentation on unemployment benefits. We want to point out to you, through that testimony, one other thing: that Maryland is not prepared for the kind of unemployment that now exists in this State because of the low unemployment benefits that are being paid. The Maryland economy is going to suffer.

Now, last year we paid out $199 million in unemployment benefits. That had an impact on the economy about six times that amount, almost a billion dollar impact on the Maryland economy.

Now, these are high-velocity dollars. It's not a punitive tax. These are high-velocity dollars that circulate in and out of the economy six times. When a person gets unemployment benefit, they pay a gas bill, they pay phone bill, they pay the interest on their car and on their home, and they buy food. How they do it with $140 a week, I don't know.

Now, the person who has an income of $300 or so really takes a beating. When you go over $250 or over $300 and you're laid off, you get $140 and you have a mortgage and you have kids going to school, you have a car and so on—based on that, you're in real serious trouble.

And when the consumer is in serious trouble as far as mortgages and cars and starts turning them back, the banks and the general economy are in trouble.

So, what we're trying to point out here, Senator, is the problem is not only where the economy is because of Reaganomics, the problem also exists because Maryland is unable and because they were unwilling to provide the kind of benefits, to provide the kind of money for workers to hold onto what they got until we can get beyond this Reaganomics situation that we're in today.

And that is why I have said earlier in my testimony that as far as Maryland is concerned—and I believe, indeed, most of the country—that we're into a situation where the unemployment rate is so high and the benefits are so low to sustain the unemployed through that period of time, that the unemployment is going to begin to eat on itself and it's going to create a disaster of unemployment situation, I believe, in the spring.

I wish I could say something more positive. I cannot. I just urge you to do everything within your power to turn the situation around as quickly as possible before we find ourselves in a social situation that none of us want to see.

Senator SARBANES. Gentlemen, you have given us some very sharply drawn testimony.

Let me ask you this question: What do you hear from your membership about their ability to withstand what's happening now, compared with previous recessions that we've been through?

Mr. BRADLEY. One of the problems they have, they see no light at the end of the tunnel. They call a guy like Jim Harmon on the phone, they say, "Jim, when am I coming back to work?"

What can Jim tell them? There's no guaranteed loan program for that ship or for the offshore oil rigs. He can only tell them. "It doesn't look like there's going to be anything."

And they don't have the hope, they don't have the jobs out there. We have people out there searching jobs day in and day out. They're just not there. They can't be found.

We have job placement people on the job looking for jobs for people, and we can't find them. And we're not talking about jobs—$10 an hour. We're talking about jobs—minimum wage, $4, $5 an hour. They aren't there. And they aren't there for our people. They just can't cope with it.

Mr. HARMON. The crime rate is definitely going to go up. I'm afraid it's going to be a long, hot summer if something is not done.

A man has been working all his life, is not going to see his family go hungry.

Mr. KOLLEIN. I'm experiencing, Senator, an increase and alarming growth in frustration and bitterness. Good people, family people who want to work, who just want to make a decent living—their frustrations and their bitterness is just unbelievable.

We witnessed part of this in the PATCO strike, where President Reagan insisted that these people not be employed. You know, he won the war, he destroyed that union. But then after he won the war, destroyed the union, fired everyone, he just picked up his weapon and went out on the field and shot the wounded.

There's no compassion for the workers of this country in Washington, at least on the Reagan administration's team.

Senator SARBANES. Are you all familiar with the study that Harvey Brenner at the School of Hygiene and Public Health of Johns Hopkins did for the Joint Economic Committee?

He studied the effects of economic change, spurts and slumps on the Nation's health. His data showed the increase in the incidence of murder, alcoholism, mental disorder, serious disease that is correlated with economic slumps. I think it's a very important study. He worked at it over a very long period of time and with some sophisticated research techniques. It tends to corroborate on a scientific basis your own impressions which you have been reporting to us of the effects of economic stresses imposed upon people.

There's one other question I want to ask, a broader, more general one. You are sort of effective leaders of the labor movement, and I would like to hear your thoughts on the productivity issue.

We are concerned about improved productivity in this country. The performance in recent years has not been very good, really, measured in overall terms. What do you see as the problems in improving our Nation's productivity? And what can we do about it?

Mr. KOLLEIN. I think the basis of it—what I have witnessed is we are attempting to compete with these nations that we defeated in World War II and rebuild, and we don't have the technology, the equipment and the knowhow they do because we gave it all to them.

Now, we're importing their robots and their technology, and we're catching up. But I think in some instances it's comparing apples and bananas, because there's just no comparison.

It's truly frustrating, because a worker in a plant 50 years old certainly cannot be expected to compete against a worker in a new plant, like in Japan or in Germany, that we helped finance and build instead of rebuilding our own plants. We may have won the war, but I think we lost the battle.

Our workers are seeing this, and you just can't get—the old streetcars in Baltimore don't go as fast as the new rapid transit systems that we have here. And that's what we're doing, we're comparing the antiques to the moderns.

Mr. BRADLEY. There's also another factor, Mr. Chairman. Multinational companies are buying up a lot of small companies, buying up businesses, medium-sized businesses in this country, draining them, taking all of the profits out of the company, and then getting rid of them, throwing them, disregarded, on the trash can. And then we see more and more tax incentives being given to business to modernize their plants, supposedly, with no saying that "You've got to do it, here's the money. We hope you modernize the plant."

They go out and do something else with it, acquire another company or something else, rather than put that money back into rebuilding our industry.

I think Penn Central is a good example of what can happen when you give big business $250 million to rebuild the railroad. They find out they took the money and they did other things with it than what they were supposed to do with it.

I think if you're going to give tax incentives to business to revitalizing interest, you'd better make sure that they guarantee that that's what they're going to do and if they don't do it, they're going to be held accountable for it, just like anybody else.

And I think, as far as productivity is concerned, when the American worker is given the opportunity to have a modern plant and modern techniques that go into producing a given product, that they can compete with anybody.

I saw an article not too long ago in the Wall Street Journal which said that American productivity, the cost of—per dollar—of labor has dropped from 20.5 cents per dollar to 19.7 cents per dollar. So there has been a drop and there has been a gain as far as productivity is concerned.

I think it's a pretty good testimony to the ability of the American worker that only 19.7 cents of the sales' dollar goes to labor costs.

Now, one of the things that was pointed out in a session the other day in which I participated—they were wondering why the average earned rate in the State of Maryland went up. It was perfectly obvious why it went up, because of the high levels in production workers. They keep the skilled worker, the engineer, and the overhead worker; they keep him there.

But when you knock the bottom out, the lower skilled worker, you come up with a higher average. And that just indicates what's happening. The production guy is being wiped out. They're trying to hold onto the other people. And that makes the average earned wage go up.

One of the guys tried to make the argument—one of the panel members tried to make the argument it was because of wages. It wasn't because of wages, it was because of the mix of the work force.

But I believe, as I said before, that the American worker can produce, if he's given a modern plant and modern facilities to do it in, and compete with any other worker in the world. That's not what's happening today.

Mr. HARMON. I cannot speak on a national level, but I can speak on a local yard level. Our yard was facing major production problems a few years ago, and the management and union sat down, management made a real commitment as far as investing—it would modernize. We kept a steady work force for a couple of years now, and we are now delivering, as we did Saturday, below cost, ahead of schedule, because of that cooperation.

If the work force now is laid off, dispersed all over the country, there's no way that they're going to gear back up again.

Senator SARBANES. I think that's a very important point. The boom and bust cycle is very bad for an improved productivity record.

Mr. HARMON. Disastrous.

Senator SARBANES. I don't know whether the homebuilders will talk about that today, but I've heard from them before and they say they assemble a highly skilled crew, get it working together, get it programed, and shake out the weak. They develop a strong work force, and then they get hit by one of these slumps and have to let them all go.

First of all, they lose some of those people forever. The really good workers will go off and get some job where that's not going to happen to them. Even if the homebuilders somehow pull it back together, it takes them time to get the work force fully integrated again. It's the same thing at the shipyard.

Mr. HARMON. We sat down with the management. They asked the union. We just entered into a new contract. We're volunteer, life circle, similar to the auto worker, other industries, where the management is going to sit down at the table and listen to the union people and we're going to listen to the management problems. Because of our joint union-management cooperation, we've been able to assemble a highly skilled work force that's producing below cost, ahead of schedule. And now we've gone around and tell the same people, including myself, that we're going to be laid off. Management is not going to continue to build ships under those conditions.

Senator SARBANES. I was struck on Saturday, because I was talking to some of your people, by the pride that they took in the job they had done on that rig. This is the management and the workers I'm talking about.

Mr. HARMON. The workers feel the same way.

Senator SARBANES. They had a sense that they had done a good job. They brought the rig in ahead of schedule and under cost. You know, it was a good piece of work and everything, and they were pretty proud of it. The spirit amongst them was impressive.

Mr. BRADLEY. And their reward is a layoff.

Senator SARBANES. Yes.

Gentlemen, we thank you very much.

I just want to say that we're very pleased to have with us the vice chairman of the Baltimore City Council, Councilman Clarence D. Burns, who is an old friend and a very effective leader in our city.

If we could have the housing panel. Bob Voelkel, please proceed.

STATEMENT OF ROBERT E. VOELKEL, JR., PRESIDENT, MERCANTILE MORTGAGE CORP. AND MARYLAND MORTGAGE BANKERS, BALTIMORE, MD.

Mr. VOELKEL. I was not prepared to give a prepared address to you or your subcommittee. I welcome the opportunity to sit here with you to discuss the problems that we are experiencing from my own personal standpoint, as far as Mercantile Mortgage and the Mortgage Bankers.

My name is Robert E. Voelkel, Jr. I'm president of Maryland Mortgage Bankers Association, a local trade association in the State of Maryland, bankers. Additionally I'm the president of the Mercantile Mortgage Corp., which is a wholly owned subsidiary of Mercantile Bank Shares, a multibank holding company, chartered in the State of Maryland. Mercantile Mortgage Corp. is not a bank. It is not a thrift institution or a credit union, and hence we borrow money like any other businessman to finance our operations. And as interest rates rise, as we have witnesses during the last few years, our cost of doing business through borrowing throws our company into a negative cash flow situation.

Since its inception in 1972, mercantile mortgage had 8 straight profitable years of doing business. During 1980 Mercantile Mortgage reported a first-ever loss of $900,000 which negated 50 percent of our profits during the previous 8 years. In 1980, Mercantile Mortgage cut its staff from 56 employees to 28. In late 1980 interest rates were costing us $80,000 a month in losses. From 1972 to 1979 Mercantile Mortgage average $40,000 a year in construction financing for apartment projects, which represented about 2.400 units per year with average mortgage amounts of $16,000 to $18,000 per unit.

In 1980 and 1981 Mercantile Mortgage only financed about $20 million during both years, which totaled 570 units with an average mortgage rate of $35,000 a year. This, and during 1981 we'll run off a few more apartment projects, just because they have previously been in the pipeline, in the FHA pipeline, and we will be fortunate enough next month to get a little bit of the GNMA tandem money. We will get maybe four projects during the coming few months, representing about $12 million.

In way of testimony about subdivision financing which has been an integral part of our business, the only subdivisions we are now doing are projects where we have government-assisted end-loan financing. We're doing a job for Baltimore City down at Mount Wynans where UDAG has given us a $12,500 per unit write down, and we have available an additional subsidy of 235 financing.

Here in Baltimore City in the central part of the city, we're doing about 250 townhouse rehabs and new townhouses, which additionally has a $13,000 per unit UDAG write down. Additional subsidies in the way of 7½ percent end-loan financing. We have quit the spot loan resale business which 2 years ago represented about $50 million per year in volume for resale houses done in conjunction with real estate. We have recently foreclosed within the last 1½ years, on five major subdivisions. It appears likely only work out of these subdivisions will be where we will design a townhouse and be able to sell them to investors to take advantage of tax breaks under the FHA 203(b) programs.

We virtually have stopped making all long-term conventional mortgages with fixed rates because of the horrible conditions that the thrift institutions are now experiencing with their liquidity. During the last 18 months our only profitable experience has been in some new construction in Ocean City, which we find has been a little bit different than the rest of the Baltimore metropolitan area. We've done about $20 million with Farmers Home in turnkey projects, where we have a Government takeout, and I guess we have written and closed and packaged about $30 million of single-family end loans with mortgages for single-family residential. That was made possible through county tax-exempt end loans through CDA and Baltimore City programs.

That concludes my testimony, sir.

Senator SARBANES. Mr. McCuan, please proceed.

STATEMENT OF PATRICK McCUAN, PRESIDENT, McCUAN DEVELOPMENT CORP. AND STATE OF MARYLAND INSTITUTE OF HOME BUILDERS, COLUMBIA, MD.

Mr. McCUAN. Senator, I'm Patrick McCuan. I'm the president of the State of Maryland Institute of Home Builders, and in my part time, I am the president of McCuan Homes in Columbia, Md., plus chairman of the board of Cannon Development Corp., a commercial and industrial developer in Howard County.

It was 4 long months ago that a group of builders stood before you and talked to you in this very room, talking to you about housing and interest rates. Housing in Maryland is an utter disaster. In Greater Baltimore, and in particular, it is in a very serious condition. I need not sit here and talk to you about Federal deficits or talk to you about the problems of the myopic Federal Reserve Board, nor need I talk to you about inflation and the impact on our industry of inflation. I don't have to talk to you about the savings and loans being decimated, because you know all of that. Perhaps what you don't know is the potential long-range impact of what's going to happen in the long run, as a result, to this industry. We are probably threatened more than any other industry that's affected by this particular recession with a stable work force. You alluded to it in your earlier response to the AFL-CIO and the other labor groups. But our stable force, our stable work force is almost, to use another word, decimated, in the sense that according to the National Association of Home Builders, we're looking at 18.2 percent employment rate across the country.

I would say in some parts of Maryland, we're closer to 60 to 90 percent unemployed in the construction industry. Across the country that represents almost 1 million people that are out of work. In Maryland, I can tell you that our industry has multiple hundreds and thousands in our industry who are out of work today. More alarming, Senator, is the subcontractor failure rate. We are up 71 percent in 1981. Let me tell you why that's alarming. I'll give you a couple of examples. They related earlier about General Electric and the 1,200 people who were laid off in Columbia. That's only the tip of the iceberg. That's a large supplier. They supply about 72 percent of appliances for all new homes in the country.

Now normal years we build about 2 million homes across the country.

So for General Electric, that means about 1,700,000 refrigerators, dishwashers, garbage disposals, and other pieces that go into the homebuilding industry. The large suppliers are not going to put up with these kinds of losses. They'll lop them off. They'll no longer build appliances. Then who's going to be around to build appliances? Sure, there'll be people to step in, and people to build new appliances, but what will be the cost of those appliances? The likelihood—of instead of a refrigerator in the standard home being $426, the likelihood is that same refrigerator with the same components building by somebody else will be $600. So that means that that home just went up $175. Instead of that dishwasher being $232, it may be $313. So that house just went up $80 more dollars. That $80 puts that many more people out of reach of homeownership. But that's on a big level. Those are big corporations, and they'll survive.

I think the other concern that I have is related to the small subcontractor. And this is where perhaps we face the greatest danger in homebuilding. Homebuilding—a home is an imperfect object built by imperfect human beings. But the thing it has going for it is that it's built by groups of crafts people who are concerned about doing their best, usually doing their best. I build custom homes. And what we try to do is built the very best custom home you possibly can. And the people who do those kinds of finishes in a home or do those specialty items in a home aren't going to be there.

Let me give you an example. A blocklayer, before the 1974–75 recession, got about 25 cents for laying a concrete block. After that recession, they came out of that, they were up to about 55 cents in about 1976–77. Today they get about 95 cents per block. This is nonunion. Just typically in a house. And there are about 2,000 blocks in the average basement. When we come out of this recession, because there are people who no longer going to be blocklayers, the likelihood is we'll be paying $1.25 to $1.50 a block. Now those 2,000 blocks in an average basement are going to increase the price of housing.

That's the message I want to bring to you. That those blocklayers are quitting the business, and they're going to work as truckdrivers, and they'll never come back again. They're going to go to work as blue collar workers. They're going to go to work doing anything they want to do, but they're not going to come back to the homebuilding industry, because we constantly go and we go down. We go up and we go down. We are 2 years and 4 months into the cycle we're in now. And we're in a very serious condition, and we're losing those people. And the impact of losing those people and losing those crafts people, in addition to what it has on the impact of the cost of housing is what I really want to bring as a message today.

I'm not sure that we can reverse it. I'm not so sure that the possibility is that we may have gone too far, but that's the most serious message that's out there.

Then there is another and last message I'd like to bring to you. That's about the smaller homebuilder. The majority of homebuilders in this country, Senator, build less than 10 houses a year. When I say "majority," about 85 percent of them. We are a small group and we're really in many ways the last of an entrepreneurial breed. There's a group of guys out there who doesn't really take any specialized training. All it really requires is some guts and some direction, and you can go into the homebuilding business.

Well, that has positives and negatives. It really represents the fact that anyone who has a bit of knowledge and foresight can become a good builder. Therefore, we are basically tearing at one of the social—key social fabrics in our country, and that's the community-based institution of homebuilding. The small homebuilder. You know, in this whole process, Senator, we're going to come back and the big boys will survive. There's no question and some of us will survive, your small builders. But the big problem is what about all those massive number of small builders? You know Ryland Homes is not going to want to go out in Hartford County and build a house on that farm which that farmer wants to build for his son, so his son can set up and have a family compound there. Ryland is not going to want to build—as a production builder is not going to want to build the $250,000 custom home that people are going to want built for them after they have made it, working hard and deserved it, and building a new home for their family.

If we lose this small entrepreneur, I think that is one of the greatest damagers that we face generally in our country.

In conclusion, I would add that in a democracy to own a home is probably the most basic human right. I guess I'm biased about that, but I think all of us at one time in our life, whether we be—whatever development we come from, whatever social order, we think at some point in time about owning our own piece of real estate and owning our home. There's a growing frustration, almost a very near bitterness. We're not there yet in our industry, but I have got to tell you, I think we're patriotic and we're loyal, but enough is enough.

We thank you, as a Senator, for listening to our concerns, but we also, now that you have listened, we want you to do something about it. We want you to bring the resources of your office and the influence that you have developed in Washington, we want you to bring that to bear on our problems. We know you're trying, and we're going to help you try. We want to help you to even do better.

Senator SARBANES. Thank you. That's a very good statement. You know, we've been in this fight on GNMA. I think the administration is receding from that proposal, but that's just one example. It's like the title XI funding for the ships that I was talking about. Again that program is making money for the Government. There's no net cost to the Government or to the GNMA program.

It's very important to enable at least a segment of the housing industry to function. At what level of interest rates could you operate—at least be able to move things a little bit and not be either off the cliff or at the very edge of the cliff?

Mr. VOELKEL. I used to think that at 13 percent we start really disqualifying the majority of the people. I don't know what Pat's thoughts are, but that's when our credit worthiness slips, where we really start pushing an applicant to get him through.

I just am an entrepreneur, if you will. As a president of my own company, I think I would have to look very, very hard and look twice before I start going out. When you start talking about 13 to 14 percent. I'm talking about prime rate, not a second home in Ocean City, something like that.

Mr. MCCUAN. From a builder's point of view, I would say 11½ to 12. The reason why I pick it at that rate is even at 11½ or 12 percent for a first home buyer, it requires a family income of $28,000 to $30,000 just to qualify for a $60,000 loan at that level.

On the other level, I'd say for a person trading out their homes, we could go at 13 percent. If we got anywhere at 13, we could begin to get moving and begin to contract for homes.

Senator SARBANES. I think your point on the work force is an extremely important one. As you said, I touched on it earlier. You're saying that each time you go into a recession, it shakes out of that housing industry work force some of the most highly skilled people—in some ways the better people, because it would be easier for them to get jobs elsewhere because they bring a better work record with them. So your best people can probably get a job. Then you don't get them back when things pick up again. So the cost goes up, because you have a more limited pool of skilled people, and, of course, you have a training period if others are going to get into it.

Mr. MCCUAN. They charge what the market will bear, Senator. Let me give you an example. I interviewed a finish carpenter recently. They're very rare now. In the home I built, I can't get a finish carpenter. He now is getting $27.50 an hour. I told him, I think I'll just go back and put my belt on. I think I'll go in there and start working as a finish carpenter. He'll get it. I didn't hire him. He's one of the best around.

But they're getting that, Senator. The carpenter that I just lost got a great opportunity down in Florida to go into business with his father, father and uncle, in a mop making—to make mops down in Florida. So you know that's exactly what he's going to do. He's going to go down there. He never again will ever come back in our industry as a trim carpenter, and he was superb. He could build the kind of craftsmanship that's on those louvers there.

Senator SARBANES. What about young people entering your work force? How is that working in terms of building the next generation of skilled people?

Mr. McCUAN. They're not there.

Senator SARBANES. Why is that? Why couldn't you say to young person, "Now, look here's this finish carpenter and he can command $25 to $30 an hour. That's a lot of money, obviously. That's an important skill. Once you have it, you always have it."

Why can't you get young people to go down that path? Because you can't really promise them a job when they start out?

Mr. McCUAN. I don't mean to hog this, but they have seen their dads, uncles, brothers, work for a year and then be off for awhile. They have seen them after the 1974–75—they saw them work full-time right up to about 2½ years ago. Then they saw them getting spasmodic work. Now they see them drawing unemployment. They don't really want that kind of insecurity. That's one reason. No. 2, is there something bad about—I think this has to do nothing with our current economic situation, but with the social fiber of our country. There's a certain bad connotation with our industry. I don't know what's caused it, but people aren't very anxious to move into it. They will from the entrepreneurial level.

You know, the supplier who is a tile supplier, he'll get his son involved in that end of the business, but he would have a very difficult time getting his son involved in the tile installation end of the business. And I don't know where that breaks up.

Senator SARBANES. That's an interesting response. Bob, did you have something?

Mr. VOELKEL. Yes, very, very personal experience from two recent sons of mine who graduated from school. The one boy, I think just because of my background in development of real estate, tried to make a go of it in construction, particularly carpentry. After 1½ or 2 years of bouncing around from job to job, employer to employer, took up accounting and just recently graduated with a CPA. Second boy, from my own experience was with him, he wanted a sales career. And when we were going down a punch list—I did this with him just this past weekend—my comment—with him—I've made a living working in this community all my life. I advised him to stay away from anything that had anything to do with building products, because of the cyclical nature of it. I told him to get into food or hospital supplies or pharmaceuticals.

That's from me at 50 years old who have made my living at this industry all my life. I don't know whether that answers your questions.

Senator SARBANES. That's helpful.

Gentlemen, we thank you very much.

Ladies and gentlemen of our career placement panel, we appreciate your patience in staying with us all morning.

We would be happy to hear from you in any order—have you worked out an order amongst yourselves?

Ms. Sills.

STATEMENT OF CreSAUNDRA SILLS, DIRECTOR OF CAREER PLANNING AND PLACEMENT, LOYOLA COLLEGE, BALTIMORE, MD.

Ms. SILLS. Since I'm the only female, I'd like to go first.

I want to thank you for the opportunity to testify today. And I'm happy to see a lot of my colleagues today, and their report will be included in your report.

Today I wish to address the impact of the economic recession on the Maryland college graduates, Senator.

Senator SARBANES. Would you identify yourself for the reporter's benefit.

Ms. SILLS. I'm CreSaundra Sills, and I am the director of career planning and placement at Loyola College.

And I will start again.

Today I wish to address the impact of the economic recession on Maryland college graduates entering the job market. In particular, I will be addressing Loyola College since that's the college I'm familiar with.

With business uncertainties and economic trends such as layoffs locally and nationally from the steel, food, auto, and housing industries, as well as governmental agencies, one might come to the conclusion that the job market outlook for college graduates in 1982 is pretty bleak.

Some optimistic notes, however, according to the October 1981 College Placement Council's nationwide survey of 551 employing organizations, there is a projected increase in the number of employment opportunities for 1982 graduates.

For example, 62 percent of the employers responding to the survey cited improved conditions are expected for the first half of 1982. Twenty-seven percent reported that conditions would probably remain stable. Surprisingly, only 4 percent predicted conditions to decline, while 8 percent were uncertain.

The responses to this survey are quite enlightening and optimistic in terms of the anticipated increase in hiring activities.

In line with the College Placement Council's prediction, Loyola College is experiencing an increase in the employer recruitment activity for the 1981–82 season. Last year we had a total of 114 employer organizations on campus. This year, so far, we anticipate 130 participants. This high figure is probably due to the fact that 80 percent of our alumni is still in the Maryland area.

It is also important to note that according to the college placement survey the number of governmental entry-level positions for college graduates is expected to decrease. This is of no surprise, since this decrease is primarily due to the cutbacks on Federal jobs in efforts to curb inflation. The biggest crunch will be felt in the humanities, social science/service areas, and trainee positions usually filled through the PACE exam.

Another critical factor affecting college students is the elimination of the Federal summer internship program which provided students with valuable summer work experience in various career areas. A lot of our students obtained full-time employment upon graduation as a result of participating in this program.

In 1981, Loyola College's Career Planning and Placement Office, saw a decrease in the number of students hired by governmental and nonprofit agencies. To give you a figure, in 1975, 19 percent of the students were hired by governmental and nonprofit agencies, and for 1980 only 80 percent were hired by agencies. This was offset, luckily, by graduates hired in different business and industries.

However, our Federal, State, and local recruitment activities are expected to continue in the engineering, computer science, and mathematics areas. For instance, the Central Intelligence Agency, National Security Agency, Social Security Administration, and the Fort Meade Intelligence Group are still conducting recruitment activity.

Some of the "hot" career areas in which there are anticipated increases in hiring activity in 1982 are engineering, computer science, business sales, and health professions. Due to the various energy issues we're facing, there will be a need for individuals pursuing careers in coal, solar and nuclear energy, such as environmentalists, engineers, ecological specialists, hydroelectricians, and energy research scientists. The new technology we're heading for will manifest the need for robotics specialists, computer specialists, systems analysts, molecular biologists, to name a few.

It is important to note that the attitude of today's college student is very compulsive in regards to career planning and job-searching activities. Along those lines, the number of students utilizing Loyola College's Career Planning and Placement Office has increased tremendously in the last year. We saw for the total year of 1980–81 about 780 people. At present we've seen almost 1,000 individuals. This was not only the college community but outsiders who have college graduate degrees and are looking for jobs.

The students are literally frightened about what they hear about recession and how it will eventually impact on their employment opportunities. The various cutbacks in financial assistance also have an awesome effect on those pursuing a college education. Many students are forced to work at least part time to meet college expenses.

The recession in Maryland is challenging most graduates to develop an array of skills: Namely business, technical, and communications skills, regardless of their major area of concentration in college.

For example, liberal arts majors should develop some business and technical knowledge; engineering students more managerial and business skills; and business students more humanistic skills. The more well-rounded the individual, the better his/her chances of employment.

Of course, it still holds true that the more competent a person is in his/her communication skills, the more assertive that person can be in selling themselves. With keen competition in many areas, marketing oneself and readying oneself for the "real" world is crucial. In essence, the "best" will get hired.

Liberal arts majors are of more concern to liberal arts colleges, and we're doing all we can to make them highly marketable by developing new seminars and workships.

More special programs are needed, like the joint efforts of Maryland area placement officials and employers which sponsored recent college job fair held at the Towson Center at Towson State University.

Another example of joint participation by area colleges is the upcoming education consortium, which is, in essence a job fair for education majors. This event is sponsored by the University of Maryland's Career Development Office and will be held at the College Park campus.

Loyola College is unique in that we are experiencing increasing student enrollment at a time when many schools are reporting a decline.

In addition, we are experiencing, as I mentioned earlier, an increase in the number of employing organizations participating in the on-campus recruitment program. Surprisingly, numerous recruitment requests include those students with a liberal arts background.

Our follow-up data for the past 5 years show that approximately 70 percent of our students are employed full time within 6 months after graduation, while another 20 percent are accepted into various graduate and professional schools.

Finally, it remains to be seen if the reported increase in recruitment activities will continue to lead to "actual jobs." This can only be assessed retrospectively when area Maryland colleges review follow-up data regarding employment secured by the 1982 graduates.

Times are very tight. And quite frankly, with more cutbacks that are going on, I really feel for the 1982 graduate.

And while I have the chance, I want to throw in a personal statement. A lot of people feel that it's a plus to be a black woman in the market force right now, because it's a double minority your chances are better. Personally, I never felt it was true, because we had to be 2½ times better than our counterpart looking for jobs, and we had to work doubly hard at being accepted, recognized, and respected.

In essence, it's going to be really keen competition and a lot harder for minority graduates going out in the job market.

The other day I spoke with a group of minority students. I referred to them that I was coming here today, and I said: "In times of economic stress, how do you feel about the job market?"

And they left me with the statement they thought I would be the last hired, but the first fired.

Senator SARBANES. Thank you.

Mr. LeMire, please proceed.

STATEMENT OF FRANCIS J. LeMIRE, DIRECTOR OF PLACEMENT, TOWSON STATE UNIVERSITY, TOWSON, MD.

Mr. LEMIRE. Good afternoon, Senator Sarbanes. It's a pleasure to be here to address your committee. My name is Francis LeMire, director of placement, Towson State University, located in the northern suburbs of Baltimore City. Towson is the second largest university in Maryland, with an enrollment of 9,400 full-time undergraduate students and an additional 6,000 students in continuing studies in graduate school. Minorities constitute 12 percent of the undergraduate enrollment, and 50 percent of the students are women.

Although Towson is a State university, most of the students are from Baltimore County, 47 percent, and Baltimore City, 23 percent. The out-of-State enrollment is 4.5 percent.

The major degree program is in business administration. Other popular fields of study, generally liberal arts, include mass communications, teacher education, psychology, general studies, nursing, and allied health. A compilation of enrollment by major is attached to my prepared statement.

In the past, Towson has been known primarily for its teacher education program. However, in recent years, the number of people majoring in education has decreased significantly as it has throughout the country. This has resulted in an ongoing shortage of teachers in math, science, industrial arts, and special education. The salary differential between education and industry is a major cause for math and science teachers seeking employment in the corporate areas. However, students majoring in early childhood education, elementary education and a few secondary areas are experiencing difficulty in obtaining teaching employment.

In preparation of this report, 17 major employers who normally hire college graduates were contacted and asked how the recession has affected hiring and what their outlook is for the coming year. Employers contacted were in accounting, banking, retailing, manufacturing, real estate sales, insurance, and media. Nine stated their businesses were progressing satisfactorily, six were in a wait-and-see posture, and two reported negative outlooks. Nine corporations are not hiring liberal arts graduates or filling entry-level positions. They do not anticipate increased hiring during the coming year. An overview of their comments is attached to my prepared statement.

It appears opportunities for entry-level positions are down, employers are extremely slow to fill vacancies unless it has a high priority. Top graduates have not been as adversely affected as the average graduate. The rippling effect on the tight job market and the high unemployment has limited employment opportunities for the average student.

The employers' holding or in a wait-and-see posture has put a damper on employment opportunities. At Towson State we are particularly concerned about job opportunities for liberal arts graduates.

Although the number of recruiters coming to our campus has increased this year, more are seeking business administration and computer science majors than before. The majority of positions offered are in management training, sales, teaching, and accounting and in computer science. There are few openings for humanities or for physical and natural science majors.

To assist our seniors in qualifying for employment opportunities, we conduct weekly classes in job search, resume writing, and interviewing techniques. A number of career information days and seminars are held each semester, directed at seniors and various majors. Employers who participate in this programs discuss interviews and resume writing from their point of view, suggest methods of conducting a successful job search and talking informally to students about job markets and careers.

The placement office maintains both bulletin boards and notebooks for full-time, part-time, summer, and volunteer opportunities called into our office. A resource center in the office contains employer and career information, reference materials and directories.

Students can obtain part-time jobs in the Towson Job Location and Development Office. From its inception in July of 1980 to July 1981, JLD has seen the number of students taking part-time jobs rising

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from 81 to 205. The coordinator believes that one of the reasons for the dramatic increase has been the cutbacks in financial aid and the need students have to earn more money to stay in college.

The Cooperative Education Office reports an increase in student placements in internships from 287 in 1980 to 371 in 1981, with the majority in business administration and computer science. Although new employers are added each year, more are offering opportunities for academic credit only and not wages.

The Placement Office, JLD, and Cooperative Education Offices have formed a job network to increase Towson's visibility in the business community and thus obtain more positions for its students and graduates.

A major resource for local employment has been a college job fair held annually by local universities, colleges, and sponsoring employers.

It's interesting to note in 1980, 75 employers and 1,300 seniors and graduates attended; where, conversely, in 1981, 65 employers and 1,600 seniors and graduates attended.

Although jobs may be scarce, both liberal arts and business administration students need to be encouraged to view their marketability with confidence and optimism. In this tight job market, we urge them to be aware not only of their academic major and supplementary courses, but also the skills they have acquired through their schooling, work experience, and activities.

Skills, transferable from school to job and from job to job, flexibility, motivation, good grades, leadership, good work habits, and personal values—these are the assets we believe will lead them to employability. We make every effort to convey this to our seniors.

Thank you very much.

[The prepared statement of Mr. LeMire, together with attachments, follows:]

PREPARED STATEMENT OF FRANCIS J. LEMIRE

Towson State University is a comprehensive state university located in the northern suburbs of Baltimore City. It is the second largest university in Maryland, with an enrollment of 9,400 full-time undergraduate students and an additional 5,700 students in continuing education and graduate study. Composition of enrollment is attached(A). Fifty-seven per cent of Towson's students are women, and minorities consitute 12 per cent of the undergraduate enrollment. Although Towson is a state university, the majority of our students are from Baltimore County (47 per cent) and from Baltimore City (23 per cent). The out-of-state enrollment is 4.5 per cent.

The largest degree program at Towson is in Business Administration. Other popular fields of study are Mass Communications, Teacher Education, Psychology, General Studies, Nursing, and Allied Health. A compilation of enrollment by majors is attached (A).

Although Towson had been known primarily for its Teacher Education program, in recent years the number of people majoring in education has decreased significantly, as it has throughout the country. In 1979, 540 fourth-year students were enrolled at Towson; in 1980, 423; and in 1981, 370 fourth-year students. Responses to surveys indicate that the number of education graduates finding employment in all fields, has, in fact, increased from 67 per cent in 1978, to 71 per cent in 1979, and to 73 per cent in 1980. However, in 1980, 42 per cent of the reporting education graduates stated that they did not seek teaching positions upon graduation, although many found work in related areas.

Contrary to the popular belief that opportunities in education are nonexistent, many teaching jobs are available in Maryland. Throughout the state there is currently an acute shortage of teachers in mathematics, science, special education, industrial arts, and English. Continuing headlines of oversupply and few demands for teaching positions have contributed to the declining teacher education enrollment. It appears that, within the next five years, due to the declining enrollments in teacher education programs, retirement of teachers from the classroom, the miniature postponed-baby boom, and low teacher salaries, the United States will experience a teacher shortage somewhat similar to that of the 1960's.

The current shortage of teachers in mathematics, science, and industrial arts may be attributed to salary differentials as most math and science majors choose to seek employment in the corporate area, as do many other education graduates.

In the preparation of this report, seventeen employers who normally hire college graduates in the Baltimore area were contacted and asked: 1) How has the recession affected their employment of recent college graduates? 2) Were they hiring at entry level? 3) How has their business prospered in 1981 compared to 1980? 4) What is their outlook for 1982? Employers contacted were in accounting, banking, insurance, manufacturing, media, real estate, retailing, and sales. Nine stated that their businesses were expanding or progressing satisfactorily. Six employers stated their companies saw no significant change or were in a wait-and-see posture. And two reported a negative outlook. However, of the seventeen companies, only five were hiring college graduates at entry level from all majors, and one other hires occasionally. The two accounting firms were continuing to hire recent accounting graduates. The remaining nine corporations stated that, presently, they were not hiring liberal arts graduates or filling entry level positions and did not anticipate increased hiring during the coming year. Some employers said that when they do hire, they prefer MBA's and/or people with experience. Others prefer to fill vacancies with promotions from within their company, if at all possible. A list of employment categories is attached, along with employers' comments (B).

At Towson State University we are aware of the employment situation from both the employers' and students' points of view. We are particularly concerned about the lack of job opportunities for our liberal arts graduates. Although the number of employers recruiting on our campus has remained fairly constant at approximately 125-150 per year (with, in fact, an increase this year), the trend of opportunities is for business administration and computer science majors. (See the recruiting schedule breakdown, C.) We have found that most of the employers do not have immediate openings but are interviewing for projected openings anticipated for the coming year. The majority of the positions offered through the on-campus recruiting program are in management training, sales, teaching, accounting, and computer science. There are limited opportunities for humanities majors.

To assist our seniors in qualifying for employment opportunities, we offer a number of services and programs aimed at increasing each senior's marketability, job seeking skills, and job awareness. We conduct weekly classes in job search, interviewing techniques, and resume writing. In addition, a number of career information days are held each semester.

Some recent programs have been for Education, English, Criminal Justice, Foreign Language, and Nursing majors. Employers who participate at these sessions provide career information in an informal setting, allowing students to discuss career opportunities, gain employer awareness, and learn what they can do to increase their potential for employment.

We also have had a successful series of seminars entitled "Seniors in Transition," at which employers discuss interviewing and resume writing from their points of view and suggest methods for conducting successful job searches. Both students and employers have found these programs to be productive and beneficial.

Our office maintains job bulletin boards and notebooks for posting full time, part-time, summer, and volunteer opportunities. A resource center in our office contains employer and career information, reference material, and directories.

The Placement Office also works closely with the university's Job Location and Development Office and the Cooperative Education office. For students seeking part-time employment while attending college, the Job Location and Development office has been particularly helpful. From its inception in July, 1980, to July, 1981, JLD has seen the number of students taking part-time jobs increase from 81 to 205. The coordinator believes that one of the reasons for the increase is the cutback in financial aid, with students settling for any kind of work in order to earn money to meet college expenses. A copy of the complete statement from the Job Location and Development Office is attached (D).

The Cooperative Education office reports an increase in student placements in internships from 287 in fiscal 1980 to 371 in fiscal 1981, the majority being in business administration and computer science. The reports that, although new employers are added each year, more are offering opportunities for academic credit only and not for wages.

Both the Job Location and Development Office and the Cooperative Education office offer students hands-on experiences and often provide them with entrees into the world of work. The Placement Office, JLD, and the Cooperative Education office have combined forces to form a "Job Network." It is hoped this will increase Towson's visibility in the local business community, lead to more positions becoming available to Towson students, and increase our effectiveness in working with our students.

The College Job Fair is another major source of local employment in which Towson State University has played an active role. Formerly known as "Operation Native Sons and Daughters," the College Job Fair is co-sponsored by area universities, colleges, the Greater Baltimore Committee, the Baltimore County Chamber of Commerce, and employers. It is held annually at the Towson Center between Christmas and New Year's Day. To contrast participation during the past two years, 75 employers and 1300 seniors and graduates attended in 1980; whereas, conversely, 65 employers and 1600 seniors and graduates attended in 1981.

Although jobs may be scarce, both liberal arts and business administration students need to be encouraged to view their marketability with confidence and optimism. In this tight job market, we urge them to be aware of not only their academic major and supplementary courses, but also the <u>skills</u> they have acquired through their schooling, work experiences, and activities. Skills--transferable from school to job and from job to job, flexibility, motivation, good grades, leadership, good work habits--these are the assets we believe lead to employability. We make every effort to convey this message to our seniors.

TOWSON INSTITUTIONAL
RESEARCH
MANAGEMENT SYSTEMS
INSTITUTIONAL RESEARCH — TOWSON STATE UNIVERSITY

SPECIAL EDITION TO THE REPORT

A

TSU OPENING FALL 1981 ENROLLMENT*

	Men F/T	Men P/T	Women F/T	Women P/T	Total
UNDERG.	4163	1814	5246	2559	13,782
GRAD.	27	307	97	894	1,325
TOTALS	4190	2121	5343	3453	15,107
Preliminary full-time equivalent (FTE)					11,200

TOWSON STUDENT CHARACTERICS FALL 1981*

The percentage and frequency distributions that follow are based on the fall 1981 undergraduate enrollment of 13,782 and graduate enrollment of 1,325.

Sex	Underg.	Grad.
Male	43.4%	25.2%
Female	56.6	74.8
Racial/Ethnic Background		
Black	11.7%	8.8%
Indian (American)	.1	.1
Asian	1.0	.5
Hispanic	.6	.7
White	84.4	88.4
Foreign	1.5	1.1
Unknown	.7	.5
Age		
18 or younger	13.9%	0%
19	13.9	0
20	14.9	0
21	14.5	.3
22	10.2	2.2
23	5.3	5.2
24-26	8.8	19.9
27-30	7.0	27.9
31-35	5.5	21.4
36-40	2.6	10.8
41-50	2.1	9.7
51 and older	1.2	2.6
Age Unknown	.1	0

Residence	Underg.	Grad.
Anne Arundel Co.	4.7%	6.7%
Baltimore City	22.8	20.4
Baltimore County	46.7	44.8
Carroll Co.	2.4	2.5
Cecil Co.	.5	1.4
Frederick Co.	.6	.4
Harford Co.	5.9	12.5
Howard Co.	2.3	3.5
Montgomery Co.	3.8	.9
Prince Georges Co.	3.0	1.0
All other MD Co.	2.8	1.9
TOTAL MD Residents	95.5	96.0
Out-of-State Students	3.0	2.9
Foreign Students	1.5	1.1

Major Field of Study**

	Underg.	Grad.
Business		
Accounting	333	
Business Administration	2,665	
Economics	51	
Social Sciences & Humanities		
English	193	
Geography	90	25
History	92	
International Studies	36	
Modern Languages	37	
Philosophy	22	
Political Science	158	
Psychology	485	176
Social Science	32	
Sociology/Anthropology	166	
Fine Arts		
Art Education	44	38
Art (Fine)	242	
Mass Communication	708	82
Music	161	
Music Education	91	52
Speech	10	
Theatre	81	
Education		
Early Childhood	394	145
Elementary	258	120
General	12	
Instructional Technology	12	74
Reading		92
Secondary		146
Natural Sciences		
Biology	322	29
Chemistry	68	
Mathematics	180	
Natural Science	22	
Physics	63	
Allied Health		
Health Records Admin.	9	
Health Science	148	87
Medical Technology	100	
Nursing (admission by dept. review)	393	
Occupational Therapy (admission by dept. review)	186	
Physical Education	158	
Speech Pathology & Audiology (admission by dept. review)	125	47

Miscellaneous		
General Studies ***	611	60
Liberal Arts & Sciences	18	
Unknown	5,006	202

TSU CREDIT HOURS OF ENROLLMENT FALL 1981*

	ON CAMPUS		OFF CAMPUS		
	Before 5:00	After 5:00	Before 5:00	After 5:00	Total
Credit hours underg.	88.2%	11.3%	46%	.04%	100%
Credit hours grad.	42.2%	51.3%	3 7 %	2.8 %	100%
Total credit hours	87.0%	12.3%	54%	.16%	100%

*Source: The 1981 Higher Education General Information Survey (HEGIS) submitted to the Maryland State Board of Higher Education.

** The major field of study is indicated by each student at registration.

*** Includes African American Studies, American Studies, Asian Studies, Comparative Ethnic Studies, Computer Science Program, Dance, Environmental Studies, Health Services Management, History of Art Concentration, Latin American Studies, Law Enforcement, Medieval and Renaissance Studies, Religious Studies, and Women's Studies.

TSU ENTERING STUDENTS SURVEYED

The entering student survey, one in a series of student surveys developed by the National Center for Higher Education Management Systems (NCHEMS) designed to obtain longitudinal data on student outcomes, was distributed to incoming Towson State University students during TRIAD this past summer. A total of 2,192 surveys were completed and used as the study group.

The results of the survey revealed that 58.3% of all respondents were women and 85.6% of the students were under 21 years of age. The most popular fields of planned study were business administration and accounting (31.2%); the various general studies programs (10.5%); mass communication (8.6%); education (include General, Elementary, and Early Childhood education) (6.9%); nursing (5.7%); and psychology (4%).

A substantial portion of the information collected from the entering students related to what they wanted to get out of their experience at the university. The most frequently reported goals had to do with self-improvement. Nine out of ten (91.2%) said that one of their goals was to increase knowledge in their academic field; another 56.3% wanted to learn specific skills that would enrich their daily life; improve ability to get along with people was a goal of 54.9% of the respondents and 70.4% wanted to meet new people With respect to future activities, the most frequent response was to prepare for a new career which was a goal of 81.2% of the students.

Other goals cited by a smaller percentage of entering students included becoming involved in campus life, 53.3%; improving self-image, 51.5%; improving leadership skills, 44%; increased participation in cultural activities, 40.5%; discovery of vocational interest, 36.7%; improved skills for a current job, 11.8%; and increasing chances for raise or promotion, 7.8%.

TOWSON STATE UNIVERSITY

Placement Office

Research of Entry-Level Employment and Outlook--1982

Areas of Employment		Outlook	Hiring Information, Comments
Accounting	1)	+	Hiring accountants, entry level
	2)	+	Hiring accountants, entry level
Banking	1)	-	No mgt. trainee, no recruiting; 50% less employment
	2)	+	Expanding, hiring mgt. trainees.
Insurance	1)	+	No lib. arts; hiring math, mass comm., accounting in expanding areas.
	2)	No change	Entry level jobs; often hire part-time, review openings carefully; fewer jobs, 1% turnover.
Investment	1)	+	No entry level; MBA, experience; no difference in their business.
Manufacturing, sales	1)	No change	Not hiring, freeze; reposition personnel from eliminated jobs within co.
	2)	No change	Holding;fewer jobs than 1980. Openings filled by top management decision.
	3)	No change	No entry level training programs; hire at mid and upper levels; train within; job openings reviewed.
	4)	-	Recruit only for adm. positions to fill "crucial" openings.
Media	1)	No change	No entry level; little turnover.
Real Estate	1)	+	Hiring, but not entry level; consolidating; only experienced personnel.
	2)	+	Entry level, hiring all majors; slow expansion.
Retailing	1)	+	Hiring at entry level, all majors; "bright future"; expanding
	2)	No change	Felt recession Fall, 1981; holding. Hiring fewer exec. trainees; reevaluating and eliminating non-essential positions.
Sales	1)	+	Hiring all majors.

TOWSON STATE UNIVERSITY
PLACEMENT OFFICE

ON-CAMPUS RECRUITING SCHEDULE - SPRING 1982

BREAKDOWN BY MAJORS

100 Recruiters Scheduled
(Many recruiters seek more than one discipline)

All majors	18	(sales, insurance, retail trainee, bank trainee, management trainee. Also four U.S. services and Peace Corps)
Accounting	8	
Business Admin.	37	
Comp. Sci./Math	13	
Teacher Educ.	18	(16 in Maryland Public Schools, 2 out-of-state, 1 Maryland private school, 1 retailer)
Finance	2	
Psychology	2	
Physics	3	
Chemistry	2	
Biology	3	
Economics	2	
Geography	2	
Mathematics	1	(other than computer science/math)
Dance, Phy. Ed.	1	
Sociology	1	
Rehab. Counseling	1	

TOWSON STATE UNIVERSITY
TOWSON, MARYLAND, 21204

Job Location and Development

Telephone (301) 321-2730

JLD has been in service since July 1, 1980. In that first quarter of operation (July, August, September), JLD assisted in employing 81 students in various jobs. One year later JLD located 205 jobs for students in the same three month period. Although, I see that number increasing every quarter, many students have become less particular about their job selection. The student is aware of the economic and employment problems and will settle for any type of work. With this attitude, I see one major problem. Some employers take advantage of the desperation the student feels to find work. They will create the job for the student, but at a lower rate of pay.

Another reason for the increase in employed students, is the cut-backs in financial aid. This naturally forces the student into an ultimatum. The student must work to keep up with the rising cost of college, or leave college altogether. It no longer seems possible for a student to go to college without working in some type of job.

In summary, I can say that JLD is increasing the number of jobs found each year. However, I don't think the salary of the job is increasing with the rising cost of living. I don't have the statistics to support this claim but I am working on developing methods to support my speculations with figures.

JLD's main goal is student retention which we are accomplishing by creating more jobs each semester as shown below:

	1980	1981	
1st Quarter-	N/A	162	
2nd Quarter-	N/A	202	(The number of students in jobs from JLD)
3rd Quarter-	81	205	
4th Quarter-	144	214	

Senator SARBANES. It's my intention to go through and hear everyone and then come back with questions.

If there's someone who must leave, I would understand that. But I think it would be better to hear from all, and then address the questions generally.

Mr. Pelletier, please proceed.

STATEMENT OF DENNIS M. PELLETIER, DIRECTOR OF CAREER PLANNING AND PLACEMENT, UNIVERSITY OF BALTIMORE, BALTIMORE, MD.

Mr. PELLETIER. I thank you very much for allowing me an opportunity to speak. I'm Dennis Pelletier, director of career planning and placement at the University of Baltimore.

My report is strictly about the impact that I see of the current recession and its high rate of unemployment on the students at the University of Baltimore. And I believe that impact is very serious. Because the university is an upward division, nonresident institution—that is, we only have juniors, seniors, and graduate students, and all of them are commuters—the overwhelming majority of our students—that is, over 85 percent of them are already employed, and most of our students are part-time students. This, in comparison with most other university career planning and placement offices, limits the burden of assisting people in their search for employment.

Many of our students are already employed and pursuing degrees to enhance their qualifications for advancement within that career. However, a large number of our students are also pursuing degrees in the hope of affecting career change. These students, along with the younger students who are also seeking entry-level positions, have been affected most by the recession.

The Career Planning and Placement Office may be viewed as a barometer of the job market. As such, the activities of the office affect current employment opportunities and trends.

In my estimation, the current recession is reflected in various statistics: The number of students who visit the Career Planning and Placement Office, the number of employers who recruit on campus, number of employment interviews conducted on campus, the number of actual job openings advertised through the office.

The staff of the Career Planning and Placement Office had almost 1,300 more contacts with students in the 1981 calendar year than 1980 calendar year. This is a tremendous increase when viewed in relation to the total number of student contacts. From this perspective, it indicates that the number of students who chose to utilize the service increased by 22 percent in 1 year. I would like to think this increase is partially attributable to the office having a good reputation in our offering of services. However, I believe most of this increase is more realistically attributable to the recession and higher unemployment. It was more difficult for students to secure jobs in 1981 than it was in 1980, and the students knew this. Consequently, they devoted more time and energy to this endeavor. And utilization of Career Planning and Placement Office services is one indicator.

With regard to the number of employment recruiters on campus who conducted interviews in each of the past 2 years, in 1981 there was a 13-percent reduction in the number of employers who chose to participate in this program. This had a net effect in reducing the number of interviews and jobs available to graduates. The 13-percent reduction in the number of recruiters, in combination with 6-percent reduction in actual employment interviews conducted, reflects that competition for available jobs was greater.

To be more specific, some employers typically attract fewer interviewees than others. During 1981, even those less popular employers attracted a large number of candidates. Most conspicuous among the absent recruiters during 1981 were those representing Federal, State, and local government agencies. I think that is reflected in what Ms. Sills was saying about the Federal Government. Mr. Heintz, earlier this morning, spoke about Government employment being down. And Mr. Hutchinson spoke about his county. That's only representative of one county. We're seeing that with other counties, also.

The reduction in the number of Government agencies recruiting on campus has an inordinately negative impact on liberal arts graduates who have typically found good employment opportunities in Government service. Just as the number of jobs listed in the "help wanted" columns of newspapers is a reflection of the employment market, so also is the number of job vacancies listed with the career planning and placement offices.

When unemployment is relatively low, more job openings will be listed with the office. And when unemployment is relatively high, the number of job openings listed will be low. This trend is attributable to both a lower number of job vacancies and the fact that in times of high unemployment employers usually do not have to utilize as many resources to attract applicants. Specifically, during periods of high unemployment, employers usually have a larger pool of applicants who have submitted unsolicited applications and résumés.

In 1981, there were 28 percent few job openings listed with the Career Planning and Placement Office at the University of Baltimore. While this figure by itself appears to represent a drastic reduction in the number of potential jobs for students, it takes on an even greater meaning when viewed in combination with 22-percent increase in the number of student contacts which the staff of the Career Planning and Placement Office had in 1981. This staff was confronted daily with well-qualified, talented people looking for an opportunity to begin their professional careers at a time when there were fewer opportunities.

For many people, this situation has had a negative impact on the psychological well-being and their family life. Specifically, the frustration and stress of seeking a job in a period of reduced opportunities, especially after having invested 4 or more years of their lives in the pursuit of higher education, leads many people into a state of depression which can affect their interactions with others, also affects their chances of seeking—securing employment. It takes on a type of a cyclical nature, that their negative attitude comes across when talking to employers and it becomes defeating to them.

For two categories of the career planning and placement office activities, the percentage change for the latter half of 1981, in comparison with the latter half of 1980, is greater that the percentage change for the first half of 1980. Specifically what this reflects is the fact that the effect on students was felt more during the latter part of 1981 than the beginning months. During that latter half of 1981, 36 percent more students utilized the services in the career planning and placement office, while there were 33 percent fewer jobs listed with this office.

In summary, what that's saying is that the situation has just accelerated during the last 6 months.

Senator SARBANES. So, in other words, the 28 and 22 figure was for the year?

Mr. PELLETIER. Yes, total average for the year. But the last 6 months is much more drastic.

Senator SARBANES. I see.

Mr. PELLETIER. If it was not for what the Sunday, January 3, 1982, New York Times business section called the "Year of the Accountant," the other two reported career planning and placement office activities would also have been depressed in the latter half of 1981. However, the recent changes in tax law have created an increased amount for accounting graduates, which has moderated the decrease in oncampus recruiting. The largest number of graduates from the University of Baltimore majors is in accounting. Therefore, we're in pretty healthy shape for that one particular major.

In summary, I feel that the effect of the current economic recession and the higher rate of unemployment has had a grave impact on students graduating from college. This negative impact has been perceived in a significant increase in the number of students utilizing career planning and placement services, fewer employers on campus conducting employment interviews and fewer actual job opportunities for students. Such a situation not only affects the student's and family's economic positions but also the psychological well-being of the students, who must constantly struggle for an opportunity to utilize what he or she has worked so hard to acquire, namely a college education.

As a result, this university's career planning and placement office staff has had to serve a great many more students and strive to do so in new and creative ways.

I might add that these new and creative ways often result—and some of my other colleagues will probably speak to this—that in times of having to serve many more students our resources are being diminished also.

[The prepared statement of Mr. Pelletier follows:]

PREPARED STATEMENT OF DENNIS M. PELLETIER

The impact of the current recession with its higher rate of unemployment has been quite serious for the students at the University of Baltimore. Because the University is an upper-division, non-resident institution; that is, we only have juniors, seniors and graduate students, and all of them are commuters, the overwhelming majority of our students (over 85%) are already employed and most are attending classes part-time (over 60%). This, in comparison with most other university Career Planning and Placement Office's limits the burden of assisting people in their search for employment. Many of our students are already employed and are pursuing degrees to enhance their qualifications for advancement. However, a large number of our students are also pursuing degrees in the hope of affecting a career change. These students, along with the younger students who have also been seeking entry level positions, have been affected the most by the recession.

The Career Planning and Placement Office may be viewed as a "barometer" of the job market. As such, the activities of the office reflect current employment opportunities and trends. In my estimation, the current recession is reflected in various statistics: the number of students who visit the Career Planning and Placement Office; the number of employers who recruit on-campus; the number of employment interviews conducted on-campus; and the number of job openings that are advertised through the office. Table 1 reveals these statistics along with the percentage change from 1980 to 1981 for each category.

Table 1

Selected Career Planning and Placement Office
Activities and Percentage of Change for 1980 and 1981

Activity	1981	1980	%Change
Contacts with Students	7240	5958	+22
Employers On Campus	81	93	-13
Interviews Conducted	870	922	- 6
Jobs Listed	426	593	-28

This table indicates that the staff of the Career Planning and Placement Office had almost one thousand three hundred more contacts with students during the 1981 calendar year than in the 1980 calender year. This is a tremendous increase when viewed in relation to the total number of student contacts. This perspective indicates that the number of students who chose to utilize the services of this office increased by 22% in one year. I would like to think that this increase is partially attributable to the office having a good reputation and our offering improved services. However, I believe that most of this increase is more realistically attributable to the recession and higher unemployment. It was more difficult for students to secure jobs in 1981 than it was in 1980, and the students knew this. Consequently, they devoted more time and energy to this endeavor, and the utilization of Career Planning and Placement Office services is one indicator.

Also reflected in the table is the number of employment recruiters who conducted interviews on campus each of the past two years. In 1981 there was a thirteen percent reduction in the number of employers who chose to participate in this program. This had a net effect of reducing the number of in-

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terviews and jobs available to graduates. This figure, in combination with the six percent reduction in actual employment interviews conducted, reflects that competition for the available jobs was greater. To be more specific, some employers typically attract fewer interviewees than others. During 1981, even those less popular employers attracted a larger number of candidates. Most conspicuous of the absent recruiters during 1981 were those representing Federal, State and local government agencies. The reduction in the number of government agencies recruiting on campus has had an inordinately negative impact on liberal arts graduates, who have typically found good employment opportunities in government service.

Just as the number of jobs listed in the "Help Wanted" columns of newspapers is a reflection of the employment market, so also is the number of job vacancies listed with the Career Planning and Placement Office. When unemployment is relatively low more job openings will be listed, with the office, and when unemployment is relatively high the number of job openings listed will be low. This trend is attributable to both a lower number of job vacancies, and the fact that in times of high unemployment employers usually do not have to utilize as many resources to attract applicants. Specifically, during periods of high unemployment employers usually have a larger pool of applicants who have submitted unsolicited applications and resumes. Table 1 indicated that there were twenty eight percent fewer job vacancies listed with the Career Planning and Placement Office at the University of Baltimore. While this figure by itself appears to represent a drastic reduction in the number of potential jobs for students, it takes on an even graver meaning when viewed in combination with the twenty two percent increase in the number of student contacts which the staff of the Career Planning and Placement Office had in 1981. This staff was confronted daily with well qualified, talented people looking for an opportunity to begin their professional careers at a time when there were fewer opportunities. For many people, this situation has had a negative effect on their psychological well-being and their family lives. Specifically, the frustration and stress of seeking a job in a period of reduced opportunities, especially after having invested four or more years of their lives in the pursuit of higher education, leads many people into a state of depression which can effect their interactions with others.

A trend not reflected in Table 1, but which is nevertheless significant, is that for two categories of the Career Planning and Placement Office activities the percentage change for the latter half of 1981 in comparison with the latter half of 1980 is greater than the percentage change for the first half of 1980. Specifically, what this reflects is the fact that the effect on students was felt more during the latter part of 1981 than the beginning months. During that latter half of 1981 thirty six percent more students utilized the services of the Career Planning and Placement Office, while there were thirty three percent fewer jobs listed with the office in comparison to the latter half of 1980.

If it was not for what the Sunday, January 3, 1982 New York Times Business section called "The Year of the Accountant," the other two reported Career Planning and Placement Office activities would have also been depressed in the latter half of 1981. However, the recent changes in tax law have created an increased demand for accounting graduates, which has moderated the decrease in on-campus recruiting.

In summary, I feel that the effect of the current economic recession and the higher rate of unemployment has had a grave impact on students graduating from college. This negative impact has been perceived in a significant increase in the number of students utilizing Career Planning and Placement services, fewer employers on campus conducting employment interviews, and fewer actual job opportunities for students. Such a situation not only affects the student's and family's economic position, but also the psychological well-being of the students who must constantly struggle for an opportunity to utilize what he or she has worked so hard to acquire; namely a college education. As a result, this University's Career Planning and Placement Office staff has had to serve a great many more students, and strive to do so in new and creative ways.

Senator SARBANES. Thank you, Mr. Pelletier.

Mr. Martello, please proceed.

STATEMENT OF JOHN MARTELLO, ACTING DIRECTOR, OFFICE OF COOPERATIVE EDUCATION, UNIVERSITY OF MARYLAND, BALTIMORE COUNTY, CATONSVILLE, MD.

Mr. MARTELLO. My name is John Martello. I'm acting director of the office of cooperative education at the University of Maryland, Baltimore County, and I'm also president of the Cooperative Education Association of Maryland.

Generally my observations are like those you have heard already, which is to say that the demand for college graduates in the areas of computer science, engineering, business fields, and accounting remains relatively strong. We anticipated a greater problem for graduates in the fields of liberal arts and sciences, although based on some of the testimony I've heard today I'm not as optimistic as some in terms of what might be coming down the road.

I want to speak to you a little bit more directly about cooperative education, which I believe offers some promise for some of the problems that we're hearing about today. As you probably know, Co-op is a program that permits students to include periods of full-time, alternating, or part-time professional paid work experience as part of their academic career.

We've had good success with our Co-op graduates in terms of securing employment. This is because, in short, the business person can hire a student at a lower cost. It certainly provides a good, short-term income for the college student and enables that student to come out of college with some experience to back up his degree.

We spend a lot of time recruiting for Co-op placements throughout the Baltimore and Washington area. To a certain extent. I think that's a barometer on what's coming in the future. I can tell you in terms of our paid placements, these are off about 20 percent.

My major concern is the following: President Reagan has recommended that the funding for Co-op be cut back severely. Although if you take the number of Co-op students who are working and the dollars they are contributing in taxes, that sum totally exceeds the amount the Government provides for seed money for the establishment of Co-op programs. Although my program is not federally funded. I'm concerned about other institutions in Maryland and this region who are seeking to develop these programs and won't have the money available to them to develop them.

I think there is another problem that I want to highlight, which has to do with a generation of college students who are becoming very embittered about the situation with regards to the economy; that is to say that we encourage students to go to college to get a degree with the promise of better employment. What I see is that those opportunities are declining and I think it's unfortunate for the next generation of leaders that this is the heritage that we leave them.

So, I guess in summary, what I would like to do is encourage your efforts to address some of the problems that we've heard today, because I think it's impossible to overestimate the negative effect that the current situation is going to have on the generation of college students who are in the pipeline.

Senator SARBANES. Thank you very much.

Mr. Carey, please proceed.

STATEMENT OF JAMES L. ROBERTS, DIRECTOR, CENTER FOR CAREER DEVELOPMENT, MORGAN STATE UNIVERSITY, BALTIMORE, MD.

Mr. ROBERTS. Senator Sarbanes, my name is Jim Roberts. I'm the director of creative development at Morgan State University. I've been in that position for the past 10 years while at Morgan State.

As you well know, Morgan State University is a historically black institution that is located in northeast Baltimore. The current student enrollment is approximately 4,300 FTE.

Although we have students from 32 States, 20 foreign countries, and the District of Columbia, the majority of our students are from the State of Maryland and are interested in employment opportunities in the State of Maryland.

Each year for the past 2 years, we have graduated approximately 640 undergraduate students. Approximately 36 percent received their degree in liberal arts; 34 percent in business administration, accounting and economics; 12 percent in the sciences; and the remaining percentage in education and urban studies. These graduates accepted a variety of positions in the public and private sector as well as graduate and professional school opportunities.

A survey that we conducted 2 years ago revealed that for the school years of 1975–79, approximately 39 percent of our graduates accepted positions with various corporations, financial institutions, and insurance companies; 22 percent accepted positions with various Government agencies; 15 percent were accepted at various graduate or professional schools; and 24 percent accepted teaching positions with various school systems.

Today, we are finding that our students are still very much interested in all of these areas. However, as a result of the proposed and implemented Reagan budget cuts, many of these students will not be able to find employment in these career fields.

The reasons for this can be seen very clearly in the following areas.

One, limited hiring of individuals with certain Federal Government agencies. And many of my colleagues have already stated the fact that the Federal Government is one of the largest employees of liberal arts graduates, and with its limited hiring we are now eliminating some of these career opportunities for our liberal arts graduates as well as others in different areas.

In addition to this, the Federal summer intern program, that was designed to get students interested in careers with the Federal Government, as well as gaining some experience in this area has been discontinued. Finally, we have found that many of our liberal arts graduates, as well as those in other areas, are interested in working for community and human service agencies. Cuts in this area have affected State and local programs; for example, CETA. In fact, it was announced last week that there were some 150 people last week, I believe, laid off as a result of some cuts in this area. So, here's another area where some career opportunities will be eliminated.

The second point is, many private sector employers are reducing the number of colleges for recruitment visits because of fewer job opportunities. Although some corporations are able to expand and develop as a result of various acquisitions, mergers, et cetera, there are still a significant number that are not able to expand, therefore reducing the number of entry level positions for college graduates. For the past we have had over 350 recruiters a year at Morgan State. To date we have had some recruiters to cancel their scheduled recruitment date as a result of limited hiring for the upcoming year. Therefore, it is doubtful if we will have the same number of on-campus recruiters for the 1981–82 school year, as we had for the previous 3 years.

Three, nationally, over 70,000 college students will have to drop out of college because of cuts in student financial aid programs. Over 80 percent of Morgan students qualify for some form of financial aid. If they are unable to receive some type of aid they will possibly have to drop out of college. This should not only be our concern at Morgan State University and other 4-year colleges and universities but also employers in the public and private sector. We are already experiencing shortages of college graduates in such areas as engineering and systems analysis and we will continue to have shortages of people in these areas and other areas if young people who are interested in college have to drop out of college because of limited financial aid.

It is evident that the present and proposed Reagan budget cuts will result in a high rate of unemployment and underemployment among our college graduates, thus depriving them of their dreams of developing themselves and moving into a career of their choice.

A statement I feel very apropos to this situation is one used by the United Negro College Fund when they say, "A mind is a terrible thing to waste."

Senator SARBANES. Thank you, sir.

Mr. Carey, please proceed.

STATEMENT OF MICHAEL CAREY, DIRECTOR, CAREER PROGRAMS, CONTINUING EDUCATION AND COMMUNITY SERVICE, CATONSVILLE COMMUNITY COLLEGE, CATONSVILLE, MD.

Mr. CAREY. My name is Mike Carey. I'm the former dean of students at Catonsville Community College. I'm now director of career programs, continuing education, and community services.

Thank you very much for inviting us to give some testimony to this hearing today. Catonsville Community College—I didn't write one up; I'll write up what I say today and drop it in the mail.

Senator SARBANES. We're taking it down here.

Mr. CAREY. Catonsville Community College enrolls about 10,350 students and we serve primarily the southwest section of Baltimore County, although our enrollment comes from all over the western side of Baltimore. We're currently about 20 percent minority enrollment. About 7,700 of the students attend part time and one-half of those people are women. The average age of our students are 28 years old.

Our students are also workers, so I think some of my comments today won't sound so much like my colleagues from the 4-year schools on what's happening to our graduates. I'll talk more about what's happening to the people that we're seeing right now.

Certainly the community colleges have seen more than our fair share of handicapped people, of women, people, and minorities trying to come through and better their lives. We're already starting to see from reports of councils that I've talked to since I got the invitation to come to this hearing. These particular people, no surprise to anybody, are the first ones getting laid off from jobs, returning to school, and also are having more than the typical difficult time of obtaining employment. That's something that's happening already.

About 3 or 4 years ago we had a grant from the State Department of Vocational Education. Federal money from the Voc Ed money, to do a program to give vocational training for blind people and hearing impaired people.

Well, 3 or 4 years ago we started the program. We've got some graduates coming up now. And where we had a time in this society where there were Affirmative Action people believing they wanted to try to hire some folks if they could, I think it's no secret to anybody that that pressure that came from the top of our society downward is not quite there.

One clear sign I think we had this December, I think that echoed what the gentleman before who talked about retail trade, in the retail trades is accurate. We had a severe drop in part-time jobs for our students this year. A great majority of our students rely on part-time jobs. It is with part-time jobs that they put themselves through school, support their families. And, many of those jobs come from the retail trades.

This Christmas the stores just did not hire. They went through the whole Christmas season pretty much with their regular work force, had them work overtime, and our students experienced a lot fewer jobs. I suspect that this next spring, as people start looking for summer work, we'll have a real handle on whether that trend is more solid.

We've heard talk today about the cyclical nature of our society. There are a couple of ways in which that's impacting on people in the community colleges. We have a curriculum called "Air Transportation." Although it's never been a large curriculum, it's a pretty popular curriculum. It's an exciting field to work in, in our society. We've had students come and spend 2 or 3 years studying and as you know, the air transportation industry takes a dive and jobs are down.

I think, Senator, you mentioned before, I think a couple of times, how people's morale in our society might be tipping, and I think this is an indication. We have people who have been trained to work in the field of mental health. Well, that's not a field to be in today. We have people who have gone to school to study construction management. That's not a field to be in today. I don't know where these people are going to go.

It's also a problem for the college, not just on downturn side but when we have an upturn like we had. Metropolitan Baltimore in electronics, AAI, Martin Marietta, and Westinghouse are booming with contracts right now. We need to hire three instructors in the areas of electronics technology, and put an ad in the paper; we can't get them.

First of all, our salaries aren't competitive; I understand that. But I think there are people who might want to teach. We just have a severe problem getting the kind of faculty, and recently trained, to help in the electronics industry and the burgeoning computer industry.

I don't know if the answer for that is so much to my level of education as it might be to the upper level of colleges and universities, in some way to make sure we have training instructors in the technical areas that our society needs. Fortune magazine had an article about the large universities having the same problem.

One interesting thing. I think, to watch this year: Typically, when community colleges try to project their enrollment, we have a hard time with the baby booms and the housing trends. But we found the predicted enrollment for community colleges has been—recession has always been good for community college enrollment. Every time we had a recession, people were laid off, community college enrollment went up.

I'm not so sure that's going to happen this time. Last time that happened, we had a lot of people out there with GI bill benefits they hadn't used up. What did they do if they couldn't get a job? They said to their wife, look, I'll change fields, update, and they went to school.

The basic grants have been the same thing for some people. And for some people who couldn't afford it, loans. If those things aren't there as part of what Mr. Reagan calls a net that catches people when they fall, they're not there to return to education like they used to be.

So, I think if you don't see an upturn in community college enrollments across this country next September, with the exception of those people who came to us so that they can get their social security benefits, if you don't see an upturn, you're going to have to wonder where those people went. In the last couple of recessions, they went to the community college and got up-training and a new skill.

One particular area where our students are getting hurt is some of the lower level skill training we do, training people in typing and office occupations. A couple of months ago, we got somebody up to 60 words a minute. That's a pretty good typing skill. They get out and they find jobs. Now, they're running into competition for people. One of my students lost her job last week to a woman who had 12 years' experience. The employer said, "Look, we liked your student; she was good, lots of skills, nice attitude, but how can I turn down 12 years of experience?" And that person with 12 years of experience took a job for $3.35 an hour. So, not only is my student disappointed but I suspect he got a very unappy employee and perhaps a bitter person.

The same thing has happened to me with some auto mechanics we are training. We are training auto mechanics. All around Metropolitan Baltimore you have dealerships going out of business, plenty of experienced mechanics out there in competition with our students for jobs.

One other area of training that we do as part of the National Association for Community and Junior Colleges, in cooperation with Small Business Administration, helping to train small businessmen. One of our most popular courses is, "How to Start Your Own Small Business," a very popular course.

Our second most popular course is what to do about financing. There's not much popularity and growth or other topics, public relations and other kinds of things, that small businessmen used to spend their time worrying about. I think the people coming into "How to Start a Small Business" are people who are tired of the cyclical nature of working in businesses outside of their control. They dream that if they have their own, they will have some control. And certainly, the biggest thing facing the small businessmen that we deal with is the problems with interest rates.

Two more statements: One is the frustration that I've had this past year trying to get a training program off the ground with CETA money. Baltimore County made a real commitment to use some of their CETA money to put in a training program that didn't exist in metropolitan Baltimore.

There are very few places for an adult after high school age to go to learn to be a machinist or auto mechanic in the Metropolitan Baltimore area. This area just doesn't have that type of skill training for people after they leave high school, except in the private schools which you have to have about $3,000 a year tuition to be able to go to school.

It's been kind of frustrating to work with well-intentioned people in Baltimore County government, develop a program that you get started; you work like heck for 6, 7, or 8 months and you sit down in September and wonder what's going to happen next. You don't find it in September. You don't find it in October or November. And you start saying, well, should you be looking for work, put on hold a bunch of curriculum development and say, here's what you've got now but it's going to change again.

And I suspect we're going to go through the next couple of months with the same type of thing until we know what this country's going to do about manpower training after October 1. I think it's certainly something that I recognize is going to change. I think the reputation that CETA got was unfortunate. It certainly didn't reflect what I saw happen in metropolitan Baltimore.

But we, in the community colleges, certainly need the direction of where we're going in manpower training since in many districts of our country, the community college is the place that's going to inherit and carry out most of that, and should.

The other hat I wear besides "Continuing Education" is the career programs of the Community College. Career programs is our terminology for all of our 2-year programs that don't need to transfer. We have tremendous difficulty getting the kind of equipment that we need to teach the students in a technological society. I need to start a program tomorrow in training people to fix all these microcomputers, but I need $25,000 or $30,000 in equipment.

Local school districts are having a lot of trouble getting the money to buy that equipment—always have had trouble. But with the passing of Federal Government responsibilities, traditional responsibilities back to the State and local governments, I don't look forward to trying to convince Mr. Hutchinson to give me that $25,000 to $30,000 when he's got people who don't have jobs and need other kinds of things.

So, I guess that's a separate issue. Maybe it's not even a part of this subcommittee. But certainly the schools of this country need faculty that can teach in the technology, need the equipment to teach the technology, machine tools, electronics and computers, and things more sophisticated.

Senator SARBANES. It is an important point. The contrast between what we're doing and the Japanese and the West German, even what the Soviets are doing, both in terms of equipment and personnel, is very marked. We are living in a technological age and their output of engineers and other scientists in proportion to their population far exceeds ours.

We had that program to try to upgrade the labs in the colleges and universities, and that was scrapped. We put about a $17 million sort of matching investment in that thing to increase the upgrading of the laboratory facilities in a lot of our colleges and universities, many of which date from, you know, World War II really. You know, the only real place we have any real modern facilities in that regard, apparently are in some of the industrial companies.

Mr. CAREY. We work with the Association of Machine Tool Shop Owners in metropolitan Baltimore. They are all small businessmen for the most part. And those men are just crying for well-trained machinists, people who want to do that kind of work, people who know what that work is. And they wonder where they're coming from in the next generation. I've been to a couple of dinner meetings with them and when they hear us talking about retooling America, they wonder where the workers are coming from that know how to work a lathe and some of the other equipment they have to work with.

Senator SARBANES. Thank you.

Mr. CAREY. Certainly, Senator, you should have some exciting times.

Senator SARBANES. Mr. Thornton, please proceed.

STATEMENT OF JAMES H. THORNTON, DIRECTOR, CAREER PLANNING AND PLACEMENT, COPPIN STATE COLLEGE, BALTIMORE, MD.

Mr. THORNTON. I want to thank you for giving me the opportunity to participate in this hearing.

My name is James Thornton. I am the director of career planning and placement for Coppin State College. Coppin State College is a historically black 4-year college in the State college system of Maryland. It serves students from the Baltimore metropolitan area, from counties throughout the State, from neighboring States, and from a limited number of foreign countries. However, because of a strong sense of community and commitment to Baltimore's central city, large numbers of students are recruited from this area.

Coppin State College offers programs in education, nursing, and the arts and sciences. It has a student enrollment of about 2,200. Ninety percent of these students receive financial aid for their education. Over 50 percent receive more than one form of financial aid.

The economic and social ramifications of the recession are twofold for Coppin State College:

First, financial aid changes will limit the enrollment of students as will other cuts in social service benefits.

Second, lack of job availability limits opportunities of currently enrolled students at graduation.

The latter has the greatest impact on my office and my role as director of career planning and placement. My primary responsibilities include:

First, counseling and helping to prepare students to enter into the world of work.

Second, providing career opportunities by bringing employers on campus to recruit our graduates.

The following indicates the dilemma most college and university placement people will face:

First, recruitment budgets are being cut. Fewer employers will visit the campus in coming years. In fact, Coppin State College will have a 25-percent reduction in employers visiting the campus this year.

Second, employment opportunities are fewer. The majority of the employers are laying off workers. The results are fewer jobs for college graduates.

Third, supplemental summer jobs are in demand now more than ever before. Social security will not have the summer job program this year. This is eliminating thousands of summer jobs for college and high school students.

And the majors we would like to expand are those majors that other colleges have and what we won't be able to do. We won't be able to get into the business area. We do have an engineering program, preindustry, prepharmacy, with the University of Maryland and one of the good things about it, our first student will graduate from Maryland this year in engineering. She was a former student, competent and a student at Maryland. And the job offers she's getting are really outrageous. She can go almost anywhere, any place, because that's one of the fields that's looking for people.

Now, the consequences of these budget cuts will be more dropouts from our colleges, more underprepared students for a limited job market, possible increase in the crime rate—we've heard that already today—increase in the demand for Federal subsidies which probably will not happen, and an increase in inequities along racial lines.

Senator SARBANES. Thank you.

I want to thank all of the panel. Let me ask anyone who wants to respond as you choose to these questions: One, are the companies, facing a recessionary situation, moving to overqualified people so to speak? Do they have jobs that a B.A. degree would ordinarily be satisfactory for but now, with lots of people looking for jobs, and jobs very hard to find, employers are really in a sense able to call the tune so that they can require 156 applicants to have an M.B.A. or a master's or so forth or so on. Do you see much of that happening?

Mr. ROBERTS. I guess it depends upon the industry. For example, you take the financial institution. Many financial institutions, particularly banks out of New York, they don't prefer to hire M.B.A.'s, because they indicate that their goals are unrealistic, so therefore, they would go with a real sharp undergraduate student. I'm finding these times that companies are very selective in terms of individuals they pick. They might go for the cream of the crop. They want to go for the person that seems to be a good person to consider a chance or go with a person that has proven success in terms of academic success, in terms of leadership qualities, which they manage to have as a result of participating in various activities.

So again, that is what I have experienced in that area; however, I would like to say, I think many organizations in the private sector and public sector as well, are going to have to consider making changes on requirements. For example, we have a tremendous shortage of engineers in all areas, petroleum, chemical, and so forth and so on. And because of this and because of financial aid cuts, I think employers might have to say we're going to have to reconsider. Why not consider instead of a chemical engineer, a chemistry grad or an undergraduate degree? Why not consider a physics graduate? Mathematics student? So I think this is what's going to happen.

Mr. PELLETIER. I'd like to also address that question. I'm in agreement with what Jim is saying. At the University of Baltimore, I haven't seen so much employers seeking higher degrees with people, with the exception of accounting. There's an increased activity for master's degree in accounting. But for the other majors, what I have seen is what Jim is referring to, the real cream of the crop. Employers may be hiring less people, and the criteria they use to select those people for the existing jobs that they do have are more stringent.

The active people on campus, grade point averages might go up a little bit, et cetera. They are in that way looking for better credentials, not necessarily more degrees.

Mr. LEMIRE. Some of our experience has been that employers are trying to promote more people that they have already employed at lower levels. People with advanced training, they're sending back to school and giving them advancement that way. Also as Danny and Jim have mentioned, the top students are the ones that are being more successful. As I mentioned in my presentation, the ripple-down effect has been very adverse for the average student or person who does not have outstanding communications skills or a lot of intangible qualities. What's happening in this situation, individuals who have a degree but who are taking positions, not necessarily commensurate with a degree because of supply and demand employers are getting a better product at a lower price.

Senator SARBANES. Now when you have a tight job market like this, is the student's reaction to say, "I've really got to work harder, because it's going to be tougher to get a job," or is the student reaction to say, "Well, this is awful, there aren't going to be any job opportunities out there, except for a handful at the very top of the class. And I'm just going to be left out of this thing." Is there a tendency to go in the other direction, so to speak, to give up and become despairing about the prospects?

What happens in that regard?

Mr. PELLETIER. I think you have a little of each. I think one of the thing that hasn't been spoken to this afternoon from any of us is maybe a perspective of who we are as colleges and universities. We talked about the reduction in number of recruiters, with the exception of Loyola. What often happens when IBM or Exxon or the big banks in New York cut back on their recruiting, they cut out the University of Baltimore and the Towsons and the Coppins, and they still go to Harvard and Princeton and Yale. And the people who have the advantages of being in the elite schools don't suffer as much as the students who are in the lower years of education.

So it has a desperate effect on people.

Mr. LeMire. I do have to qualify that. Our oncampus recruiting is up this year over last year, is too at Towson.

Senator Sarbanes. What do you attributes that to?

Mr. LeMire. I would say success of our graduates over previous years, and that we are breaking into the local fraternity as opposed to the teacher education. Our graduates——

Senator Sarbanes. Don't you have the courses at Towson under the State's allocation of majors that are in more demand than some of these other schools have?

Mr. LeMire. Possibly. Maybe business administration, of which I think several schools here have business administration, but I think what I mean by breaking into the local community, our graduates have now progressed past the entry level position to middle management and higher.

Senator Sarbanes. That's the Loyola syndrome.

Mr. LeMire. Similar to Detroit. When I was living in Michigan, 90 percent of the city judges in Detroit were graduates of University of Detroit Law School, and that similar situation that has prevailed over the years.

Back in 1969, when Towson established a business administration department—prior to that we did not have one, and so it's taken our graduates a little longer to establish themselves in a different area other than teaching in the general community. The bulk of the employers recruiting on Towson's campus are also from the metropolitan Baltimore area and the State, not so much out of State.

Mr. Pelletier. That may be where the University of Baltimore's business recruiters went to Towson, because Towson's program is now bigger and producing a lot more students than the University of Baltimore. And a recruiter can go there and see a lot of recruiters for entry-level positions or looking for the young adult type of person, rather than the older career changer that is at the University of Baltimore. So when there's a program like Towson, so close, producing a great many more people in that age group, go there, get a bigger selection.

Mr. Martello. I wanted to make some general observations. I think there's a real danger on the part of the colleges represented here. That is the following: certainly, we've heard that there's a great deal of demand for computer science and engineering, some of the technical fields. My question is, even if we were able, do we want to produce exclusively those types of graduates? If you look at the Fortune 500, the majority of the presidents of large corporation firms have degrees in liberal arts. I think the society runs a risk. If we were to somehow just change overnight and produce all technical people without some regard to some of the more traditional areas, to address another point that you brought up earlier, I read somewhere recently where about 60 percent of the labor force has some college training, so I think the other danger is that people with degrees, as we've heard, are being underutilized. I think that's very discouraging to the undergraduate.

Senator Sarbanes. That gets to a point I want to ask. We're straying a little afield now, but I'm interested in this—you're all here—so will you indulge me for a moment?

Mr. McCuan said that he would pay a finishing carpenter who could do finishing work, $27.50 an hour. Let's say that's $1,000 a week. Now you have a problem of layoffs in that business, but let's assume that somehow he could deal with that problem. That's $50,000 a year. That's pretty good money in this society.

To what extent are we on a two-track system? In other words, to what extent will one of your people say, "I'm really here to get a college education. I think it makes a lot of sense, but I'm going to be a finishing carpenter. That's the trade I want to do, it's a well-paid trade, and it's going to stay well paid. I enjoy it. I get satisfaction out of it, and I also get a lot out of being a carpenter."

Is that person going to be kind of an oddity on the college or not?

Mr. PELLETIER. I haven't seen it.

Mr. CAREY. I have. And I think that there is in this country a very practical mind and the youth still has it. The youth of this country still understands that there are places where there are jobs, and they will go toward them, if they can find the opportunity to get into them. There are a lot of youth who like vocational and skilled areas. But I think that there's an aura in our country that doesn't appreciate it. I mention Machine Tool Association. The men who own companies, small companies. Maybe the biggest one employs 24 machinists. And they were decrying it in a meeting one night, the lack of people who want to enter machine tool trades. I asked the guy on my left where his son is going, where he's going to college. "Well, he' going to college. He's going to be a lawyer, a doctor, something important."

I asked the guy on my right where his children were. "They're going to be like me. They're going to get their hands dirty and come up through the ranks."

Yet I know young men, men mostly, and some women, who have come back to my college after getting bachelor's degrees in liberal art schools to get some practical training, so they can work. It's a mixed bag. I don't think there's the dignity for skilled labor in our society now that there once was.

A light came on earlier when the homebuilder talked about people who even like that kind of work not wanting to go with the cyclical nature of that work. I hadn't thought about that before. In all the skilled trades, machinists, for example, Martin Marietta used to employ a lot of them. The war industry went down. When they went down, where did the machinists go? Now you've got Martin Marietta coming back in here crying for machinists. They're going to import them from God knows where, maybe Seattle. Most Americans, I think they want a more stable life than that.

Senator SARBANES. In the other industrial societies, where we now are comparing ourselves and wondering what is it that they're doing that we're not doing, one of the things they are doing—Japan, in particular, but the others as well—is they are providing a certain stability in continuity for their work force in terms of their expectation. The Japanese companies, they used to take you on—it's over—I mean our view is somewhat overdone—but they really have to, in effect, carry you and provide the opportunities.

The Germans have squeezed the foreign workers out of the system first, so they create a cushion for their own workers, because of the use of the foreign workers. When they have a slack period, they're the ones who go first. And they continue to protect their own people really pretty effectively, unless its a very deep recession.

I think we have so many areas where people look at it. They say, "You know, I'm going to get laid off. I'll be sitting around. I won't be able to work. It's pretty good money when I'm working, but I'm not working often enough. I can't be certain of it." They start looking for an easier job. I do think also we have somehow—what we have done, I'm becoming more concerned, is we have downgraded the producer's role and upgraded the middleman's role, who can only have a role if there are some producers there to create the basic activities of the economy.

They have all these people battening on. I'm a lawyer myself. I'm prepared to plead guilty, but the accountants and the lawyers and all the rest of them who properly understood perform a function, but you have fewer at the producing level and fewer people who see the producing level as an attractive career.

Mr. ROBERTS. Let me say this. I think what we have to do is do a better job primarily, I guess, in the high schools in providing some kind of counseling to let young people know about the variety of career opportunities that are out there, and there's dignity in different kinds of work. We have to begin to do something to find out. Let them know what they're interests are. We talk about college students, but there are many college students that they don't know what they want to do.

You talk to the business administration student. You say, what do you want to do? He says, "I want a management job." "What's a management job?" "You know, a management job."

So I'm saying, we have to begin to provide some kind of moneys in the school systems to provide and do a better job in the career counseling, so we can do a better job in identifying not only individual's interests and their ability, but begin to start to channel them in the right direction at a young age, so that they will know where the interests are. It might be after they finish 12 years, they say, "I'm not going to get a college education. I'm going to go to a technical school. Going to have to provide money for technical training." The Urban League has a "Leap" program, where they provide apprenticeship programs for individuals interested in welding, and so forth and so on.

These are a couple of things that we can begin to do to use our—I hate to use this word—"manpower resources," in terms of identifying at a young age and begin to work with it like foreign countries do. Therefore, ultimately, we might be able to do something that rates to the significant rate of unemployment among individuals.

Mr. LEMIRE. This approach is a whole different—I think something we're talking about here is kind of philosophical, if you go back to work ethic and work values, and what has changed in the last 20 years, pride in one's work. As Dick has alluded to, "dignity of the job" which a person holds. I think that's a whole different concept that is supply and demand right now. It's also referred to as our "instant gratification" society or "plastic" society.

All these things have a very different influence on the youngsters, depending on their age, their approach, their work, their job. Then you try to tie in loyalty to the individual and the employer. Where are your loyalties? And the changing, very mobile society we have and not living in a community 30 or 40 years from now, but it's much more mobile as to where you want to set your goals.

Senator SARBANES. Jim Harmon's testimony on the shipyard workers is very important. They have worked over the last few years to develop a different management-labor relationship and attitude down there. They have had some achievements. Now the whole thing may just be knocked into a cocked hat, even though they've been able to produce good results. They provide good-paying jobs for a highly integrated work force and everything. In my judgment shipbuilding is a skill the Nation must have. Are you going to entertain the prospect that the United States will eventually not have a shipbuilding capacity? But yet that's the path we're allowing ourselves to drift down.

Mr. LEMIRE. I think that's a combined labor-management responsibility, that over the years has been neglected. The high productivity and high profit. One party does not consider the other. When times are good, the other party, it's kind of what's in it for me type of philosophy that has prevailed. It has contributed, so it's not one party's fault or the other. It's still the combination.

Mr. PELLETIER. I think you were correct earlier this morning in referring to those workers. A lot of them are lost to that particular occupation after a period of unemployment. I've seen that a lot. I worked for them in a community college. I saw that a lot with autoworkers and steelworkers that choose to go to community colleges, as Mike was saying earlier, and two years later they're in some other 4-year school, like the University of Baltimore, dealing a lot with career changes. The median age of our students is 29. A lot of our people started at college because they were unemployed with VA benefits, and what not, and changed careers to get in jobs that they view as more stable, cleaner jobs.

Mr. MARTELLO. I'd like to make the observation that I think at one point in our history people went to college to get an education. Somewhere along the line it's been changed, so now they go to college to get a job. It would be nice, and I think it's wonderful, if all people could get college training to broaden themselves and prepare for a life of learning, but realistically, they can't do that, and on the other hand, to exist as a college, you have to be able to promise a student that there's some cost-benefit to an investment of $12,000 to $50,000, whatever it's going to be paying, if it's private or a public institution.

But again, getting back to what this gentleman from Towson was saying, it seems to me an indicator of a change in the philosophy of education, the way people perceive education, I think we need to get more back to the idea of getting educated not for job's sake, and it goes both ways, in terms of skilled labor——

Senator SARBANES. How do you discern where the jobs are going to be, in terms of trying to channel your students in the right direction? That goes to this whole fact that we never, as a nation, figure out where we're going. Business says if we do that, Government is going to tell us. The French have a plan. They have developed an extensive consultation between management, labor, and government, and they project how they see the economy moving, and then from that they can calculate back down the line to what the prospects are going to be.

Mr. CAREY. The lady who runs my placement office at the college has said there's one thing I should tell you. I didn't tell you that, but since you asked the question, she had the people from the Department of Labor, a group that does their projections about needs, on campus

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Friday, and she talked to me Friday afternoon. She said, "Be sure you tell the Senator what we really need is better information about where the jobs are going to be."

I said, "Debbie, I've been listening to that for so long. I've almost given up hope that anybody can organize it well enough that we will know, other than having"—I guess maybe it's different for the 4-year schools than for the community college—other than really being close to your community's needs. Local industry and local business. I guess that would go for the University of Baltimore too and probably Towson State, because our people tend to stay in this area. But the problem isn't that we don't know. It's the pace of change now that's coming so darn fast. They're talking now about there being a shortage of teachers in Baltimore. When the popular media says there's too many teachers and good people are not going into education anymore, it's a conundrum.

That's why I guess I didn't bring it up. I don't know how it gets solved on a national level. Do you know where technical fields are going? And you've got to, I think, at the national level support the basic research in the universities. At the State and regional level, it's real conundrum.

Mr. Roberts. Let me say this. There are statistics that come out from the Department of Labor. We have a thing that you don't try to counsel anybody out. It's a situation that you try to let them know what the trends are in various areas. If I want to make a lot of money, I would be—today, I would be a petroleum engineer. I think they start off with no experience, around $24,000. But if I don't have any interest or ability in that area, I would only frustrate myself in trying to major in that particular area. What you try to do is tell young people again what the trends are and what some things are you might minor in, to give you that other kind of alternative.

The gentleman just indicated about teaching, we've have put out a lot of information, no jobs in teaching. If you go to college, don't major in education. What we're going to see in this country a few years is a shortage of teachers. We're already experiencing people leaving the teaching profession. We're seeing young people coming to college refusing to major in the field of elementary education. So what I'm saying is, you have to put this information—make it available to them, saying these are some things that you might want to what have you. So that if there are no jobs, at least in your area of do in terms of having backup with a minor, some co-op experience, interest, at least you have some kind of backup.

So that's the concern. The thing is to look at the information and use it as required.

Ms. Sills. We basically rely on what the employers tell us when they're planning and participating in our on-campus recruitment programs. Just by the demands of majors that they're looking for in terms of hiring, we can direct students toward those fields. That's how we basically find that, especially among the recruiters who are participating in the program, because a lot of times it does contradict the national trend. For instance, that there are no teaching positions available, if you look at it globally. But if you look at it as a dire need for what you were saying, math and science teachers on a secondary level, and so forth, you can really begin to counsel students to those areas.

Senator SARBANES. You've been a very patient and helpful panel. I appreciate it very much.

Thank you.

The subcommittee will stand in recess until 1 p.m. tomorrow afternoon, when we will resume our hearing in Cumberland, Md. Thank you very much.

[Whereupon, at 2:20 p.m., the subcommittee recessed, to reconvene at 1:25 p.m., Tuesday, January 12, 1982, in Cumberland, Md.]

EFFECTS OF THE RECESSION ON MARYLAND COMMUNITIES

TUESDAY, JANUARY 12, 1982

Congress of the United States,
Subcommittee on Investment, Jobs, and Prices
of the Joint Economic Committee,
Washington, D.C.

The subcommittee met, pursuant to recess, at 1:25 p.m., in the Allegany County Commissioners' hearing room, Cumberland, Md., Hon. Paul S. Sarbanes (member of the subcommittee) presiding.

Present: Senator Sarbanes.

Also present: William R. Buechner, professional staff member.

Opening Statement of Senator Sarbanes, Presiding

Senator Sarbanes. Today the Subcommittee on Investment, Jobs, and Prices of the Joint Economic Committee carries forward with the second of a series of hearings in the State of Maryland, to review and document the effects of the recession on Maryland communities and their citizens.

In four hearings this week—yesterday in Baltimore, today in Cumberland, in Salisbury on Thursday, and in Silver Spring on Friday—the subcommittee will hear from more than 70 knowledgeable witnesses about the severe challenge posed by current economic conditions to employment, business, and business investment, home ownership, and community economic development.

These hearings are being held at the request of Congressman Henry Reuss, chairman of the Joint Economic Committee, in connection with the comprehensive hearings which the committee will undertake beginning the week of January 18, and continuing through the month of February.

The Joint Economic Committee, which is composed of members of both the House and Senate, holds such hearings on the state of the economy every year, in accordance with the provisions of the Employment Act of 1946, which directs the committee "to make a continuing study of matters relating to the economic report which the President, pursuant to the provisions of the act, submits annually to the Congress."

While the hearings of the Joint Economic Committee on the state of the Nation's economy in Washington will receive testimony from Cabinet secretaries, other administration witnesses, and prominent witnesses from the private sector, these subcommittee hearings will focus on the local impact of the recession in communities across the State of Maryland.

The testimony received in the course of these hearings will constitute a valuable contribution to the work of the Joint Economic Committee in developing the policy recommendations that the committee, in its annual report, will make to the Congress.

The full committee will be hearing, the week of January 25, from Chairman Volcker and from the Secretary of the Treasury, Donald Regan. It was Chairman Reuss' view that the hearings at the field level would build a record on local economic conditions that we could refer to, of the actual impact, as it were, at the grassroots level would be helpful to the full committee's work.

The subcommittee hearings come at a critical time for local economies and the economy of the State. The recession, which began last fall to spread beyond certain interest-sensitive sectors of the economy which were already in recession, has now pushed the national unemployment rate up to 8.9 percent, according to the figures presented to the Joint Economic Committee by the Bureau of Labor Statistics January 8. That is the highest monthly unemployment rate nationally since the end of World War II, with one exception—and that was in May of 1975, when the figure was 9 percent. That 9-pecent figure came at a time when the economy was 10 months into a recession. The 8.9 percent reported on Friday comes at a time when the economy is only 5 months into the current recession and, of course, when the economic indicators are "pessimistic"—to characterize them in the most favorable way.

The November unemployment rate for Maryland, the latest available—we will have the December unemployment rate for Maryland in about 2 weeks; Frank Heintz testified yesterday at the Baltimore hearing—was 7.9 percent.

In the tricounty area of western Maryland—Washington, Allegany, and Garrett Counties—the unemployment situation, already a serious matter, is particularly severe. The most recent available figures, which were the figures for November, indicated an unemployment rate in Garrett County of 13.1 percent, of 12.2 percent in Allegany County, and of 11 percent in Washington County.

Recent major reductions in Federal support of economic development programs—notably the Economic Development Administration and the Appalachian Regional Commission—have severely compounded the difficulty of meeting the challenges of unemployment. These programs have been an important factor in moving forward the economic development projects of local communities and cooperative labor-management efforts, of which the Cumberland Area Labor Management Committee has been in the forefront, and whose work has attracted national attention.

High unemployment is both a reflection of and a contributing factor to recession. It is not the only factor in the recession, however.

When this subcommittee held hearings in Maryland just before Labor Day, I remarked then that: "It is no exaggeration to say that the problems caused by continuing high interest rates are approaching crisis proportions." The statement remains as appropriate today as it was over 4 months ago.

While the prime rate has fallen from a high of 20.5 percent in September to its current level of 15.75 percent, that drop has not been effectively translated into significantly lower rates for home buyers, homebuilders, auto dealers, or the small business community. Just last week, the Federal Home Loan Bank Board reported that mortgage rates declined in early December, from 18.16 percent to 17.54 percent nationwide—rates which obviously remain far beyond the reach of all but a few Maryland families.

In 1981, auto sales nationally were the worst in 20 years.

A third factor in the current recession is the sudden and drastic reduction in Federal programs, programs which in recent years have enabled the public and private sectors in Maryland communities to undertake important economic development and employment programs which otherwise would never have been undertaken. I want to underscore the very effective partnership that has been worked out in many parts of this State, between the public and the private sectors, directed toward economic development. I think we can take some measure of pride in this State in that cooperative effort, which reflects the very best in terms of the private sector and in terms of the ability of the public sector to work cooperatively with the private sector. We will be able to explore this matter today with witnesses who are very knowledgeable about these problems in western Maryland.

The purpose of the hearings is to document across the State, with testimony from those directly affected, the conditions to which rising unemployment, continuing high interest rates, and other adverse economic indicators attest. These urgent issues will be examined at length, on a nationwide basis, in the hearings which begin in the Joint Economic Committee shortly.

It is my expectation that the record of the Maryland experience established by these hearings will make an important contribution to the committee's work and to the response which policymakers must undertake as they address the grave economic challenges now facing the Nation.

We have an extended series of witnesses today:

We're going to hear first from David Foltz of the Maryland Employment Security Administration, who will be able to give us an overview of the situation in the western Maryland region of our State; from the Cumberland Area Labor Management Panel composed of Stanley Zorick and George Wyckoff; an economic development panel; from both management and labor at Kelly Springfield; and a housing panel.

And then we will close, I assume sometime today—this is an extensive list—with a college panel from Hagerstown Junior College, Allegany Community College, and Garrett Community College. And we will talk of the problems from their perspective, in terms of young people seeking to go into the labor market.

I was at the hearing on Friday in Washington, when Janet Norwood—a very competent, very professional person—who heads the Bureau of Labor Statistics, reported on the latest figures. The unemployment rate nationally has gone from 7 percent in July to 8.9 percent in December. That's an additional 2 million people out of work. Almost all of them, 1.8 million, are people who had jobs and have lost them, as opposed to new entrants into the labor market.

The unemployment rate among adult males has gone to 8 percent. That's the highest it's been in the post-World War II period, and of course we're very deeply concerned that the various economic indicators one looks at seem to forecast a continuing economic decline and a rising unemployment rate.

With that by way of opening statement, Mr. Foltz, if you'd come forward here and take a seat, we are prepared to hear from you.

STATEMENT OF DAVID A. FOLTZ, RESEARCH ANALYST FOR WESTERN MARYLAND, MARYLAND EMPLOYMENT SECURITY ADMINISTRATION,[1] HAGERSTOWN, MD.

Mr. Foltz. I have a prepared statement of what we view to be the current economic situation in western Maryland, and I will try to summarize that statement.

Traditionally, western Maryland has depended heavily on its manufacturing sector as a major source of employment for its citizens. Furthermore, manufacturers in the region are engaged primarily in production of capital goods—that is, goods utilized primarily by producers, rather than consumed directly by the consuming public.

Concurrently, there has been a certain weakness in other sectors of the economy, particularly in trade and services. Not only has there been a dearth of employment opportunity in these sectors, but potential benefits derived from increases in spendable income during times of economic expansion has been largely lost to adjoining regions with greater commercial development.

Additionally, there is the problem of climate. The mountains of western Maryland are subject to harsher winters, with lower temperatures than the Piedmont or Tidewater areas of the State. This results in seasonality in employment, which is particularly evident in the western part of Allegany County and through Garrett County.

On the Appalachian plateau, this particularly affects construction and the tourist indutry.

The peculiar economic mix of the region, the climate, and national problems engendered by periodic recessions, and the rapid expansion of the labor force, due to the postwar baby boom and the entrance of many women into the labor force, has resulted in consistently higher unemployment rates than in other regions.

If I may refer you to the table in my prepared statement, you will please note that western Maryland, in comparison with the State and the United States, has had an unemployment rate of double-digit proportions for 4 of the last 6 years. This is in marked contrast to other regions.

You will also please note that western Maryland enters the recession much more abruptly than the other areas, in terms of the employment index and unemployment rates.

If you would please examine the graphs prepared by Arthur D. Little, Inc., at the behest of the Appalachian Regional Commission, you will note in the table, in the upper left-hand corner, a comparison between Maryland, the United States, Appalachian Maryland, and the remainder of Appalachia.

Western Maryland entered the recession of 1975 far more dramatically than the other areas and it took a much longer period of time for it to recover. It had not recovered the employment lost in 1975

[1] Under the direction of Frank O. Heintz, executive director, research and analysis division, Employment Security Administration, Baltimore, Md.

until 1979. However, much of the gain was wiped out in the recession of 1980.

In effect, western Maryland tends to be the first area to enter a recession and one of the last areas to recover.

With the onset of the current recession of 1981, unemployment has risen dramatically in western Maryland. The November rate for the three-county area stood at 11.7 percent. In more human terms, this translates into 12,138 persons estimated to be unemployed. This is 2 percentage points higher than November 1980, and much higher than the November rates for the Nation and the State of Maryland, both of which stood at 7.9 percent.

Senator SARBANES. In other words, the rate a year ago for November was 9.7 percent for western Maryland?

Mr. FOLTZ. Yes, sir.

Senator SARBANES. Today it's 11.7 percent?

Mr. FOLTZ. Yes, sir; 11.7 percent.

I made an analogy to indicate how severe a problem this can be in terms of actual individuals. If the entire State of Maryland had an unemployment rate of 11.7 percent, it would add 82,810 persons to the unemployed in Maryland. That would be using the unemployment rate current in western Maryland; if that rate prevailed throughout the State, there would be an additional 82,000 persons unemployed.

In terms of claims for unemployment insurance compensation, 5,687 were filed in the offices of the Employment Security Administration in Hagerstown, Cumberland, and Oakland in December alone. This is compared to 3,840 claims in December of the preceding year. This will be translated into higher unemployment in December.

Since manufacturing is the most adversely affected sector of our economy, the loss of the relatively spendable income is translated into fewer jobs in other sectors. There is a domino effect: This reduces the opportunity for reemployment in other sectors for those laid off in manufacturing.

This is also indicated by the dramatic decline in job orders on file with the Employment Security Administration in the three western counties.

In terms of future developments, western Maryland was relatively slow to recover from the last major recession of 1975. As late as 1978, manufacturing alone had failed to recover 728 positions, of 12.5 percent of the jobs lost during this recession. Therefore, there is little reason to anticipate that western Maryland's economy will rebound quickly from the current recession.

Even with a strong national recovery, employment expansion in the region might well be inhibited by the nature of our local economy, climate, and geography.

[The prepared statement of Mr. Foltz follows:]

PREPARED STATEMENT OF DAVID A. FOLTZ

Recessionary Influences in Western Maryland

The Economic Background

Traditionally the economic stability of Western Maryland has been substantially influenced by the region's heavy dependence upon manufacturing as a major source of employment. Engaged primarily in the production of capital goods, the area manufacturers have long been extremely sensitive to national business cycles. Concurrently, Western Maryland has exhibited a certain weakness in the service and trade sectors of its economy. In 1980 manufacturing accounted for nearly a third of all employees covered by the unemployment insurance law in the three western counties. In contrast, manufacturing accounted for only 14.07 percent of covered employment throughout the state. Most of this difference was attributable to the Consortium's lower proportion of jobs in wholesale and retail trade, services, and government. While wholesale and retail trade accounted for 23.86 percent of the state's total nonagricultural employment in 1980, these industries represented 21.05 percent of the employment in Western Maryland. Services and government accounted for 46.06 percent of the state's employment, but only 36.76 of Western Maryland's.

This imbalance has contributed to the instability of the region's economy for many years. Not only has there been a dearth of employment opportunities in trade, but the potential benefits derived from increases in spendable income during times of economic expansion have been largely lost to adjoining regions with greater commercial development.

Although Western Maryland's dependence upon manufacturing employment appears to have abated somewhat in recent years, the continued predominance of this industry has nevertheless contributed to the endemic unemployment in the region. The problem has been further exacerbated by the climate. The mountains of Western Maryland are subject to harsher winters with lower temperatures than the piedmont or tidewater areas. This accentuates the seasonal unemployment experienced throughout the state when construction and some manufacturing are curtailed during the winter months.

The particular economic structure of the region and the climate have functioned in concert to produce an unemployment rate consistantly higher than that of the state and the nation. The marked contrast is quite evident in the table below.

Unemployment Rates

Year	Western Maryland Consortium	State of Maryland	United States
1975	14.4	6.9	8.5
1976	12.7	6.8	7.7
1977	10.2	6.1	7.0
1978	7.5	5.6	6.0
1979	8.3	5.9	5.8
1980	10.0	6.4	7.1

This comparison is also instructive of how much more slowly Western Maryland's employment recovers from a recession. While the state and the nation rebounded fairly soon from the last major recession in 1975, Western Maryland still had a double digit unemployment rate in 1978.

Finally, in addition to the pervasive unemployment created in part by its peculiar economic base and the climate, Western Maryland shares the national problems of periodic recessions and the rapid expansion of the labor force engendered by the postwar "baby boom" and the addition of many female job seekers over the last several decades.

The Current Recession

Since the inception of the current recession, the unemployment rate has risen dramatically in Western Maryland. The preliminary estimate for November of 1981 set the region's rate at 11.7 percent, two full percentage points above that of the preceding year. Meanwhile, the state's unemployment rate rose from 6.1 to 7.9 percent during the same period. The implications of this increase in Western Maryland are indeed quite serious, particularly when compared to the state. If the state of Maryland were to have experienced an unemployment rate equivalent to that of Western Maryland in November, an additional 82,810 persons would be jobless.

In terms of claims for unemployment insurance compensation, a total of 14,329 intrastate and interstate claims have been filed with the Employment Security Administration offices in Hagerstown, Cumberland, and Oakland between the first week in September and the last week of December, 1981. This was more than three thousand more claims than those filed during the same period in 1980.

The majority of those laid off during the last several months were employed by Western Maryland's manufacturers. Since persons engaged in manufacturing are among the highest paid workers in the region, the loss of spendable income to the local economy is multiplied accordingly. Fewer jobs in manufacturing are quickly translated into fewer positions in retail trade and services. Therefore the prospects for reemployment in other sectors of the economy are rather grim, particularly since governments are retrenching and local construction is in abeyance due to both seasonality and high interest rates.

The lack of new job opportunities is reflected in a general decline in the number of job orders filed by local employers with the Maryland Job Service facilities in Washington, Allegany, and Garrett counties. The continued rise in the labor supply and the lethargic economy conspire to reduce the tempo of employment expansion throughout the region.

Prospects for the Future

Western Maryland was relatively slow to recover from the last major recession in 1975. As late as 1978, manufacturing alone had failed to recover 728 positions, or 12.5 percent of the jobs lost during this recession. By 1979, Western Maryland's manufacturing sector had recovered to the point where the number of workers employed (24,339) had nearly returned to the 1973 level; however, manufacturing's share of total employment in the area continued to decline.

Therefore, there is little reason to anticipate that Western Maryland's economy will rebound quickly from the current recession. Even with a strong national recovery, employment expansion in the region might well be inhibited by the nature of the local economy, climate, and geography.

Senator SARBANES. Thank you very much, Mr. Foltz. Let me ask you this question. On the opening page of your prepared statement, you make the point that manufacturing counts for a much larger portion of the work force in the western Maryland counties than statewide; is that correct?

Mr. FOLTZ. Indeed.

Senator SARBANES. In what ratio?

Mr. FOLTZ. Well, the ratio I had presented here, it's nearly a third of our employment that depends directly on manufacturing in the three western counties. This is primarily in Washington and Allegany Counties. In contrast, manufacturing accounts for only 14—a little over 14 percent of employment throughout the State.

Senator SARBANES. So this recession, which nationwide, has hit manufacturing the hardest is having a disproportionate impact here.

Mr. FOLTZ. Yes, sir. It's particularly hard on western Maryland, because of our emphasis on manufacturing. Now that is not to say that we don't have a great deal of employment in other sectors of the economy, but they are affected almost as rapidly because of the loss of income by persons laid off in the manufacturing sector.

Senator SARBANES. That's the point you make toward the end of your statement. As I understand your point there, since manufacturing workers are amongst the highest paid in the region, the ripple effect of that through the economy of those workers being laid off is more severe because the people who have been thrown out of work and lost their income are the people who are not at the bottom level of the income scale but way up. They're the ones who have been putting more spendable income into the economy.

Mr. FOLTZ. Yes, sir, by and large, they tend to be much better paid per capita than persons working in other sectors.

Senator SARBANES. In urban areas, they're facing a very severe problem in simply processing and meeting the claims for unemployment, long lines. The cutbacks, actually, in the Federal sharing with States in the employment security program are such that the Employment Security Agency itself is laying off people at a time when its own workload is significantly increasing, because of the unemployment throughout the economy.

Are you experiencing that same problem here?

Mr. FOLTZ. Yes, sir. Indeed, most dramatically. I received a comment from an employee in the local office in Hagerstown the other day, who has worked there since the middle 1970's. He remarked that it was the largest number of persons filing claims that he can recall.

Senator SARBANES. Now when a person files a claim, and working and laid off, how long does it take to process the claim before he receives a payment? For how long a period must he bridge the gap before he gets some unemployment insurance assistance?

Mr. FOLTZ. Well, it would vary considerably, depending upon that claim. Quite frequently, it might well be several weeks. Certainly, it would be more than a week without any compensation.

Senator SARBANES. Well, if I get laid off, then I can come to you the next day, immediately?

Mr. FOLTZ. Yes, sir. In Maryland, you can.

Senator SARBANES. And file a claim?

Mr. FOLTZ. To file a claim.

Senator SARBANES. And then how long, on the average, would you say that that person is going to have to manage somehow, before he gets some assistanace to help him meet the house payments and the car payments and food bills.

Mr. FOLTZ. It could be several weeks.

Senator SARBANES. Several weeks. I notice in these charts, is it correct, as this chart on the upper right-hand corner indicates—I mean, I knew that the unemployment rate in Appalachian Maryland was above the Maryland rate and above the National rate.

Mr. FOLTZ. Yes, sir.

Senator SARBANES. We've all known that for years, and much of what we've been trying to do has been directed toward addressing that problem. We recognize the difficulty of the situation we are confronting. I see a lot of people here today with whom I've worked closely in an effort to do that.

Is the unemployment rate in Appalachian Maryland, as this indicates, above the unemployment rate in all of Appalachia?

Mr. FOLTZ. Yes, sir. Consistently higher.

Senator SARBANES. So taking in the whole 13-State region covered by the Appalachian program, we have experienced consistently higher unemployment in these three counties than is generally true through Appalachia?

Mr. FOLTZ. Throughout Appalachia, indeed.

Senator SARBANES. The table in your prepared statement doesn't show the year figure for 1981; we'll have that in a couple of weeks, is that correct?

Mr. FOLTZ. Yes, sir. It will take some time.

Senator SARBANES. Do you have any idea what that will probably run for western Maryland?

Mr. FOLTZ. It will certainly be higher than 10 percent, which was the annual rate for 1980.

Senator SARBANES. So last year it was 10 percent in the western Maryland consortium, 6.4 percent in the State and 7.1 percent nationally?

Mr. FOLTZ. Yes, sir.

Senator SARBANES. Of course, your experience here is the same as the national level, and that is, as earlier testimony indicated, each time we go into one of these recessions, when we come back again, the unemployment has moved to a higher figure than before. Each time it starts at a higher level.

Mr. FOLTZ. Yes, sir.

Senator SARBANES. Has that been the case here as well?

Mr. FOLTZ. Yes. It's not as dramatic, because our population—actually, for example, in Allegany County, it declined between the 1970 and the 1980 census, but the addition of this baby-boom generation to the labor force and the addition of women to the labor force, who traditionally had not been job seekers, tends to exacerbate the problem. More people looking for work raises the unemployment work, and this will continue for quite sometime. Until this so-called baby-boom moves through the demographic tables, you simply have ever more people to find work for. Not only do you have the problem of people laid off, but you also have more people consistently coming into the labor force.

And this is particularly true in periods of economic adversity, when families require more than one income to get by.

Senator SARBANES. Are there enough differences amongst the three counties in the unemployment situation, that it's worth our commenting about that for a moment, as opposed to giving us the regional view?

Mr. FOLTZ. This problem of the emphasis on manufacturing is predominant in Washington and Allegany Counties. Garrett County tends to be more rural and much more thinly populated, more dependent upon tourism and somewhat on manufacturing. It is not as typical of the problem as Allegany and Washington Counties, although it does, much like Somerset County on the Eastern Shore, experience a consistently higher rate. Somerset County on the shore and Garrett County in western Maryland are further from the mainstream of economic activity in the State. After all, it is roughly 150 miles from Baltimore or Washington to Cumberland. It's an additional 50-odd miles from Cumberland to Oakland, which is the county seat, of course, of Garrett County. So these two counties, Somerset on the shore and Garrett in the west, tend to be on the periphery and have consistently high unemployment rates. Therefore, they don't come down as dramatically as other areas, when we have a recovery.

Senator SARBANES. Have you noticed in the claims being filed and those being added to the unemployment rolls, whether there's any marked increase in the proportion of heads of households that are now finding themselves unemployed? Do you have the figures broken out that way?

Mr. FOLTZ. No, sir, we do not. But I think just by observing the people that you see in the unemployment line every day—I mean, we work with the Employment Security Administration. They tend to be men in their prime working years of roughly 20 to 55 years of age. So I would assume that the heads of household would predominate, but I have no statistics on that on the county or regional level.

Senator SARBANES. We thank you very much for your testimony and for the obvious time and effort that went into preparing this very thoughtful submission to the committee. We appreciate it.

Mr. FOLTZ. Thank you, Senator.

Senator SARBANES. If we could have George Wyckoff and Stanley Zorick, representing the Cumberland Area Labor Management panel. Gentlemen, have you negotiated between yourselves as to who's going to go first? Have you had a bargaining session?

Mr. WYCKOFF. No, we haven't gotten together. We do get together a great deal of the time. I've certainly enjoyed the association.

Senator SARBANES. Mr. Wyckoff, please go ahead and start.

STATEMENT OF GEORGE WYCKOFF, JR., COCHAIRMAN, CUMBERLAND AREA LABOR MANAGEMENT (CALM), AND PRESIDENT, CUMBERLAND STEEL CO., CUMBERLAND, MD.

Mr. WYCKOFF. I would like to say that I am speaking as president of Cumberland Steel here. I didn't see how I could incorporate the labor-management situation into these hearings, although I will say I think Stan and I have had a great deal of success at working in the community with it and have a very positive outlook as to the long range employment in western Maryland. A great deal of that, I think, I think is due to the CALM committee.

Good afternoon, ladies and gentlemen. I am George Wyckoff, president of the Cumberland Steel Co. Needless to say, the recession has affected Cumberland Steel. Approximately one-third of our labor force is furloughed. Orders have not improved as yet, but I'm hopeful for an upswing within 3 months. In that our product is consumed by the machine tool and capital goods sector, interest rates have had a direct bearing on their level of business and consequently ours.

There is no doubt in my mind the interest rates alone are the primary cause of the slowdown in our economy. A businessman must consider the return on any investment. High interest rates, such as we have been experiencing, demand a much faster return on any investment.

Consequently, most all businesses and individuals have put their capital expenditures on the back burner. Although we have made some minor purchases at our company, we cannot justify major expenditures at this time.

Western Maryland is suffering, along with the rest of the country, and will continue to do so until inflation, which is abating to a more acceptable level, and interest rates drop. It would be helpful to all if we knew that interest rates would be capped at, say, 15 percent. Then everyone would know their maximum exposure. This, I think, would have a profound, positive effect on our country's economy.

At present, we are still reluctant, even at these somewhat lower rates, to commit ourselves to a major purchase, due to the roller coaster action of rates. Therefore, a cap at about 15 percent would still continue to dampen inflation, but would also be positive for our economy.

In conclusion, let me say that even though my business is suffering along with many others, the surgery being done by the present administration is long overdue. We must eliminate needless Government spending. The private businessman will through the free enterprise system and its competitive pricing practices hold down inflation. It is this businessman who will create the jobs that pay taxes to support the Government.

I am hopeful that your hearing here today will not lead to additional governmental programs, for if it does, we will be once again on a disastrous course for this country.

Thank you.

Senator SARBANES. Mr. Zorick, please proceed.

STATEMENT OF STANLEY ZORICK, COCHAIRMAN, CUMBERLAND AREA LABOR MANAGEMENT (CALM), AND PRESIDENT, WESTERN MARYLAND CENTRAL LABOR COUNCIL, CUMBERLAND, MD.

Mr. ZORICK. In western Maryland, which is the Appalachian area of the State, we have had a depressed economy and its accompanying unemployment problems for many years. It has been a chronic and persistent problem with which we've been struggling for quite sometime. I want to point out to you here that the western Maryland community has not been content to sit idly by and do nothing about the problem. Instead, we've been trying and will continue to try to pull ourselves up by our own bootstraps; however, we do need the cooperation of and assistance from the Government.

Allegany County has a very active, hardworking economic development cooperation, and along with that we have formed and developed the Cumberland Area Labor Management Committee, which many feel is one of or perhaps the best committee of its kind in the United States. Our Labor Management Committee has been involved in a variety of activities and programs, all pointing to a basic role which is, to quote, "enhance the economic development potential of this area of Maryland by focusing on cooperative action between labor and management."

Just when we started to become very much encouraged and to see some measure of success as a result of the cooperative efforts of members of the political community, labor, management, and the Economic Development Corporation, we find ourselves inundated by a wave of very serious national economic reversals. In recent months here in Allegany County, the Celanese Corp. has suspended production with the resultant loss of approximately 494 jobs. The Pittsburgh Plate Glass Co. has about 375 furloughed. The Allegany Ballistics Laboratory has 112 employees on furlough, and the Kelly Tire Co. has about 181 employees laid off.

I have been advised by our building trades that they have approximately 40 to 50 percent of their building tradesmen out of work.

Western Maryland is now facing an unemployment rate that was given out in November and, as has already been stated here, the unemployment rate on the November figure was 12.2 in Allegany County, 13.1 in Garrett County, but from the authorities at the Employment Security, it is safe to say that we are now about 14 percent in the unemployment picture in the western Maryland area. And it's very safe to say that.

We believe that on the short-term relief, hopefully short term, that in this immediate situation, we do need Federal unemployment insurance extension, that we do need the full food stamp program, and that we do need some type of work programs. We believe that the programs should always stay intact and be triggered in or out by the employment picture in whatever area it happens.

On the long term, we feel that we need some bold action and real cooperation between labor, management, and the Government to bring about a revitalization of American industry, whereby our productivity and quality will increase to the level needed to successfully meet foreign competition, while providing quality products for our people at the best possible price. We think that inflation ought to be attacked at the real spots, not just balancing the budget. We think that in order to reduce inflation, we should be hitting it at the high cost of fuel, the high cost of health care, and the high interest rates and cost of housing.

We think in these fields that if they are attacked, that we will start feeling a real reduction of our inflationary spiral. Along with what the national AFL-CIO says, we too agree that the American economy needs a new spark of reindustrialization and initiative that would reemphasize the need for a strong, growing, and diversified U.S. economy.

Labor offers to cooperate with other segments of the economic society, both Government and business, to develop a positive program to remedy the major stumbling blocks to an improved economy. The AFL-CIO recognizes the need for targeting investment and proposed a program that would bring together financing from public and private funds, including pension funds.

Thank you, Senator.

Senator SARBANES. Thank you both.

Mr. Wyckoff, let me just ask you this question. How important—because it is the Government program, after all—is the completion of the national freeway to the economic development of the western part of the State?

Mr. WYCKOFF. I think it's extremely important.

Senator SARBANES. It's a program that they're coming back on, and they're really trimming the money there. Do you think that's advisable, or do you think it's a program we ought to press ahead with because its economic benefits would outweigh its costs?

Mr. WYCKOFF. As you noticed, I mentioned additional programs. I think there are thousands of good governmental programs that we have benefited in this area from a great many, particularly the Appalachian funds. I don't think the Cumberland area labor-management group would have gotten off the ground without those funds.

But as I think you're familiar with, we have been working here and hopefully in the near future will be funded totally locally, which is I think the way things should be.

Senator SARBANES. Do you mean for the operation of the committee?

Mr. WYCKOFF. For the operation of the CALM; yes.

Senator SARBANES. What about the highway?

Mr. WYCKOFF. The highway itself is essential. It is essential, there's no doubt about it. Any industrial sector that wants to grow and any area needs transportation and to have—they call them in the trade the 18-wheelers lug over those mountains. They can get over the roads we currently have, but it's hard on a tractor-trailer, as well as being very slow. And it can be dangerous.

Senator SARBANES. I share that view. We've consistently pressed hard to try to move that freeway forward, to get the clearances and everything. The prospects now are less certain because they are drying up the Appalachian funds, which were extremely important to the funding. I know that the State has let—I saw some of the work today as we came over, Sideling Hill. But I share the view in the area, that it's important to have that basic infrastructure.

Stanley, did you have a comment?

Mr. ZORICK. Possibly I might say that one of the first projects that labor and management took on—and I suppose maybe 8 to 10 years ago—was that the chamber of commerce and the Western Maryland Labor Council were both together and fought together on the extension of Interstate 70 to Cumberland. That was one of our first and early projects, and we still feel that way about it very strongly.

Senator SARBANES. I'd like to draw out of both of you a little bit more about the working of CALM. I think we ought to get that on the record, because I think what you've done here is very impressive.

It's my own view, just as an aside, that we've got to move more in this country toward the notion that government, labor, and business work together in a partnership, in a practical way, to try to solve our problems—so that they're not sworn enemies, at one another's throats.

That doesn't mean they're always going to see things in exactly the same way. But when we look at other countries with whom we're competing in the international market and look at what is it that they're doing that seems to work and enables them to function effectively, one of the things we see is a very fruitful interrelationship between government, business, and labor.

CALM is, to some extent, an example for the Nation, in that regard. If you could take just a few minutes to tell us about it, I think it would be important to have that on the record.

Mr. ZORICK. Well, we've already stated about our shoulder-to-shoulder fight on the extension of Interstate 70. Another very important one was when Kelly-Springfield Tire Co. and Luke, the Westvaco paper plant, were very much concerned about being able to burn western Maryland coal at the time Kelly-Springfield was burning oil. In fact, I was invited by the company to participate in going to the State of Maryland, which then had a stronger law in regard to air quality control than the rest of the Nation did. And we thought that we should get together and try to bring down the air quality control of the State of Maryland, at least in line with the rest of the Nation.

At that time, the company, of course, leading the way, with labor representatives assisting, went to the State legislature in Maryland. The end result was that we were successful in bringing the more stringent Maryland laws in line with the national laws. And we thought it was very important.

I know the executive vice president of the Kelly-Springfield Tire Co. is here, but I know that move saves quite a few million dollars for the Kelly-Springfield Tire Co.

Senator SARBANES. Of course, Westvaco, which I know very intimately, is no less important.

Mr. WYCKOFF. Briefly, we have an area council, made up of seven people in labor and seven people from management, basically representing the community and the major industries.

Senator SARBANES. Who picks each side's seven people?

Mr. WYCKOFF. How did we start out, Stan?

Mr. ZORICK. We really started out with a spontaneous meeting of about 50 people in the community.

Mr. WYCKOFF. Volunteers, I think.

Mr. ZORICK. From then on, each side kind of picks if they need somebody to fill in, somebody that has left or decided they couldn't do it, why that side selects the person who will fill in that slot.

Mr. WYCKOFF. It is important to note that we have people from the public sector involved as well as just the private sector. We do have one company located in West Virginia actually, but it is an area labor-management committee.

From this area committee, that's the seed from which to try to start an in-plant committee. The in-plant committee is where your interest, I think, probably lie. It certainly does with me, because we've had quite a bit of success at Cumberland Steel. The success of our style I would say comes from the third party participation—in other words, management sitting down with labor, but you have to have a pro, someone who's been in arbitration, a mediator. In our case, this was John Podbetter, who was absolutely super, has done a great deal for our area. He's the one who keeps the meetings on track.

We're not discussing negotiable items. We're not discussing grievances. That's not what we're there for. We're trying to make Cumberland Steel a better place to work, quality of work life.

From this, certainly I've found that we're listening better to each other. We do not need a consultant—I am not talking about John Podbetter—to come into the plant to solve some of your problems if you will listen to your employees. Those employees work for Cumberland Steel as well as I do. They want to have a hand in what's going on. We try to ask them, if we're buying a new piece of equipment, what they think. And it's been exciting.

We have had weekend seminars and we paid them time and a half. That's the rate for the day. And it's been worth every penny. Sit down together and address problems. I think it's been super.

Mr. Zorick. One of the things that I wanted to say about the Cumberland Area Labor-Management Council, it is important to try to attract new industry. We feel it's even more important to retain the industry that we have at present and make them say that this is a favorable place for them to expand and stay. We just think that the retention of what we have is very important to our economic future here in western Maryland.

Senator Sarbanes. Have you found that because of the work of the committee, one of the selling points you're able to use industry you're trying to attract is the more harmonious, if that's the right word, or more responsive and committed labor-management relationship here than may exist elsewhere?

Mr. Wyckoff. Absolutely.

Senator Sarbanes. Is it your perception that that registers on people who are thinking of coming here?

Mr. Wyckoff. I think it already has, in one or two cases particularly.

Senator Sarbanes. How often do you meet?

Mr. Wyckoff. Monthly.

Mr. Zorick. The board, the umbrella, the CALM executive board meets monthly.

Senator Sarbanes. That's translated down into meeting with each employer; is that right?

Mr. Zorick. That's right, in-plant committees. We have about 12 or 13 in-plant committees now organized.

Senator Sarbanes. Which would be made up of workers—representatives of the workers, representatives of the employers, and a third——

Mr. Wyckoff. A third party kicks it off, hopefully after a period of time. Once you understand what you're looking for and what you're trying to do, between the two of you, you'll be able to run your own show.

Senator Sarbanes. Well, that's very good.

Mr. Wyckoff. There are tremendous benefits. I think if you walked through Cumberland Steel, most of the workers will tell you that we have less turmoil at the plant than we've ever had. The contract we settled in September, people thanked me. That never happened before. The last time we had a strike.

Senator Sarbanes. Gentlemen, we thank you very much.

Mr. WYCKOFF. I'd like to thank you, Senator, for coming up here.

Senator SARBANES. I appreciate that, George. I grew up in Salisbury, at the other end of the State, and I have some sensitivity to the feeling that I grew up with that you're at the far end of the State and no one is concerned about your problems. And we've been very much involved in the Westvaco problem, which fortunately was worked out very well, in a commonsense way. I must tell you that if we just apply commonsense to a lot of these problems we can find a solution. It's when everybody gets caught up in a fixed ideology that nothing seems to work out.

Well, thank you very much.

Our next panel will be the economic development panel, Steve Kocsis, of the executive committee of the Tri-County Council; Pat O'Rourke, representing the Allegany County Economic Development Co.; Tom Jones, director of the Garrett County Development Corp.; and Leroy Burtner, director of the Washington County Economic Development Commission.

Gentlemen, do you have an order worked out amongst yourselves?

STATEMENT OF STEPHEN E. KOCSIS, EXECUTIVE DIRECTOR, TRI-COUNTY COUNCIL FOR WESTERN MARYLAND, CUMBERLAND, MD.

Mr. KOCSIS. Senator, I may as well start.

Senator SARBANES. If you can identify yourself by name and title for the benefit of the reporter, I think that would be helpful.

Mr. KOCSIS. Good afternoon, Senator. I would like to thank you for the opportunity to testify before this committee.

My name is Steve Kocsis, executive director of the Tri-County Council for Western Maryland.

In the interests of time, I'm not going to read my prepared statement entirely. I simply will go through and summarize it.

I think that it has been discussed over and over about the traditional problems of western Maryland, primarily the problem of the lack of access to other areas, the low population base, the fact that we are very spread out. I think the area has also been extremely dependent over the years on transfer payments from outside. I touch on all these points in my prepared remarks.

I would like to, however, jump to the real kind of heart of the remarks here on more of a theoretical or regional basis. The gentlemen on the panel with me will address specific county needs or county ideas on a more individualistic basis.

I have stated here, and I quote:

> Tax policies put forth by the current administration, while in theory should work well and provide for reinvestment by industry and capital market and new jobs for the economy, this really remains to be proved. It is a good policy and, in fact, can provide jobs in a timely and reasonable manner. If we can do this, then all the rest will follow.

Unfortunately, I would suggest that there are two major questions that arise when these funds are being considered in the light of current investment possibilities and the ramifications of the decision.

The first of these questions is: Where will these funds be invested? Competition for jobs in industry is common if it's not expected anymore, when communities offer incentives for an industry to come into an area, such as reduction in taxes, low-interest loans, land—the cost of which has been written down, and so on.

The area in question here in western Maryland has depended heavily on external government funds that have been used, to a large degree, for this purpose. Now that the funds from the Federal Government are being reduced or possibly eliminated, it is difficult if not impossible for this area to continue to provide these incentives; whereas other areas and States will, in fact, be able to provide them.

If, after careful analysis, people still think that the rural areas of the Middle Atlantic States and the Northeastern States are going to be helped by some of the new tax policies, I suggest they are mistaken.

Industry will, of course, continue to make the best decisions that it must for its own growth. Industry owes its first duty to its stockholders and must show a profit. They will locate not only where their analysis tells them to do so, but in those close cases will locate where the incentives are the best. You can't blame them.

The second question—and I don't really want to get into that here, and I can't address it—is: Will the funds provided through some of these new tax incentives provide new jobs or simply reduce dependency on labor through mechanization or, as it's now called, robotics?

I would suggest the area is being hit with three severe problems at one time: One, a reduction in Federal grants and transfer payments; No. 2, the recession, with its accompanying investment difficulties; and No. 3, the future industrial plans for expansion, based on new tax incentives.

I would suggest that any program at the national level, including existing programs, has to be, No. 1, based on need and not simply be an allocation of money or whatever to a community based simply on, for example, population.

No. 2, the program must be flexible and they offer local communities the ability to solve their own problems by coming up with their own solutions with modest outside help or aid.

Finally, the program must be equitable. One of the key points that the Appalachian Regional Commission wants to address was to provide the citizens of the Appalachian area of the United States the opportunity to live and work where they choose. This means simply that they should be provided with the opportunity to choose where to live, whether it be in the traditional home area or somewhere else, as well as to provide them with the skills necessary that will enable them to make that choice. This also includes education, health, plus providing job opportunities where they are. I think this philosophy is still sound today.

If we set in motion a new trend here that people have worked for years to reverse, and that is the outmigration and the general decline, decisions made in Washington affect the areas out here much more than anybody would realize. And I would simply state, in closing, that I would hope that policy changes are deliberate and not produce unexpected results of a program hastily enacted or eliminated; that I think I have attached a few tables on some regional statistics of historic importance—many of those have been gone over by Mr. Foltz. And I think the three other gentlemen would perhaps get into more specifics.

[The prepared statement of Mr. Kocsis, together with attachments, follows:]

PREPARED STATEMENT OF STEPHEN E. KOCSIS

Traditionally, the Appalachian area of Maryland as well as the United States has lagged behind the rest of the country in economic development. We have made excellent strides over the past fifteen years in the fields of health and education as well as the provision of economic opportunities for the citizens of this area. We have significant strengths in the built-in skill levels of the workers as well as the hard working natures of the people who reside here. However, problems still remain that are severe. These include physical access to the area to eliminate the isolation and barriers that have existed historically, a low population base, and, particularly in the northern areas, an aging population base.

Low population creates difficulty in generating capital necessary to sustain growth. The area must have access to outside capital monies or federal government transfer payments. There is simply not sufficient base at the present time for the area to raise large amounts of capital needed to attract industry, to maintain the area industry, or to sustain generally recognized minimal public services.

Throughout the history of this country, we have espoused ideas such as ties to home, family and community as having major importance in growth. These are virtues that have provided stability in a secure, growing community. Unfortunately, out-migration, due to lack of job opportunities continues and will be made worse by a recession. This leaves a major gap in the age structure of the community; a gap that is not likely to be filled in any reasonable future time frame by a reversal of this trend due to in-migration. This in turn provides a weakening of the community structure and it in turn begins to generate a downward spiral that we have only recently begun to reverse.

Tax policies put forth by the current administration, while in theory should work well and provide for reinvestment by industry and by the capital market in new jobs for the economy, remains to be proved. It is a reasonable policy that if good jobs are provided in a timely and reasonable manner then all the rest will follow. Unfortunately, however, two major questions arise when these funds are being considered in the light of current investment possilbities and ramifications of any recession.

The first of these questions is where will these funds be invested? In the competition for jobs in industry it is common, if not standard, for communities to offer incentives such as a postponement or reduction in taxes, low interest loans, low cost land and so on. The area has depended heavily on external governmental funds for this purpose. Now that these funds from the Federal government are being reduced, or possibly eliminated, it is difficult, if not impossible, for this area to continue to provide these "incentives" where other areas, states or regions will be able to provide them.

If after careful analysis, anyone still thinks that the rural areas of the Middle Atlantic states or Northeastern states will be helped by the new tax policies, I suggest that they are not in touch with economic development realities of the world. Industry will make the best decisions that it must for its own growth. Industry owes its first duty to its stockholders and must show a profit. They will locate not only where their analysis tells them to do so, but also, in those close cases, will locate where the incentives are best. The second question that we can't really address here but is something to think about is: Will the funds provide new jobs or simply reduce the dependency on labor through mechanization, or, as it is now called, robotics?

This area then is being hit with three severe problems at one time: 1) A reduction in federal grants and transfer payments, 2) The recession with its accompanying investment difficulties and, 3) The future industry plans for expansion based on new tax incentives.

In closing, I would like to call the subcommittee's attention to the fact that there are differences throughout the United States and also at the local level in such items as economic base of an area, the geography of an area, and finally, and most importantly, the human and natural resources of a specific area. Here in Western Maryland, the three counties, although they have joined together in regional cooperation, are quite different in all of the three above characteristics. They have different problems, and they have used many different solutions to solve these problems.

Therefore, programs designed at the national level to reduce the effects of the recession must, in my opinion, be based on three primary principles: 1) The programs must be based on need and not simply be an allocation formula based on population, 2) The programs must be flexible in that they must offer local communities the ability to solve their own problems (with modest outside help) by coming up with their own solutions, 3) The program must be equitable.

One of the key points that the Appalachian Regional Commission was to address was to provide to the citizens of the Appalachian area of the United States the opportunity to work and live where they choose. This meant simply, that they should be provided with the opportunity to choose where to live whether it be in their traditional home area or somewhere else and to provide them with the skills necessary that would enable them to make that choice as well as to provide them with economic opportunities in their home area. This philosophy, I believe, is still sound today. If we force people to leave their home area we automatically weaken it. And we set in motion a new trend that people have worked for years to reverse. Decisions made in Washington affect the areas out here much more than anyone would realize: Policy changes must be deliberate and not be the unexpected result of a program enacted or eliminated in haste.

WESTERN MARYLAND INDICATORS

1. Poverty Rate -

Percentage of people living below the National poverty level in 1976:

Allegany	13%
Garrett	21
Washington	11
Md. Regional	13
U. S.	11.8

2. Unemployment Rate -

Average unemployment rate from 1978-1980:

Allegany	9.71%
Garrett	12.21
Washington	7.94
Md. Regional	9.0
U. S.	6.3

3. Per Capital Income -

Average income for 1979:

Allegany	$ 6,927
Garrett	5,861
Washington	7,706
Md. Regional	7,198
U. S.	8,757

4. Per Cent of Income Growth between 1970-1979:

Allegany	112.94
Garrett	148.24
Washington	122.27
Md. Regional	120.32
U. S.	120.8

SOURCE: Appalachian Regional Commission

Prepared by: The Tri-County Council for Western Maryland, Inc.

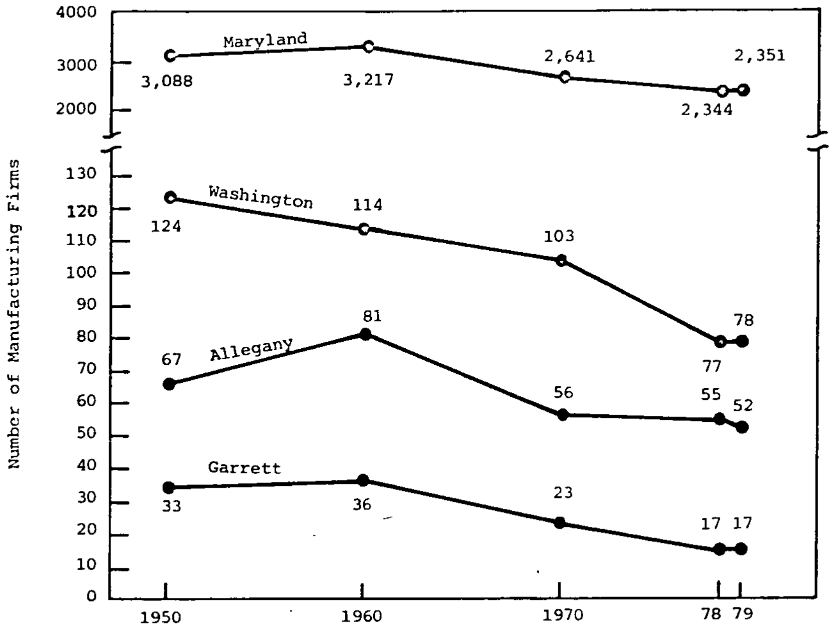
November 3, 1981

UNEMPLOYMENT RATE IN WESTERN MARYLAND COUNTIES - 1980-1981

1980	Allegany	Garrett	Washington
January	11.2 %	17.5 %	9.2 %
February	11.0	17.3	8.9
March	10.8	14.9	8.2
April	8.2	13.2	8.3
May	9.2	10.6	9.0
June	10.3	13.6	9.5
July	8.4	11.3	10.7
August	8.1	9.9	8.8
September	8.6	9.6	9.5
October	8.2	10.5	9.4
November	8.8	10.9	9.5
December	9.5	14.0	10.5
1981			
January	11.7 %	17.9 %	12.1 %
February	12.1	18.1	12.1
March	11.3	15.8	10.6
April	10.3	16.7	9.2
May	10.3	12.2	8.6
June	10.8	15.4	9.2
July	11.3	12.5	8.9
August	10.8	12.0	8.2
September	10.8	14.4	9.1
October	10.6	12.7	10.1
November	12.2	13.1	11.0
December			

Source: Department of Human Resources

Manufacturing Firms by Political Subdivision



Source: Maryland Department of Human Resources, Employment and Payrolls Covered by the Employment Insurance Law of Maryland, first quarter issue for the stated years.

Senator SARBANES. Thank you very much.

I think we'll move right across and hear from everyone, and then we'll have questions.

Mr. O'Rourke, please proceed.

STATEMENT OF PATRICK J. O'ROURKE, ALLEGANY COUNTY ZONING ADMINISTRATOR, AND REPRESENTING THE ALLEGANY COUNTY ECONOMIC DEVELOPMENT CO., CUMBERLAND, MD.

Mr. O'ROURKE. Thank you, Senator.

My name is Patrick J. O'Rourke. I'm the Allegany County Zoning Administrator. I'm also employed by the Allegany County Economic Development Co.

I am here today representing Mr. Richard Mappin, director of the company.

It appears that with the group that has been assembled here this afternoon a lot of specifics will be dealt with individually by some other members here in the room. I think we will just touch on a couple of generalities, then come up with what we feel is something that the Congress can do as far as aiding economic development in general and specifically in Allegany County.

Senator SARBANES. All the statements will be included in full in the record, both those which are summarized here and additional material which witnesses may wish to submit subsequently.

Mr. O'ROURKE. Thank you.

Back in 1968 here in Allegany County, it was decided by the local business community and government officials that it was time to seek industry for Allegany County. The Cumberland-Allegany Industrial Foundation was formed at that time. As the years went by, the Allegany County Economic Development Co. was established. Currently we have four industrial parks in Allegany County and one commerce center, which we are actively seeking occupants for.

In addition, as Mr. Zorick pointed out, we believe in helping the existing industry that's already in Allegany County, that has been in Allegany County since its inception. We hope that we will be able to, in the future, put more emphasis on that.

As you are well aware, the business of attracting industry to your county is quite competitive, as I'm sure my colleagues to the right will point out later.

It will be shown this afternoon, after we have finished here—as it has already—that the impact of the recession, with the figures that Mr. Zorick pointed out to you earlier this afternoon, is quite profound when you consider that in the entire ARC region, this part of the region is right at the top of the list as far as unemployment is concerned. So you can see what we're up against.

We believe that there are cuts the need to be made. With anything, there is some fat that has to be trimmed. And when that takes place, our concern is that even though there will be less perhaps, as far as numbers of programs that might be available, or consolidation of programs that we have now into a lesser number. We are concerned that the amount of time that it takes to get a package completed will continue to be just a little too long for our wishes.

For example, we have people whom we talked with from outside Allegany County—and instead, inside Allegany County—who want to make some type of capital improvement. From the day the process starts to the day of completion, there may be an increase in interest rates or the availability of financing that makes it prohibitive.

So, what we're really here to stress today is the fact that whatever cuts are made, whatever happens, whatever decisions Congress takes that would affect economic development throughout the United States, we will continue to be concerned with the levels of paperwork, the phases that will have to be gone through in order for existing business, or a new business locating in Allegany County, to get from point A to point C, and still have the financial picture such that they will be able to make the corporate decisions to go ahead.

Thank you.

Senator SARBANES. Thank you.

Mr. Jones, please proceed.

STATEMENT OF THOMAS D. JONES, DIRECTOR, GARRETT COUNTY ECONOMIC DEVELOPMENT DEPARTMENT, OAKLAND, MD.

Mr. JONES. Thank you, Senator.

My name is Thomas D. Jones. I am director of the Garrett County Economic Development Dept.

Garrett County is now in the midst of certain recessionary pressures, and this is rather unique for Garrett County. We have historically always had a tremendous seasonal fluctuation in our unemployment rates, and it is not unique for Garrett County to see unemployment rates at this time of the year at levels of 15 to 16 percent.

However, we did not see in this past summer our unemployment rate go down to the level that we usually expect, which is in the 6 to 7 percent area. So, we are seeing it very tangibly: Some plant closings, which is very unique for Garrett County; some plant curtailments. We certainly are not seeing hardly any construction at all; and we haven't been seeing construction of commercial, institutional, or residential nature in over 2 years, since really the construction season of 1978.

This is considerably different than what was our experience in the recession of 1974 through 1976. In fact, Garrett County's economy looked better during that recession than it had in the years prior to that. Construction was on the upswing; a number of different employment sectors—mining, manufacturing, and of course the Government initiatives stimulus programs such as CETA—did absorb a considerable amount of our labor force during that recession.

This is not true during this recession. And primarily, we think that there are two demons that have curtailed or have brought about considerable negative impact in our local economy:

No. 1 is the one I have touched on already. High interest rates have completely curtailed construction and shelved plans for new initiatives in the business sector, since really 1979. That has just been compounded in every month since that time.

The other factor really is one that is kind of a double-edged sword. We have had a growing community. Our population has grown in Garrett County during the decade of the 1970's, at about a 2.5 percent per year rate, approximately 25 percent during that 10-year period

Our labor force has also gone up at about that same rate, approximately 27 percent.

During the last 8 years—from 1974 through 1981—our job production has pretty well kept pace. Our business sector had, up until 1979, pretty well kept pace with our growing labor force. It had produced at the rate of about 2.2 percent per year in job creation. This is due in large part to big increases in manufacturing through the early 1970's, the mid-1970's. The mining sector really came out of its three-decade dormancy in the mid-1970's, with the energy crisis, and really shot up, which absorbed a considerable number of people. And of course, the government sector had a growth rate in Garrett County that compared very favorably with what the Nation's rate was.

So, what we are really seeing today is something different than what we have seen over the past 8 years, and it is one that is pressing us hard.

Now, let us understand that the major sectors that have cut back really are: construction, manufacturing, and to some degree government—manufacturing being the largest loss. It has been pinpointed in two companies.

Our largest employer in the county approximately 60 days ago announced a 40-percent cutback. That will be permanent. It is not one that is prompted by the recession; it is one that is outside of recessionary forces. It's changing markets, changing product lines.

Our fourth-largest employer——

Senator SARBANES. Could you develop that a little bit?

Mr. JONES. Bausch & Lomb.

Senator SARBANES. What's the rationale for that?

Mr. JONES. The product line that the Bausch & Lomb plant in Oakland had been manufacturing had been optical lenses, similar to my eyeglasses. That was a viable product line for the past great number of years. That is one that has gone out in the last 10 years since the plant was established in Oakland, in 1970.

The combination of Bausch & Lomb going into soft contact lenses, hard contact lenses, and certainly a style in regular spectacles of plastic lenses instead of glass lenses has made basically a very new plant—a 10-year-old plant—an obsolete facility as far as that product line is concerned. Thus, the corporate decision was made to get out of that product line.

That has prompted the Oakland plant to change to a sunglass plant production facility instead of a regular spectacle production facility; and that has meant, at least for the forseeable future, a reduction of employment of from over 700 down to the 400- to 500-employee area.

Our fourth largest employer closed its doors permanently—as it would appear it would be permanently—approximately a year ago. That was a loss of approximately 225 jobs.

While those numbers don't compare, in real numbers, to what some of the manufacturing plants in Allegany and Washington Counties have, they do make a significant impact in Garrett County, which has a total labor force of only in the neighborhood of 10,000.

I have been involved, as a staff person, in economic development in Garrett County for approximately 10 years, and there are three items which I feel that have been debated in Congress for some number of months, and I think should have a little bit of evaluation.

One area I'd like to talk about is industrial development bonds, or industrial revenue bonds, as we practitioners call them. They are something that we use when we do have industrial prospects. If they are used by the community, that community could say that it is a statement that that community is a community that wants to grow. It is something of an incentive program that the Federal Government is allowing State and local governments to use, at some cost to the Federal treasury. But I believe that it is a program that must be maintained.

It should be restricted, however, in my opinion, to allow the basic job producers—such as manufacturing, tourism development, warehousing, port facilities, and other very valuable community facilities—to be recipients of these funds, of these bond funds. But it should be curtailed against overuse in the areas of normal commercial businesses, such as the Murphy's Mart, as an example, McDonald's, and the like. Overuse can, I believe, spell the doom of this program.

In Garrett County—and this may be unique to Garrett County—we believe very strongly that one real impediment to our economic development program and our community development program is the existence of the Davis-Bacon Act. The Davis-Bacon Act has been counterproductive and has kept our local construction industry very much out of many worthwhile projects in our county.

Without the Davis-Bacon Act, we believe that our construction, our contractors, could be more competitive, and also, the projects could be achieved at a much reduced rate.

I believe that the move that the Appalachian Regional was making toward enterprise development, and working hand-in-hand not only with the State and local governments, but the private business sector, was a positive one. It is unfortunate that the present administration has seen fit to attack the Appalachian Regional Commission.

We believe that with a combining of the State and local governments with the Appalachian Regional Commission and the private sector that an enterprise zone type of program could be hammered out and could be very productive to Appalachian Maryland communities.

Thank you.

[The prepared statement of Mr. Jones follows:]

Prepared Statement of Thomas D. Jones

Mr. Chairman and Distinguished Committee Members:

As we proceed into a new year the residents of the westernmost County of Maryland are indeed suffering from the ill effects of an ailing local economy. Garrett County's economy is showing many of the symptoms of the economic slowdown that we are new seeing nationally. Plants laying off, and even closing, negative growth in total employment, little new construction, and sporadically soft retail sales activity all have occurred in the past year. This is something new for Garrett County. Garrett County prospered during the 1975-76 recession. Total employment, and all other indicators of a thriving local economy performed exceptionally well during the last national recession. During that last recession manufacturing employment steadily increased, new construction flourished, the mining sector was emerging from a three decade dormancy, and the government through various stimulus programs was employing those who were harder to employ. While the nation's unemployment rate was rising, ours was declining.

However, the 1975-76 recession had not been preceded by approximately two years of very high money rates. These high borrowing rates have, more than any other factor, constrained our local economy during the past thirty months. We have businesses who have shelved their expansion plans, or plans of new product or service start-ups, because profitability is not indicated at such high borrowing rates. Certainly there are many would-be homeowners who could afford to own their own house if mortgage rates were within previously historic ranges.

High money rates are the most significant negative influence on our local economy today. Whether it is an influence which we should artifically curtail depends upon ones relative values. Values which I am not qualified to evaluate.

I do know, however, that during the last six months (the period most economists say this nation has been in the current recession), Garrett County's unemployment rate has indeed risen. Our largest employer has decreased its employment to about 60% of what it was fifteen months ago. The County's fourth largest employer closed its doors completely. New construction has virtually ceased. Government employment is declining. However, probably as significant as all of the above forces is the fact that Garrett County's labor force continues to be a dynamic one. During the period 1974 to the end of 1981, (an eight year period), the County's labor force grew by 27.2%. From 1980 to 1981 alone Garrett County's labor force grew by 6.6%. No local economy, especially one in the grips of a national recession, could keep step with that magnitude of worker expansion.

The Garrett County business community has done well in the past eight years in creating new jobs for its growing population and labor force. Total employment in the past eight years has grown by twenty percent. Employment from 1980 to 1981 grew by slightly over four percent. During the past eighteen months, all major sectors of the local economy has increased in jobs, with the exception of the manufacturing sector. Because of a plant closing, (Sterling Processing Corporation), and a plant layoff, (Bausch and Lomb, Inc.), approximately 475 persons have permanently lost their jobs. During this past year only forty new jobs have been created to mitigate the above losses in the manufacturing sector.

It should be clearly understood that the two manufacturers listed above did not fall victim to the conventional forces of recession. Changing product market preferences and changing factors pertaining to plant location forced the unfortunate announcements of these two companies.

* * * * * *

As a county economic development staff person for more than ten years, I would like to make a few observations on certain Federal progtams and policies which have been debated over the past several months.

1) Industrial Development Bonds - This state and local government program made available for the benefit of new and expanding businesses at the expense of taxable interest income to the Federal Treasury should be maintained, but in a more restricted form. This device is the single greatest incentive any community wanting to stimulate its economy can give to a business. In many cases, the

business would not otherwise be able to start-up or expand without the interest rate break made possible by the IDB. Use of the IDB should be restricted to "basic job" creating businesses; i.e., manufacturing, tourism, warehousing, port facilities, etc. Conventional retail trade business abuse of IDB's should be prohibited. The Murphy's Marts, McDonald's, and Dunk'in DoNuts should not be built partially subsidized by the loss of our tax dollars.

2) The most costly and counter productive of all Federal acts that impact on our County economic development program is the existence of the Davis-Bacon Act. Its mere existence keeps well qualified business applicants from participating in Federal loan programs. Its existence keeps small needy communities from pursuing a Federal grant simply because the grant would usher in the Davis-Bacon wage requirements. Its existence keeps virtually all Garrett County contractors from bidding on a job which has been funded by the Federal government. Its existence drives the cost of a labor intensive construction project in Garrett County up by approximately 30%. I submit that Davis-Bacon has long out-lived its usefulness, and should be repealed.

3) Philosophically, I am very much in favor of the major Federal government theme of putting the private sector back into the "driver's seat" in directing the nation's economic development program. I believe all levels of government should work in concert with the private sector, taking the lead from private business. Conceptionally the Urban Development Action Grant program is a good basis from which to model an effective categorical grant program that can be used by all levels of government. The program inherently reacts to the needs and desires of the private sector, while also achieving the objectives of the local community. UDAG is conceptionally a good program. The problem is we are a rural community. We do not relate to the same administrative circumstances as a metropolitan community. By the same token HUD does not relate to our circumstances. Our housing environment is much different. Our minority population is much much different. Our industrial sector is virtually embryonic and heavily natural resource oriented. In short we need our enterprise development action grants authority given to a government agency which has had a fifteen year record of responsibly administering an economic development program over a geographic area which shares a considerable commonality. That agency is the Appalachian Regional Commission.

Senator SARBANES. Thank you.
Mr. Burtner, please proceed.

STATEMENT OF LEROY BURTNER, DIRECTOR, WASHINGTON COUNTY ECONOMIC DEVELOPMENT COMMISSION, HAGERSTOWN, MD.

Mr. BURTNER. My name is Leroy Burtner. I am director of the Washington County Economic Development Commission.

Very briefly, our program consists of: industry retention, new prospect activity, inventory of buildings and sites, and financial assistance. With a county population of 112,000 people—the growth rate during the past 10 years has been approximately 1 percent or less a year—we are optimistic, due to our location, that our growth rate will be more than 1 percent in the next decade.

We are very concerned with the high rate of unemployment. Right now, we have a 50,000-person work force in Washington County and an 11-percent unemployment rate. That translates into about 6,000 people who are unemployed, out of work.

We feel that historically there have been a number of Federal programs that have been of a great deal of assistance to us in the growth of our county. I would like to talk a little bit about those, and also a little bit about industrial revenue bonds.

The EDA program has been very helpful to us in the past. And as a matter of fact, we have two applications before them now. One is an application concerning the construction of a 2.2-mile rail spur to Fairchild Republic. The county still supports that. The county still believes that that particular project will substantially strengthen the economic base of not only Fairchild, which is the second largest industry in our county, but also the industrial area surrounding it.

We also have an application for over $600,000 worth of grant money through EDA, for the development of an industrial park called the 70–81 Industrial Park, which is very close to the intersection of Interstates 70 and 81. With this grant money, we could extend the roads, extend the water lines, extend the sewer lines; that would place us in a very competitive position to attract industry to, here again, a brand-new, 140-acre industrial park.

We have used ARC grant money, loans in the past, very successfully. For example, the largest industrial park in Washington County is named the Interstate Industrial Park. It's a 400-acre industrial park. We have approximately 100 acres of land waiting for industrial development. During the past 10 years the park has grown considerably. We have 12 companies out there right now, and investment of over $31 million, and more than 800 people work in that park right now.

We have used ARC moneys and EDA moneys to develop the park, in terms of utilities and roads. This particular park increased, I think, 17 percent in terms of employment last year, and the investment is up about 20 percent over last year. So I think that indicates the worthiness of using properly EDA money and ARC money.

I think ARC money is also helpful to services to aid small businesses. For example, in this particular area we have the Technological Extension Service. I understand that they are in trouble, as far as ARC money running out.

I have had the privilege of working with the director of that service for the last 6 to 8 months. He's been immensely helpful in assisting small business, through the cooperation of the University of Maryland. So here is another example where ARC money in the past has been very helpful in providing free technical services to small businesses.

Tom has also talked about industrial revenue bonds. Properly used, IRB's can be very helpful to a local business that wants to expand. They can be very helpful to purchasing new equipment. As a matter of fact, our county is acting today on a million dollar IRB issue to help a local business purchase new equipment.

So, IRB's are extremely helpful, not only to new industrial prospects but to the existing business community. In addition to that, the private sector can use an IRB, for example, to construct a shell building for lease or for sale. We have been successful in our county in using the shell building concept. We already have a major company for a shell building which is under construction now at the Interstate Industrial Park. We are in the process of making application to the State to start a new shell building project; we have a very sincere prospect for that.

So, in closing I would like to say that our top priority is finding jobs for people, but I think it takes a partnership between the Federal Government and the State and local agencies to make it successful.

Senator SARBANES. Gentlemen, thank you all. It's been a very helpful panel.

Let me ask all of you, what is the nature of your working relationship with the State Department of Economic Development?

Mr. JONES. Well, we are in constant contact with them. There are a number of programs that are now emerging, such as cooperative advertising, in our market promotion program, which Garrett County is just beginning to get into this year, their Office of Business Liaison. We are now getting into being a certified county, which it's too long a story to really elaborate on. But one component of that is to visit all of our manufacturers in our systemitized industrial retention program. Their Office of Business Liaison usually goes along with us on this. If there are problems with State Workmen's Compensation programs that the employer might have, they will pick up that ball and run with it. If it's a local matter that the employer is having, we will pick that up, for instance, and run with it.

We have not had any problem with them. In fact, in the last 2 or 3 years since that department has beefed up from a funding standpoint. I believe that the staff readiness and staff expertise has really gained tremendous credibility, especially in the outlying areas of Garrett County, Md.

Mr. O'ROURKE. To add to that, Senator, we, here in Allegany County—and I've only been working with the development company now since July, in addition to being the zoning administrator—but it's obvious to me, anyway, particularly in the days of creative financing, that we're all forced to get into, to attract industry to the county or expanding what we already have, that the people at the State level have been more than cooperative and have given of their time generously, either by coming to Allegany County to speak with an existing business leader or traveling with out out of Allegany County. As recently as last week, we were in Pittsburgh speaking with an individual, who is considering expansion here in Allegany County, about financing.

So far as the Allegany County Economic Development Company is concerned, we rely on the State development people, and we certainly are indebted to them for the assistance that they give us on various issues, particularly in the area of financing.

Senator SARBANES. Did you want to add anything?

Mr. BURTNER. I would just like to say that they complement the local staff. In Washington County, it's simply myself and another person. Without State assistance, without good, professional, competent State assistance, it would be necessary to have a larger staff on the local level. Jim Robertson, in the State department of economic and community development, has been very valuable to us.

Senator SARBANES. What's the nature of your working relationship with the ARC?

Mr. O'ROURKE. Mr. Kocsis may be able to expand on that perhaps a little better than the three of us.

Mr. KOCSIS. Basically, Senator, the three countries, in cooperation with the Tri-County Council, have historically proposed projects that sought ARC funding for various industrial development. We're speaking of that right now—industrial development projects. We have, and my staff has, attempted to help the counties in such things as grant preparation or, more recently, in more basic industrial analysis type programs. Once a project is OK'd or placed on the priority list by the regional Tri-County Council, then it goes down to the State and eventually reaches the Appalachian Regional Commission itself.

I think it is fair to say, that the working relationship with the Appalachian Regional Commission has been excellent. It has been, at least in our view, very flexible. It is some of the most flexible money you can use. And it is simply a matter of the money really being available as a transfer payment into the area that historically would have difficulty raising this type of money on its own.

ARC has provided over $150 million in this three-county area over the last 15 years. Without that type of an outside capital input, it would be very difficult to sustain many of the industrial programs.

Senator SARBANES. Of course, as we all know, the ARC is now under sharp attack. It remains to be seen what's to come. Does the Tri-County Council, in addition to being intermediary between the counties and the ARC, also serve to help the counties with respect to other Federal grant programs, or do the counties do that directly?

Mr. KOCSIS. It really can depend on the program. We will provide staff assistance upon request, and we have done so, at least since I've been here.

Mr. JONES. The Economic Development Administration—you have been the intermediary on several of the programs, especially if it is a regional-type program. For instance, we are now getting underway with a revolving loan fund to directly help small businesses by an actual direct loan program. The applicant for this program goes to the Tri-County Council and that will be the administering agency who has already given out funds, loaned out funds to small businesses up to $50,000 per small business, which complements other financing sources, such as industrial revenue bonds, Maryland Industrial Developing Financing Authority, and private banks and savings and loans.

That program has been on that Garrett County and Allegany County have been very supportive of. The Tri-County Council has. There are local dollars involved in it. The Economic Development Administration provides 80 percent of the funding, and in Garrett County's case, the Garrett County Mountaintop Chamber of Commerce provided 20 percent of the funding to be loaned directly to new and expanding businesses. And they must be an expansion in Garrett County.

Senator SARBANES. What is your response to the argument some advance—in fact, a Presidential commission even threw it out as a recommendation—that people should simply move to where the jobs are, that this effort to bring jobs into an area through a mix of programs really ought to be abandoned, and that we ought just to let people pick up and go to those places where there's been a private decision to put jobs. Now you all have a vested interest, I know, but I'd like to hear your response to that which is seriously advanced by some people.

Mr. O'ROURKE. As one who is a lifelong resident of Allegany County and who travels around getting to meet other people involved in economic development, one of the things that keeps cropping up, in addition to rail, highway, airport facilities, tax exemption, this kind of thing, is the quality of life. And I think in any area, anybody in Washington, Garrett, or Allegany County is going to tell you that we have a certain quality of life and standard of life that we enjoy. So in order to continue to enjoy that, we think it's good and beneficial that we not only attract new jobs to our counties, but that we also help those people who have decided years ago to invest here for whatever reason, to help them stay here. So that they, too, can share in the quality of life that we can provide.

Mr. JONES. We, in Garrett County—this kind of an argument is also advanced very seriously in Garrett County—in that we historically are an agrarian economy, natural resource-based, and through the last 30 years, recreational tourism has been very much of a positive influence and one which probably more than any other, the typical resident of Garrett County wants to see the tourism business to be expanded. There is not that kind of unanimous opinion on the manufacturing sector. We would counter in looking at our unemployment statistics, because of the nature of our climate in Garrett County, and Mr. Foltz did get into this, there's no way that we can really beef up the skiing industry and snowmobiling and this sort of thing, to the degree that we would reach the employment that we do in the summer. So there is a reasonal layoff in the winter, in the fall, and the spring.

If we are going to get into tourism as our major employment source, there's no doubt about it, we have approximately 80,000 acres of State-owned land in Garrett County in forest and parkland, and we have a tremendous potential there for development and also private recreational areas, such as Deep Creek Lake. There's still a tremendous potential there; however, we don't feel that we can ever say that tourism will be a staple of the economy. We don't feel that we should ever look toward putting all our eggs in that basket. Manufacturing and other types of industry, agricultural, secondary processes, spinoffs of natural resources, our hardwood forests, are things we want to keep emphasizing, and we think there is tremendous potential there.

Senator SARBANES. Did you want to add anything?

Mr. KOCSIS. Just very briefly, I think that the point you raised is one that I also raised. Part of what I did not say earlier, that if we are going to point to the family as a very critical pivotal point in U.S. society, and I think that's correctly where it should be, then to ask people to separate those family ties and simply go where the jobs are, tends to really defeat that philosophy. I know from personal experience. I come from a small coal mining community north of here in Pennsylvania, that there are no jobs. My family is completely scattered. I have very few family ties, and, consequently, no real devotion, as it were, or interest in that community.

If you let a section of your population go, because there aren't any jobs, the chances of getting them back are very low. Second, you have a gap there. You don't have people who are willing to work for the community.

Senator SARBANES. I also think you get a kind of pessimism hanging over a community. Some young people want to go. They want a new adventure, new opportunity elsewhere. But if the prevailing view is that you're just not going to be able to work in a community, and you have to go elsewhere, it seems to me you get a cloud of pessimism that is very bad for the community attitude.

I don't want to get into the question of inmigration or outmigration, I'm really talking more about stability. I'm not sure we fully count the costs that come with inmigration. In other words, with a growing population, we look at the costs involved in the programs to try to keep people there, so they don't go elsewhere. And we say, well, you have to add on these extra costs, in order to make it attractive to business. Otherwise, they'll locate somewhere else—in the Sun Belt, let's say. And we count those costs. In the Sun Belt, let's assume the industry will locate without that assistance, but on the other hand, you then end up assisting those communities with water and sewer and schools and all the other things that go with a rapidly growing population, many of which in the older places are sitting idle or not being used to capacity. So there's a tradeoff in cost that I think we often don't recognize.

I just wanted to ask one final question on the Tri-County Council figures that you have. These figures now compare the United States, Maryland and the three counties; is that right?

Mr. KOCSIS. No, the there counties individually and the three counties together and the United States.

Senator SARBANES. I see.

Mr. KOCSIS. This would be the regional area. Excuse me for not making that clear earlier. They're simply historical figures.

Senator SARBANES. Gentlemen, we thank you very much for your testimony.

Mr. Row and Mr. Oster, come on up.

Mr. ROW. The decision has been made, Senator, that I go first.

Senator SARBANES. That's one of those inplant committees we were hearing about earlier. [Laughter.]

STATEMENT OF JOHN B. ROW, EXECUTIVE VICE PRESIDENT OF MANUFACTURING, KELLY-SPRINGFIELD TIRE CO., CUMBERLAND, MD.

Mr. Row. My name is John Row, executive vice president of manufacturing for Kelly-Springfield. I have a prepared statement, but before I read that, I would like to add my support and the support of our company to the highway program and, hopefully, that it reaches completion and becomes designated as an interstate and gets on the map, not only in this country, but as a recognizable highway. We also are a strong supporter of the CALM program. We think it's a very worthwhile program and will continue to contribute much to the labor-management attitude and the atmosphere of this hearing.

The economic condition of the Kelly-Springfield Tire Co.'s Cumberland plant is on the mend. On January 6, we announced we were recalling 56 production workers because of a strong continuing demand in the sale of the medium truck tires; however, we will still have 125 employees on layoff down from a high of 198 in July 1981. When the recall is completed in February, the plant's hourly work force will be 1,508. This brings the total number of Cumberland-based employees, corporate headquarters, plant and offices, distribution center, truck terminal and retail store to 2,304 persons.

I might add that if orders for medium and light truck tires, the only products manufactured at the Cumberland plant, continue to increase, it is possible that we will be recalling more employees later in the year.

Our 5-year estimate report indicates full production from the Cumberland plant for the next 3 years and possibly for the next 5.

For this year, we see the demand for bias ply truck tires continuing to pick up momentum through the first and second quarters and demand should be going full steam by the third and fourth quarters.

Full 5-day production requirements at our other manufacturing facilities, which are located at Tyler, Tex., Freeport, Ill., and Fayetteville, N.C., also are scheduled for this year.

I want to say that our optimism is based on an anticipated economic recovery for the Nation. It must not be generalized that Kelly-Springfield's positive outlook is of the tire industry as a whole. It is not. We are a bright spot in a trouble industry that is struggling against some very difficult odds: High petroleum prices, people driving their vehicle less, overregulation, and high interest and inflation rates, to mention just a few.

I want to end my remarks by saying that I believe that the administration and Congress are actively working to solve many of these problems. We are optimistic that current downward trends in inflation and interest rates will continue and that by midyear, when the second stage of the tax cut becomes effective, consumer confidence will rebound, giving the economy the boost it needs to become healthy once again.

Senator, we appreciate this opportunity to put input into the legislative process.

Senator Sarbanes. We very much appreciate your participation. Mr. Oster, please proceed.

STATEMENT OF CLAYTON C. OSTER, VICE PRESIDENT, UNITED RUBBER WORKERS LOCAL 26, CUMBERLAND, MD.

Mr. OSTER. As vice president of Local 26, United Rubber Workers, and a Kelly-Springfield Tire Co. employee for 20 years, I submit that the unemployment rate stands at a high percentage in Allegany County—and anyone can see this by looking at the statistics. However, reports do not show that the same people have been out of work for a long period of time. Companies such as Kelly-Springfield have not been able to hire new employees for the last several years, because of the economic conditions of our country.

For the Cumberland area, this means no place for young people to get a job, and sure furlough for the least senior people who do have jobs. This means that these young people in this group are always furloughed because of the length of time and because of the scheduled cutbacks in the plants. This has been especially bad since the Government cut out the extension of unemployment.

Some of our people have found jobs making the minimum wage, but have found that inflation has made it impossible to keep a family on a 40-hour minimum wage.

The economy has not only been bad on the young people. I can say for myself. My father works for Celanese Corp., and with 45½ years' seniority, he's been furloughed for some 4 months.

A significant point that I'd like to bring out is that at Kelly-Springfield Tire Co., an employee who has been furloughed for at least 1 year may take a separation payoff. This means no retirement credits, no recall rights, and is really a legal quit.

In the past, employees were seldom furloughed at Kelly for a period of 1 year, and if they were, they would hold on some way until recall claimed them back. In the last year at Kelly, I have handled 16 employees who have taken separation pay. Many of our people have exhausted all types of assistance which are available to them.

The members of local 26 have taken up a collection and tried to help with payments such as house payments, bills, and so forth. You cannot keep your people going when you have 181 people furloughed.

Now, true, Kelly-Springfield Tire Co. announced the recall of 56 employees to return on February 1, 1982, which was naturally good news to our people. We still have 125 people furloughed at Kelly, and many are in sad shape financially.

Another point that I would like to make is that as a member of the Musicians Union, Local 787, that I have had a chance to see the social ramifications which recession has had in Allegany County on some of the club owners. In years past, it was not uncommon for 8 or 10 places in Cumberland to have a band playing on Friday nights, twice that many on Saturdays. Now you can only find a couple on Friday with live entertainment, and a handful on Saturday nights. Most of those are in the private clubs.

I would just like to say that the inflation and the interest rates have our employers and employees both tied into an uncertain economy.

In closing, I would just like to say that we all have a hard job ahead of us and we must somehow turn our economy around. We trust that our elected officials will find the answers. I am sure I speak for all the unions in Allegany County when I say that you can count on us to try and do our part.

Thank you, Senator.

Senator SARBANES. Thank you very much, gentlemen.

One of the things that came out in the hearings on Friday was that this downturn follows fairly quickly on the previous downturn.

There has not been much of a period of recovery in between. That's emphasized by the fact that only about one-third of the unemployed workers—a little over one-third of the unemployed workers now—are deemed to be eligible for unemployment insurance; whereas the last time we went into a recession it was about two-thirds, not quite two-thirds.

In many instances, that is because they have an insufficient work record to qualify them. Of course, even if they do qualify, the time period is shorter, which just underscores this problem of how they're going to provide, in the face of the situation that they are in.

I am encouraged by your statement. Certainly, the hire-ons beginning the first of February are a beacon of light in the midst of everything else that's happening.

What are your projections beyond that?

What sort of assumption are you making on where the economy is going?

Mr. ROW. We have each year worked up a 5-year forecast based on economic indicators and what everything appears to be, as far as changing technology, miles driven in the truck industry and the tire industry, and project our capital money hopefully, and our demands for 5 years. Right now, we can see pretty clearly into 1983. Beyond 1983, of course, it becomes more tough.

The biggest question mark over the whole thing is energy. That is the one that, of course, hit the country in 1975. It still has a very drastic effect on our business, as well as most businesses. We don't know what energy will do. We don't know what the driving habits of individuals or businesses will be 3, 4, or 5 years from now; and that has a great effect on our ability to project 5 years.

Interstate traffic has been down. Many parked trucks, parked trailers have had their tires robbed from them to support those that were needed on the highway. The intercity traffic is there. It's not there as much as it was, but hopefully we will pick up. They have been wearing out the product, and they use the bias ply construction as produced at the Cumberland plant.

So, as a result of our ability to project, we see about, say, the third quarter of 1982 as being the start of the turnaround.

Senator SARBANES. Do you make the same product that these other plants, listed at the bottom of the first page, make?

Mr. ROW. No. We do not. We make passenger radial tires at our Fayetteville, N.C. plant; we make conventional passenger tires at our Tyler, Tex., plant; we make conventional passenger tires at our Freeport plant.

Senator SARBANES. So your employment situation here would be better than at any of those other plants?

Mr. ROW. We have two plants with people laid off—Cumberland, Md., and Tyler, Tex., has about 35. The Freeport and Fayetteville plants do not have anybody laid off. The Fayetteville plant was just brought up to maximum capacity in 1981.

Senator SARBANES. This is kind of a broader question; I'm curious to know the effect on your work force of the ups and the downs in the economy—what that means in terms of putting together and holding a skilled work force, maintaining a good level of morale, and so forth and so on.

Mr. ROW. Clayton might want to support me in this, or will talk after I finished. But it has a drastic effect on our manufacturing operations.

In our working agreement we base it on seniority. The most senior has the opportunity to move to the available job and is trained to do that job; the least senior, he gets "bumped," as we call it, to the least preferred job, and eventually he is laid off.

Now, that is termed the "fruitbasket upset" in the labor force. That means that many very skilled employees may have to move to less skilled jobs and be trained to do those less skilled jobs for a period of time, until things pick back up. People are recalled and then the labor movement starts again.

The best conditions are to have a steady productivity based on a full 5-day week, so those people have the opportunity to not only learn and contribute a quality effort to the job they are trained for, but also as attrition occurs, they have the opportunity to move to higher paying jobs of more responsibility, and have more or less of a normal, anticipated planning base.

Mr. OSTER. This doesn't only effect the company financially, like they project in their schedules. But for our people who are skilled and trained on the job, who have to move, that means a period of time with a lesser paycheck. Many times it means that even after they are skilled, they are still losing money from where they originally were. Unfortunately, that's according to the seniority rules, what happens, that you have that up and down.

But I can say that as far as the union and the people working in the plant, they're hurt as much by this as the company is, both financially—and again, any time you have to make the change, for some of our people, the way the economy has been, it's cut into them a little deeper than it usually has. So you might be talking to a man of 20 years. Sometimes he doesn't adapt as easily as he did back then. Sometimes we have problems.

We have an employee assistance program, and sometimes you have problems with people, mentally, trying, you know, to learn the new job after they've been for years and years with a job.

So it affects both parties.

Senator SARBANES. I am very interested in your testimony, because I think that one of the important factors in improving productivity in this country—there are a number of factors that go into that—is the boom and bust cycle of economic activity.

Homebuilders testified yesterday that they put together a skilled work force, get to a level where they can carry their activities forward in a most efficient and effective way, and then they go into a downturn and have to start cutting back on it, in effect busting up this work force. The best people are the ones who are able to go off somewhere else and find a job, and they never get them back—even when the economy picks up again. They are back to training new people, or dealing with people who are not quite as good.

And it seems to me that we really need to get to a steady level of activity that people can assume and plan to and train to. And then, of course, there's your point about the mental stress and strain involved with all of this.

Let me ask you: What are the job prospects for someone who takes a separation payoff?

Mr. OSTER. In my brief, I was referring—most of these were people who found jobs out of town. We had about four or five people who went to Texas. You know, Kelly's always been probably the biggest employer, and people are able to earn a real decent wage. And sometimes when you maintain a wage over a period of years, and you're involved in a house payment and whatever, and you get into an economy like this, it's impossible for them to survive.

Some of them had jobs and just couldn't, you know—that paid minimum wage and what have you. So when they take this, for the amount of years that they have they're allowed so many dollars per year. There is a scale whereby they figure up how much money I owe you. If you want a separation, under the terms of the labor agreement you have to be furloughed 1 year before you can be eligible for separation.

In the past that's almost unheard of, because they would survive some way because they know they had a good job to come back to. Unfortunately now, because of the uncertain economy, some of them couldn't hold on for the length of period that they were out. So, unfortunately, we had 16 of them that had to say goodby to Kelly, and pack up and leave and go elsewhere.

Senator SARBANES. That's, then, another expense incurred by Kelly because of slack economic conditions. Is that right?

Mr. ROW. Slack economic conditions. Kelly, the company, lost the talent. It's gone. And it's expensive, and expensive to the individual. He's working somewhere else now. He can't come back to Kelly.

Senator SARBANES. Gentlemen, thank you very much for your testimony.

If we could have the housing panel: Mr. Goodfellow, Gerald Growden, and Richard Deckerhoff.

I just want to make a final note to that last panel, in connection with their point about the impact on this question of productivity.

One of the things that our competitors abroad seem to be doing is creating a stability in their work force that enables them to plan, to assemble a skilled team and hold it together. They get the benefits that come with that kind of operation. While we're bounding people up and down, and have the problems that are associated with that.

Gentlemen, we appreciate your being here.

We're prepared to hear from you. I guess we'll start over here and work our way across the panel.

Mr. Goodfellow, please proceed.

STATEMENT OF MICHAEL P. GOODFELLOW, VICE PRESIDENT, GOODFELLOW AGENCY, INC., REALTORS, AND VICE PRESIDENT, WESTERN MARYLAND ASSOCIATION OF REALTORS, CUMBERLAND, MD.

Mr. GOODFELLOW. Yes, sir. I'm Michael P. Goodfellow, a vice president of Goodfellow Agency, Inc., a local real estate firm. I am also a director of the Cumberland Board of Realtors and district vice president for the Maryland Association of Realtors.

It's no secret that the problem in the real estate industry today is affordability. This lack of affordability is caused by high interest levels and high levels of corresponding monthly payments. A large percentage of our residents in Allegany and Garrett Counties—particularly in the low, middle, and even the upper-middle income levels—cannot afford to purchase a home.

Based on figures developed from the Cumberland Board of Realtors multiple listing service, unit sales, from the end of 1979 to the end of 1981—which also followed a period of peak interest rates during 1980 and 1981—decreased around 20 percent. And, if one traces the peak periods of our business—which generally is the third quarter, from July to September 1981—unit sales are off somewhere in the neighborhood of 40 percent when compared to 1979 levels.

The average time to sell the property—which we refer to as "days on the market"—has increased from 60 days in 1979 to 130 days by the end of 1981. There also appears to be a slight decrease in the housing stock. Whereas properties are sold and a large number are coming off the market, they are not being replaced by properties coming back on the market. This is compounded by the fact that there is very little going on in the single-housing sector of our industry.

I think that ultimately this could produce somewhat of a shortage down the road, particularly if interest rates do reduce and the pent-up demand increases the demand for properties. This could ultimately increase the price of real estate which, again, would be disastrous because we're just coming out of a period of high interest costs and high monthly payments.

Finally, from an employment standpoint, there are a number of people that have chosen real estate as their profession, also people that are in the building business, who have had to seek other jobs in other areas of our economy. This certainly does not help the employment picture for our area.

The answer is steady lowering and stabilization of interest rates over the course of the next year: eliminate the policy of raising and lowering rates to influence economic conditions.

We must also address and solve our local economic problems, mainly employment and loss of population. Our population is decreasing; our young people are leaving the area; and this is quite disturbing.

Thank you, sir.

Senator SARBANES. Mr. Growden, please proceed.

STATEMENT OF GERALD GROWDEN, GROWDEN CONSTRUCTION CO., AND IMMEDIATE PAST PRESIDENT, WESTERN MARYLAND HOMEBUILDERS, CUMBERLAND, MD.

Mr. GROWDEN. My name is Gerald Growden. I'm immediate past president of Western Maryland Homebuilders Association. I'm the State director for the local association. I'm also the alternate national director to the State association.

I came totally unprepared with a statement because I wasn't exactly sure what was going to happen. So I think what I would like to do is just say how this has affected me and my friends. My friends are the other builders.

To start off with, I'll go to permits, because I did bring a few notes.

Permits—the high in the 5-year period was 1977, when the county issued 152 building permits for single-family dwellings. In 1981, which is the low in the 5-year period, they issued 52 permits. I don't have the figures for the city in 1977, but they have issued 10 building permits for single-family dwellings in 1981.

Needless to say, there isn't too much building going on in our community.

The Homebuilders Association 5 years ago had a membership of approximately 52.

Senator SARBANES. Let me just get these figures straight. That's Allegany County, outside of the city of Cumberland?

Mr. GROWDEN. The incorporated city of Cumberland, right.

Senator SARBANES. Issued 152 building permits for single-family dwellings in 1977?

Mr. GROWDEN. Yes, sir.

Senator SARBANES. In 1981, they issued only 52?

Mr. GROWDEN. Yes, sir.

Senator SARBANES. And in the city of Cumberland, you know that they issued 10 in 1981?

Mr. GROWDEN. Yes, sir.

Senator SARBANES. For single-family dwellings. But you don't have the figures for 1977; is that right?

Mr. GROWDEN. No, sir; right.

We had a membership of 52 members. The membership was divided among associates and regular members. It was split approximately 50–50. At the present time we still maintain a membership of 52 in our organization, but the split is now 30–70, 70 percent associates and 30 percent builders. What that means is a lot of the older builders have retired because of the economic conditions. They just didn't want to fight it any more. And a lot of the younger builders who were in the business have since gone out of business and moved to other locations.

I think a couple of years ago, when the president of the national association asked the question of where will our children live, I think that expounds the situation as it is now because it hasn't improved a bit since that time.

I have to agree with Mr. Goodfellow when he said there may be a housing crisis in this area if things do not improve. At the present time, I know of no major developments in the area. Building lots are at a premium price right now. We have building lots in Allegany County that are listed with the realtors for $45,000.

I can remember when I worked for my dad, you know, $45,000 would buy a mansion, and that wasn't that long ago. It's really upsetting, and I think that something should be done. I think lower interest rates would be the greatest help to all of us.

Thank you very much.

Senator SARBANES. Mr. Deckerhoff, please proceed.

STATEMENT OF RICHARD C. DECKERHOFF, PRESIDENT, FIRST FEDERAL SAVINGS & LOAN ASSOCIATION, CUMBERLAND, MD.

Mr. DECKERHOFF. Senator Sarbanes, my name is Richard Deckerhoff, president of the First Federal Savings & Loan Association of Cumberland.

We all know that economic conditions in the Cumberland area are not good and that they have not been good for some time, which means that the adverse conditions in our area can be traced back further than the current recession. There have been a number of reasons given for the conditions existing in our area, which I am not qualified to discuss here. But I can say that as far as First Federal is concerned interest rates are much too high and have been over the past couple of years.

In our area, construction of private residences is almost at a standstill. And what contractors remain, I understand, are surviving mostly on home improvement and repair business.

The current money market certificates have resulted in unprecedented savings rates, which must be passed on to the borrowers. High mortgage rates have been offset to some degree by sellers who have done their own financing at rates which are attractive to the buyers.

This can be seen by looking at the financing figures for 1981, when individuals accounted for 25 percent of the mortgage financing of all types in Allegany and Garrett Counties. They did two and a half times more financing in our area than we did.

The State and county revenue bond programs for financing residential housing are popular among borrowers but somewhat of a nightmare for lenders as far as detail is concerned. Lenders also have a disproportionate share of the risk if the programs fail.

In the past 2 years Allegany County has attempted but canceled its program because of adverse of market conditions.

First Federal has agreed to participate heavily in both years. And in December of this year it dropped its anticipated participation in the State program in favor of the county program.

There have been a number of alternate mortgage instruments designed and put in effect by the Federal Home Loan Bank Board. And I'm sure, Senator, you're aware of what they are. Three of the more popular ones are the adjustable mortgage loan, the shared appreciation mortgage and the reverse annuity mortgage.

The adjustable mortgage loan sounds good, but as happened in Canada, when you took the adjustable mortgage loan, rates on it went way up. It scared people, and it scared people here. They're not thinking about the possibility that they may come down. They're thinking about the possibility, even if they take them now, they'll go up. And we're at 15½, and I'd say that's considerably below the national average. You read the national average, it's 17 or 18 percent.

So as a result, our mortgage lending business in this area is about 25 percent.

You recall, I think several months ago, the first of October to be exact, there were some tax-exempt certificates which were supposed to be a boon to the borrower.

Senator SARBANES. The all-savers.

Mr. DECKERHOFF. The all-savers certificate was a boon for about 30 days. The misconception was that this would be put into the private pot and that the people who were coming in would be subsidized by this private pot. But the program was never designed for that and never adequately explained.

As a consequence, it only lowered the cost of money very minimally. I don't know what we're doing. Or program in all-savers certificates has fizzled.

In summary, what we really need is lower interest rates to revitalize housing or alternative mortgage-financing programs for financial institutions which are practical in today's market.

Thank you.

Senator SARBANES. Thank you, sir.

Let me ask you all, at what interest rate would activity be able to start moving again? I still recognize your basic difficulty, but at what interest rate can we start functioning again without the lid really just coming on?

Mr. GOODFELLOW. I would say somewhere in the neighborhood of 13 to 13½ percent.

Mr. GROWDEN. I would agree with that, 8 to 12 would really make a strong market, 12 or less.

Mr. DECKERHOFF. The Maryland agency has done some research on that, and they say 13 seems to be the magic number.

Senator SARBANES. Now, when people are laid off in the homebuilding industry, do you experience what I was discussing when you have to break up your efficient and well trained work force?

Mr. GROWDEN. Yes. sir, very much so. I did'nt expound on it because I realized you had already heard it, but it's really common in the industry and it's very hard to deal with because you take a young man and you train him, he learns the business, and then you have to lay him off. Over a period of years he'll get another job, and it's a constant thing, where you're always changing your employees and you never are really able to retain good employees.

Senator SARBANES. I asked on panel why—because the wages that are paid are pretty good when you look at them, particularly if you assume that someone is going to make that wage 40 hours a week, 50 weeks a year, or something—why more young people weren't drawn in to the construction trade, particularly the more skilled aspects of it.

The response I got was that young people nowadays perceive the instability of that employment. One of the things they look for in terms of employment is some security, and they don't want the boom and bust cycle. Therefore, they weren't drawn into it.

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Are you encountering that among younger people?

Mr. GROWDEN. Yes, sir, I am. Although I might say that I have a very young crew and most of the builders in town have very young crews because most of the builders in Cumberland are young builders. I would say 90 percent of the older builders have retired or went into another business. The majority of the builders are young.

Senator SARBANES. If you had a steady work program, do you think that the hourly wage would moderate if the work force knew that they were going to have steady work over a sustained period of time.

Or to put the question another way, to what extent is the push for a high hourly wage backed by the contention that they're only going to get this wage for a limited portion of the year, and therefore they really push for the very highest wage they can get, because they see it in terms not only of pay per hour when they work, but of compensating them for the fact that for good periods of time they won't be working.

Mr. GROWDEN. So far that hasn't been a very difficult thing to deal with in this particular community. A lot of the contractors are such that, you know, "If you don't like what I pay you, go somewhere else." We hasen't had that thing to deal with.

I personally would prefer to pay more wages and be able to have employees for years to come, whereby I would not have to be as active on my jobs as I am now.

Yesterday, as an example, we were out working. It was very cold. And that's a hard thing for young people to deal with, because they've never grown up to be out in the cold. They could go to a manufacturing-type job and spend all day in the warmth.

Senator SARBANES. Mr. Deckerhoff, did I understand that 25 percent of the financing now is being done in some one or another of the creative ways by the owners of the homes?

Does that correspond with what you see, Mr. Goodfellow?

Mr. GOODFELLOW. Yes.

Mr. DECKERHOFF. That was in 1981.

Senator SARBANES. In 1981.

Mr. GOODFELLOW. Approximately 50 to 55 percent of the homes are financed conventionally. The rest of it is otherwise. I would say 25 to 30 percent would be owner or some type of creative financing.

Senator SARBANES. Have you seen any increase in the mortgage delinquency rate?

Mr. DECKERHOFF. Not appreciably. I don't see it at this point. Our rate is about—pretty steady, three-fourths of 1 percent. That's not bad.

Senator SARBANES. That's with your own institution?

Mr. DECKERHOFF. Our own institution.

Senator SARBANES. What about more broadly in the community?

Mr. DECKERHOFF. I can't speak to that, Senator.

Senator SARBANES. The figures are up nationally, significantly.

Mr. DECKERHOFF. I understand. But in our area, unless it's going to happen in the immediate future, I can say that it hasn't happened yet.

Mr. GROWDEN. I think they probably have had more problems with builders who have been speculative and are having trouble doing business than they have had with the community by and large.

Senator SARBANES. They're the ones who are behind.

Mr. GROWDEN. Yes, we have several builders right now. The houses have been sitting for about 2 years, that they have been paying interest on for 2 years.

Senator SARBANES. Do any of you know where you would have to rank in the income scale at the interest rates that we're now facing to qualify for a medium-priced home?

Mr. GOODFELLOW. Approximately $25,000.

Mr. DECKERHOFF. I was going to say 20, but Mike is more familiar with that than I am.

Senator SARBANES. In this area that would be well above the median in terms of income. You'd have to have an income at the upper end of the income scale to qualify for a medium-priced home with these high interest rates.

Mr. DECKERHOFF.. A medium-priced home here is what, $45,000?

Mr. GOODFELLOW. Higher than that. Somewhere in the neighborhood of $50,000, as far as what the medium-income person is looking for. Of course, we have homes that sell for much less than that. I would say that the people we're selling to, $50,000 would be a good figure.

Senator SARBANES. Let me ask this question. More and more retired people are picking Cumberland as a place to come; is that correct?

Mr. GOODFELLOW. Very true.

Senator SARBANES. What's the impact of that on the housing field?

Mr. DECKERHOFF. It has this impact as far as we're concerned, it makes more money available to lend than we have people to borrow. So it results in what's nationally known as a capital-rich area. So as a lending institution, we have to go, for example, to Baltimore. It eventually comes back and comes back at higher rates than we can lend it here, but it necessitates outside our lending area.

Senator SARBANES. What were you going to say?

Mr. GOODFELLOW. Generally speaking, these people do.

Senator SARBANES. I assume they have an established income?

Mr. GOODFELLOW. Yes. And they ofttimes buy properties. They want to get away from the problems of the big cities. Mainly that's the reason.

Somebody already addressed the quality of life that we have. I would say the main problem, we have to seek ways to keep our youth here. It seems that the main thrust has been for the retired people. I really haven't analyzed what effect this could have 10 years down the road of our becoming a retirement community. It's quite possible.

Mr. GROWDEN. I can think of three builder friends who have left the area already in their early 30's, late 20's, and early 30's. They were builders and who have left the area for other areas.

Senator SARBANES. Gentlemen, we thank you very much. It's very helpful testimony.

If we could have the college panel now, Mr. Galligan, Mr. Snyder, and Ms. Jones.

Ms. Jones, maybe we'll start with you and go this way this time.

STATEMENT OF JERI JONES, ASSISTANT DIRECTOR OF CONTINUING EDUCATION AND PAST PLACEMENT COORDINATOR, GARRETT COMMUNITY COLLEGE, McHENRY, MD.

Ms. JONES I'm Jeri Jones. I have one correction. I'm assistant director of continuing education at Garrett Community College.

Senator SARBANES. We're always trying to promote people.

Ms. JONES. Thank you. It would be nice.

I have been asked to speak today about the effect of the current recession on the students at Garrett Community College. I'll confine my remarks primarily to employment difficulties which our students experience as a result of the present economic situation. However, I would like to mention, first, the effect on the college's enrollment and how that impacts on our students.

Garrett Community College is a young institution. We have just completed our 10th year in operation. During each of those years, we have seen a sizable growth in our enrollment, this despite the fact that the colleges nationwide were dismayed over the shrinking pool of high school graduates from which to draw. This year, however, we have experienced for the first time in our history a drop in enrollment from the previous fall.

We had projected an increase. We worked very hard to get that increase. We can't help feeling that the economy was a crucial factor in our enrollment drop. The precise impact this will have on our students is not clear. Other colleges which have experienced continued enrollment decline have had to resort to cutbacks in service, larger classes, and increases in tuition and fees.

We are optimistic about our ability to reverse our enrollment trend, but the reality of the economy stares us directly in the face. The reality of the economy can be seen in the employment picture in Garrett County. Although high unemployment rates were commonplace throughout the State, Garrett Couny seems particularly affected.

Figures released for September of 1981 indicates a 14.1-percent unemployment rate for the county. This high rate has an obvious result. If there are no jobs to be found in the county, young people will relocate in other counties in the State or other regions of the country where the economy is better, where there is a better opportunity to find employment.

We think the young people in our county are one of our finest resources. We'd like to keep them there.

The economy impacts on our students while they are enrolled at GCC. Many of our students finance their education in part by holding down part-time jobs throughout the school year.

Garrett County is the home of the Deep Creek Lake Recreation Area and the Wisp Ski Resort. As a result, the majority of the part-time jobs in the county are in the restaurant and recreation industries. These industries are heavily dependent on a hearty economy. When the economy is in a slump and part-time jobs disappear, some students find that they must discontinue their education.

I'd just like to mention one specific program at Garrett Community College, the homemakers career opportunity program is a State-funded program sponsored by the college. Its purpose is to seek out homemakers who are attempting to enter or reenter the labor market and aid them in making the transition. All too often we locate these people, help them gain self-confidence and provide education or job training, only then to be faced with the dismal prospects of finding employment.

Finally, our graduates face a monumental task in finding employment after earning their degrees. This is perhaps the most disheartening aspect of the economy's effect on the students.

To make the sacrifices and put forth the effort to earn a degree, to anxiously await the opportunity to put one's skills to use, and then find that those opportunities don't exist is a real dream-buster.

I might add that difficult in placement of our graduates makes it that much more difficult to maintain enrollment. College is a difficult choice for young people to make when graduates remain unemployed.

I'd like to mention one last impact has affected me personally. Last year I was employed at the placement coordinator for Garrett Community College under an ARC grant. Because of Federal belt-tightening, the grant was not funded for this year.

The college, facing the possibility of an enrollment decline, did not pick up the position. So in a time when the economy is making jobs scarce, that same depressed economy has eliminated a position with the responsibility of helping students find those jobs, which do exist.

Thank you.

Senator SARBANES. Mr. Galligan, please proceed.

STATEMENT OF CARL J. GALLIGAN, DEAN OF STUDENTS, HAGERSTOWN JUNIOR COLLEGE, HAGERSTOWN, MD.

Mr. GALLIGAN. Thank you, Senator Sarbanes. I would echo much of what Ms. Jones just stated. The three community colleges in western Maryland are very similar, in that they are committed to providing the citizens with career education opportunities, and all three colleges deal with a very heavy adult part-time enrollment.

I would like to digress from my statement and just give the numbers as we have researched them at Hagerstown. Since the beginning of the summer, our placement service at the college had received 65 announcements of vacancies from county and regional employers. Of those 65 positions, 19 of those were only part-time. When we're talking about placing graduates of our 2-year programs, those people are looking for full-time employment, because they've done what we've promised them. They've gone to school and they've acquired their skills. Of those 19 part-time positions, only 5 of those employers held out any hope for eventual full-time placement.

In addition to the part-time quandry, almost a dozen of those job were listed as "sales," either in real estate or in merchandising retailing. This, again, does not hold out a long-range prospect for someone who has gone ahead and had 2 additional years of schooling after high school. Of those near dozen positions, five of those for sure were commission only, nonsalaried. So they're asking for a tremendous commitment on the part of someone who has training to go out on a limb.

Finally, and most startling to us, was that over 10 percent of those 65 vacancy announcements have been withdrawn. Over half of those were withdrawn because of hiring freezes and management decisions in those firms. Three of those positions have been downgraded, so that they do not require college training. And one of the other positions was just eliminated entirely. They will not fill that ever.

With those numbers and the bleak prospects that it provides for graduates whom we've told, you can stay in your own community, referencing your statement before, and you can find a job, we find that we are limping on our faith commitments to these people. On the front floor we have coming in literally dozens of adults who are looking to retrain themselves and get a skill which will employ them, so we find ourselves in a quandry of telling them what is supposed to be true, with what the realities of the marketplace are. But when you have Mack Truck, whose employment is down from a peak of 4,600 to 3,000—those are current figures—and you have adults coming in and saying, "I do not want to go back to the assembly line for that high wage, but I want to be trained in something that will keep me in a career, we have to be committed to them. What we're faced with is a tremendous reduction in Federal financial aid for people to attend college. The recent anticipated cuts in the Pell grants and the two Federal loan programs will impact heavily on Federal higher education, and even at the community college level here in western Maryland, we're feeling it already for this January term.

Also to echo what Ms. Jones said, we do have the problem of the ARC educational services arm being phased out. We depended quite heavily on ARC, RESA, for the last decade, and we're finding that those resources, those enabling moneys they provided for higher education, will strap us.

Finally, I would like to make a personal note as an educator who works with adults who are trying to find their way. There is a dispirit among the people. We're getting people who are coming in and they're trying to do anything they can to stay employed. I think the political leaders, educational leaders, have to work with business and industry to get those initiatives going.

Thank you for your time.

[The prepared statement of Mr. Galligan follows:]

PREPARED STATEMENT OF CARL J. GALLIGAN

The Effects of Recession on Maryland Communities

There is an immediate and recognizable negative impact of the recession upon the students graduating from Hagerstown Junior College, the public community college of Washington County, Maryland. Typically, one-half of the college's graduates each semester have studied and completed a curriculum which we have professed to the student to be a career-oriented curriculum. That is a course of two years of study in an applied field which will enable the graduate to go out and obtain a full-time job in the student's chosen field. At Hagerstown Junior College, we provide career programs in the following academic areas:

Business	Engineering	Health	Public Service
Accounting	Electrical Engineering Technology	Nursing	Instructional Aide
Data Processing	Mechanical Engineering Technology with Energy Option	Radiologic Technology	Human Services
Food Service Management			Law Enforcement
Merchandising			Police Services
Executive Secretarial			Correctional Services

Our most recent graduate data from the Spring of 1981 reports that the preponderant number of graduates intend to remain in Western Maryland, to begin their careers here, and stay here. Recent recessionary developments may very well dispel these two dreams. First, the graduates may have excellent training qualifications and find that there are no job vacancies in their field. Second, due to the lack of employment opportunities locally, the job seeker may have to uproot self and in many cases, family, and look elsewhere for work. The current situation at Hagerstown Junior College will, I feel, clearly show the growing ill-effects of the recession in Western Maryland.

Since last May, 1981, 65 job openings were directed to our job placement office by county and regional employers. For an eight month period, this number of vacancy announcements (65) is somewhat less than what we have previously experienced at the college. Beyond the reduced number of vacancies, however, the characteristics of those position requests is noteworthy. Nineteen of these positions were for part-time employment only. Five of the 19 employers indicated some possibility for eventual full-time work. Students who have acquired their two-year college degree in preparation for career entry are not seeking part-time employment. They are prepared to embark on their careers, want, and need full-time employment. Nine of the 65 position announcements were in the field of sales. Over half of these were non-salaried, commission only positions. Graduates in business fields are sharp enough to realize the lack of potential for a living wage, much less career longevity, in real estate or insurance sales. The most telling of all of these developments however, is that seven of the 65 employers have called us back to remove the vacancy listing due to hiring freezes or management decisions in their firms. Four removals were explained as hiring freezes, in two instances the position vacancy was downgraded and one firm was laying off employees. These developments joined with the massive lay-off at Mack Trucks, Hagerstown and growing numbers reported by the Department of Employment Security limit workers' options severely.

One option which is open to the high school graduate is to enroll in college. Substantial numbers of returning adults enroll in the community college with the explicit purpose of acquiring skills which will make them employable in a different field of work from which they were laid off. Frequently these individuals need financial assistance to attend college and little aid is available now since the Federal Pell grant and loan programs are being slashed. Training opportunities are abundant in the two-year public colleges, access to these programs for the unemployed adult is becoming more and more restrictive.

During the decade of the seventies, the Regional Education Services Agency of the Appalachian Regional Commission (ARC) had contributed heavily to the educational needs and purposes for the citizens of Western Maryland. This Federal catalyst for providing educational services and for increasing the public's awareness of the benefits of education is also in the precarious position of being closed out. Faced with reduction both in Federal student financial aid and in ARC grant monies directed to local education agencies and colleges, much of the flexibility which higher education exerts to meet training needs in local communities will also be dminished. The inability to fund retraining opportunities for out of work adults will eventually cause program reductions in the colleges.

Finally, as an educator who works directly with people, I must comment on the undesirable social and psychological ramifications of unemployment. There is noticeably more desperation exhibited by people who feel they are not pulling their weight in society. A person with a strong work ethic who is stripped of job and income may resort to behaviors untypical of the individual and unacceptable to society. Political leaders and educators both must work to reduce this dilemma.

Senator SARBANES. Thank you.
Mr. Snyder, please proceed.

STATEMENT OF JAMES M. SNYDER, ASSOCIATE DEAN OF STUDENT AFFAIRS, ALLEGANY COMMUNITY COLLEGE, CUMBERLAND, MD.

Mr. SNYDER. My two colleagues preceding me here have made some very interesting comments. Certainly, I think ACC would be one institution to fall in line with many of the things that they have said, but I would like to provide maybe a little bit of a positive note to the whole thing. ACC is currently celebrating its 20th anniversary year. Interestingly enough, this year we have established a record enrollment, a tremendous growth year for us, and we expect another tremendous growth year this current year. We find that people coming back, as Mr. Galligan indicated, for retraining, for advanced training—we're finding many of the 18-, 19-, 20-year-old unemployeds are coming back for some type of training. Many times, in fact, their goal is maybe not totally established, but certainly they're looking for something that's going to be able to give them that job that they so desperately need.

We find that some of our more popular programs are in the areas of health care, nursing, respiratory therapy, practical nursing, data processing, engineering, and as well for us, the liberal arts programs for us are still very strong programs. We find that a good number of folks do still come to Allegany Community College with the intention of transferring on to that 4-year institution. In September 1981, our Office of Institutional Research and Planning, in conjunction with the Maryland State Board for Community Colleges, conducted a survey of the 1980 graduates of Maryland community colleges. Data was collected for many reasons, but one question asked was goal achievement. We found out of 347 graduates in 1980, that 89 percent indicated that they had achieved their goal by attending the community college; 58 percent indicated that they had attended ACC for immediate entry into the job field; 72 percent of those 347 indicated that they were employed either full time or part time, and that 30-some percent had transferred on to the 4-year school. Of the 72 percent employed, 91 percent indicated that they were employed in job-related areas that they had gone to ACC for.

These figures, I think, following here are interesting ones; 60 percent of our graduates were employed full time or part time in Allegany County. Again, interesting, 8 percent were employed in the State of Maryland, outside of Allegany County. Maybe the said figure, 32 percent or a little better, possibly, were employed—had to go outside the State of Maryland to find employment.

Last year I recall in working with several students in job placement situations, some of them even ended up as far west as the State of Washington, as far as making employment opportunities in that particular field.

We also in 1979 had conducted a survey of employers to find out their satisfaction with the ACC type of graduate and their preparedness. We found that 39 percent of the 80 employers surveyed indicated that an associate in arts degree or some type of 2-year training was required for the particular job they were advertising for. As many as 91 percent had indicated that the training at community college level had been adequate and that the student, they felt, was very prepared for the type of job situation they were moving into.

We feel that in response to the changing job market, as well as projected employment areas for 1982, as indicated in the Maryland Occupational and Industrial Outlook, published by the Maryland Department of Human Resources, we have also established some new programs in finance, merchandising, and also in child care and development. We hope that certainly these new programs, as well as establishd ones, will continue to provide the necessary academic resource and training for local citizens.

Mr. Galligan also indicated concern about the cutbacks in Federal financial aid programs. We at ACC feel the same way. We again are establishing and experiencing a record growth at this particular point in time; however, if the students don't have the financial aid or the financial resources to go to school, certainly, that trend could well change.

Recently, we became aware of the cuts in social security. I think that this in addition to Federal financial aid programs will generally show its effect on enrollment patterns in the next couple of years.

Thank you.

Senator SARBANES. Thank you, all three of you, for some very thoughtful comments and observations.

Could I ask you, do you have figures on the percentage of your students who carry jobs at the same time that they're attending college?

Mr. GALLIGAN. About two-thirds; 65 to 70 percent of our students are working at the same time they're going to school.

Mr. SNYDER. I'd say roughly 50 percent.

Ms. JONES. I'd say roughly 50.

Senator SARBANES. I have heard one theory that a recession will boost enrollments, because people lose their jobs, and don't know what to do, in a sense. One possibility then is to go to school, either to try to shift to different career patterns or get some further training. I was given some figures yesterday that indicated that that happened in the 1974–75 recession. It was then observed to me by another member of the panel that while that might be the case in this instance, the cutback in the various financial aid programs, including the VA, expiration of a number of VA benefits, and the other cuts, the Pell grants, and so forth, made it unlikely that that would happen, because they just wouldn't be able to afford it.

Do you have any sense of that situation?

Mr. SNYDER. I would respond, I think, in saying that I think that is very true. Certainly, the economy is a boost to our enrollments. I am sure that is one reason for our enrollment pattern this particular year; however, as you're indicating, the worse the economy gets, there has to be that breaking point, I think, where again educational opportunity becomes unaffordable. And with the cutbacks, again, in financial aid, that's exactly what will happen.

Ms. JONES. We had the same problem. We had a lot of programs last year that were CETA-funded. We had technical training, and because of the cutbacks in CETA, we're not doing the training anymore. That has dropped the enrollment. And again, the lack of jobs in Garrett County has affected a lot of our students.

Mr. GALLIGAN. I was just going to comment on the spoken for, low-cost institution being the community college, being more reasonable in terms of tuition and credit hour costs than public State colleges or universities or, by far, from private 4-year schools. But still, we're at that point today, where I think it is much different than 1974–75. You don't see $15-per-credit-hour costs anymore. All the 17 community colleges in the State of Maryland are now in excess of $20 a credit hour. Many are much higher.

Ms. JONES. Except Garrett. I'm the only one.

Senator SARBANES. You're the only exception so far.

What impact does the economic climate have on the morale and attitudes of your students, if you can discern it? Is there a marked difference, whether the general economy is functioning pretty well or whether we're in an unpromising situation, as we are now? Can you really tell in the school or not?

Mr. GALLIGAN. In terms of career counseling, we are getting some feedback. There is considerably more ambivalence on the part of students in making their career decisions, their goals, selecting their major. You see people who are swinging from maybe applied areas, from our engineering technologies, for example, going into the bachelor's in engineering programs. And those types of individuals are more concrete thinkers than liberal arts students, but there's a lot of swing between business and service areas, for example. Those people are not going to go into the service areas, if they think there aren't going to be jobs there. So they're tending to work the business area. That's one noticeable aspect.

Mr. SNYDER. No question about it. I think the Occupational Industrial Outlook—this happens to be clean copy, because it was on my desk. The one in our career development center, probably the covers are dirty from fingerprints from people looking to see what is the projected outlook for various employment areas, so that they can, as Mr. Galligan indicated, check to see what area they want to go into. That's probably one very good reason why nursing and many of our allied health care programs in a position now of having the largest enrollments of the programs at ACC, and certainly the largest in the history of those particular programs, as well.

Ms. JONES. I think students are really paying attention to their majors now. Before they would come in and say, "I would like to be this," and they would pursue that goal without thinking, "What am I going to do when I get out of this degree."

But working in placement last year, especially with students in wildlife, forestry, things like that, you come out of the program and have an AA degree, and you have a job. In our county, we had a job in forestry with an AA degree, and I think they had people up to master's levels applying for the job. So what does that say to the person with an AA degree? They have to pay more attention to their major now and what they're going to do with it when they come out.

Senator SARBANES. That leads to a question I'm interested in, because it really goes to the point of the most effective use of your resources by the society in general. That is, to what extent, in a declining period of the kind we're confronting now, do you find employers, since they can pick and choose, demanding a higher educational attainment level than the job might really require? In other words, the job really could be done by someone with a 2-year associate degree, but everyone's looking for a job, and someone comes along who's got a master's and is prepared to take the job. How much of that do you encounter happening?

Mr. SNYDER. We at ACC, it's probably the opposite type of situation. We find employers coming to us asking for our graduates and what's going on, because they want the 2-year graduate. Maybe for financial reasons they cannot afford the person with that master's degree or bachelor's degree, because many times they may feel that that individual may want or demand a greater salary than one with a 2-year degree. I think they're finding again, as I indicated, that the training at the 2-year level is adequate. In many cases, even more than adequate, as far as being able to do the job that they want and through on-the-job training and experience they can increase their skills and abilities to be able to do that job. So in some cases they are not interested at all in the 4-year or graduate level type of individual.

Senator SARBANES. Could I get from each of you what a student would pay on the average for a full 2 years of education?

Mr. SNYDER. As a county student, $295 a semester for tuition. That would be a maximum tuition that we charge on a per-credit-hour basis. Under 11 credits is $25 a credit, $5 a credit hour for the 13th, 14th and 15th credit, and thus no charge over 15. A maximum of $295 per semester for our county student. About $515 per semester for an out-of-county student and about $915 per semester for an out-of-state student.

Senator SARBANES. What is the add-on to that? Books?

Mr. SNYDER. Books, transportation, personal expense, that type of thing.

Mr. GALLIGAN. For a student that's living at home with his parents, we have $1,100 a year maintenance costs, so we figure that it costs somewhere in the neighborhood of $1,950 to $2,050 a year to budget to go full time to even a community college.

Mr. SNYDER. That's living at home. Our estimation is about the same.

Ms. JONES. We have a slightly lower figure, because our per-credit rate is $14, but if you take into consideration the living expenses and everything, it would probably come out right around the same.

Senator SARBANES. Are you experiencing any difficulty in recruiting faculty, particularly in the sciences and the more technical fields, adequate to your task?

Mr. GALLIGAN. Absolutely. In the engineering and technology programs, as I mentioned before, where people might be changing and going into engineering, we could not hire here in Washington County. In our recruiting season of last spring, for a full-time position in that field this year we could not attract someone to come at our salary rates. We are limping along this year with several part-time instructors carrying that load, which does not give the students the continuity that they need in the field. So I think it's a real impact.

We have the same situation in physics, where an interim situation this coming semester, where our head and only full-time physics teacher will be working in another capacity for 6 months, helping us phase in a new computer. We could not hire a full-time physicist to come in and take his place. We're having it done part time. That's more temporary. But full-time engineering and technology jobs did scare us.

because we thought we were able to compete with the Baltimore and Washington area, and we could not.

Ms. JONES. We've had one position that came open before the spring semester for a math instructor. We've had trouble filling that position.

Mr. SNYDER. We've experienced the samething as Hagerstown has. We just haven't been able to compete with industry.

Senator SARBANES. We thank you very much. You've been a very helpful panel.

I understand Jim Combs of the International Brotherhood of Electrical Workers is here and would like to make a brief statement. We'd be happy to hear from you. I note Bob Peterson of the Allegany County Chamber of Commerce.

Mr. Combs, please proceed.

STATEMENT OF JAMES F. COMBS, BUSINESS MANAGER, LOCAL 307, AFL-CIO, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS, CUMBERLAND, MD.

Mr. COMBS. I'd like to first of all thank Senator Sarbanes for coming to western Maryland to hear the comments of the citizens out here.

My name is Jim Combs, I'm business manager of Local 307 of the International Brotherhood of Electrical Workers. I'm also a resident of the city.

I think one of the first things I should comment on before I read my statement is that the question about living in this area, or the idea of people leaving the area, being one who was born and raised in Cumberland, and I've lived in this area all my life except for my service time. I think I'm like a lot of young people. It's sort of a human instinct to have roots where you grew up, where the people are that you've known all your life.

I think I would find it extremely difficult to leave this area under any circumstances. I think it's a tremendous area to live in. I think the opinion that some of the people have, why some of the people retire here—I've talked to some of them. It's to get away from some of the hustle and bustle that you may run into in Washington and that area.

They come here because it's a nice place to live. It's a great place to live, and I think you need to continue that attitude.

Also before I read the statement, I'd like to say that 16 months ago when I took over this office that I have, we had full employment in this local union.

I would like to introduce the following information relative to the employment situation of Local Union 307, IBEW, in the area of construction: Total members who actively seek employment through the local, 184; total members not working within the jurisdiction, 110; total members working out of our jurisdiction, 32; net total members not employed anywhere, 78.

This equates to: 60 percent not able to find work within the jurisdiction of the local union; 42 percent not working at all; and 18 percent working outside of the jurisdiction of the local union. In some instances traveling up to 250 miles to find work.

I feel that this huge unemployment is brought about in part due to the fact that we have industries such as Pittsburgh Plate Glass.

Celanese Fiber, within the jurisdiction of the local union who have totally shut down their production operations because of the economy in the country.

I do not feel that this situation is going to be reversed until there is an attitude in the Nation's Capitol that says we need to put our people back to work.

I thank you for letting me read that statement. I also had a couple of comments that I wrote down as I heard some of the people testifying. In the area of Mr. Foltz and the unemployment situation, I don't think that a lot of times all the figures are really there because referrals—he made the comment that referrals from the unemployment office to jobs; that does not take into account construction, particularly union construction. You have referral offices. None of those people were referred to work through the unemployment office. They were referred through the different local unions.

Second, and we had a seminar which was sponsored by the Maryland State AFL–CIO in Baltimore about a month or so ago dealing with problems in the unemployment area—one of the big things I expressed a concern about was in the construction versus the manufacturing type setup, and the rules that are used, particularly relative to people such as construction people who work away from home. And I will give a specific example without using the individual's name.

I have a member who worked outside the jurisdiction of his local union which is here. He worked there until his name came up on the referral procedure through our local union. He was called back to work off the list, came back and worked. He then was laid off, went to the unemployment office and filed for his unemployment and it was denied because when he quit his job outside his jurisdiction to come back they claimed that was to better himself. Thus, he was denied his unemployment benefits.

Now, just this past weekend in talking with the attorney—this happens to be in the State of West Virginia——

Senator SARBANES. They denied him saying he had not worked long enough to build up credits; is that it? They didn't count the previous work; is that it?

Mr. COMBS. No. Maryland could have a potential problem in the future. The problem with West Virginia is, they just recently changed their law to say that when you come to work you must work 30 working days at that new job or you're considered to have quit for no good reason your previous job, and you're denied your benefits totally. In Maryland, now, they have the 10 times rule which works good right now because of the lower rate of unemployment in Maryland. If the man comes back and earns $1,400 he's fine because that's 10 times the maximum benefit he can get. If he doesn't, then he loses his benefits until he goes back and earns that 10 times.

So, you're sort of in a position where if you raise the benefits and the man still has to earn 10 times, we could have a problem in Maryland down the road.

But, I think the whole problem lies in the fact that nobody understands construction. In a lot of areas these people don't have any choice. If they don't come back to their jurisdiction to work they're going to lose things such as health and welfare coverage, pension benefits. Let alone the fact that we are operating under laws, some Federal laws which say we must run a referral hall and we must run it under certain conditions. And when they get called, they must come back or go to the bottom of the list, and maybe they'll be out of town another 6 months before they get another opportunity to come back.

So, they don't really have a good option to come back and take a job if it's going to be less than 30 days, in some cases, particularly in the last year. There have been a lot of people that have worked out of town and come back and that's all they've worked, is maybe 30 days before they had to go back out and wait again for another 3 to 6 months before they had the opportunity to come back again.

Also, I would like to touch on something that Stan Zorick just briefly mentioned when he said "pension fund investment," which I think is a very important thing. There's been a lot of activity particularly relative to union pension fund investments. There are organizations just recently in the last couple of years that have been founded around the country that are saying, "Wait a minute, these pension funds were negotiated by labor-management agreement; the money is here." But the money, where is it? It's being invested overseas. As one man who spoke said, "Remember one thing: dollars don't hurt and they don't complain. They go wherever they're told."

As it turns out the majority of the investment money in the country today is through union pension funds and that's why the Northeast. I think, is suffering tremendously because of the flow of that pension fund money that was developed over the years. It's now being taken out of the country, maybe, or even to the Sun Belt or to some other region, from where it really originates.

If that pension fund money originates in Maryland, and we can invest it in Maryland, I think it should stay in Maryland. But, there are some Federal laws that prohibit that. And I think that's the main reason I bring it up, because the organizations, the union organizations that are working with management in setting up these foundations because it has to be done on a trustee type operation according to the ERISA laws and all the other Federal laws. There are real problems when you have certain other special interest groups—I'll call them that and I won't say their name—who file suit against the union contractors and the union trustees to prohibit them from doing this because they say they're discriminating against them by not allowing them to have that money.

And I say that's not discrimination. That is justice. I don't know one of my members that does not agree that if we could lend our money to where it goes into a union contract rather than to a non-union contract or out of the country to invest in some plant overseas, that we disagree with that under any circumstance.

One other thing, I'd like to make a comment—I couldn't stay here without making a comment on Mr. Jones' statement about the Davis-Bacon Act. I don't think there's any denying that the way organized labor feels about the Davis-Bacon Act—it's been around for 50 years. If it was good 50 years ago, and it's been good for 50 years, I can't see where it's any worse now.

The only thing that would happen by the elimination of the Davis-Bacon Act is you would see the exploitation of the construction worker of this country as it was done 50 years ago, where he wouldn't have any choice. He would have to go and work at what he was told to go and work at, wherever that work was at.

That is not collective bargaining and sitting down with labor-management and agreeing to wages. There's a lot of myths that are being promoted by some of these organizations about the Davis-Bacon Act which I think a couple of them, I'd like to comment. They are not set on a State or great, huge jurisdictional basis as some people would like you to believe. They are done on a county by county basis. I have three counties in Maryland, five in West Virginia. Several of the counties that I have jurisdiction in, they do not have my rate, Washington County being one. I wish they did. It would mean that I could get on more of the work there.

But, we do not have it. So, this myth that it's because of a regional area—I even had a man who told me a month ago, how come your rate is set by Pittsburgh. Pittsburgh has nothing to do with the rates in this jurisdiction.

I think if anything, the Davis-Bacon Act should be extended and particularly enforced. We find it extremely difficult when we find a contractor who is doing a federally funded or a State funded contract that falls under this jurisdiction and that he is not living up to these standards to get them enforced, or to even find out the information many times to prove it.

And I think that another thing that enforces that is, if they feel in Garrett County that the Davis-Bacon Act is hurting them—and I don't, because we do the majority of the work. It was our negotiated standard wages that we accepted the projects on. Now, just because a few people want to have the right to exploit it, they think it should be changed.

It didn't hurt Baltimore. Baltimore is growing and it's a vital town. It's been redeveloped. I think it's a tremendous thing to go down to Harbor Place and look at downtown Baltimore today, and all that work. And a majority of that work was done under those funds.

Thank you.

Senator SARBANES. Thank you, Jim. Do you have the membership figures for, say, a year ago or 18 months ago in total numbers seeking employment as compared to the present 184?

Mr. COMBS. The membership is about the same. We've had a few retirees.

Senator SARBANES. How many were unemployed, not working anywhere, a year ago? There's 78 now. Do you recall?

Mr. COMBS. A year ago?

Senator SARBANES. What's the best figure since you've been the business manager?

Mr. COMBS. As I said, when I came in as business manager we had 100 percent employment. That was in August 1980.

Senator SARBANES. August of 1980?

Mr. COMBS. Right.

Senator SARBANES. You had about the same membership, about 180?

Mr. COMBS. The membership has stayed relatively the same within five one way or another, because of retirements and increasing the apprenticeship program.

Senator SARBANES. You would have had a zero year of total members not employed anywhere at that time?

Mr. COMBS. Right.

Senator SARBANES. How is it divided within the jurisdiction and out of the jurisdiction, do you know?

Mr. COMBS. There would not have been any division because at that time all of those people were working here.

Senator SARBANES. Oh, they were all working within the jurisdiction?

Mr. COMBS. I didn't take into account—as I'm sure most people are aware in the construction industry, there are people who maintain a membership in a local union but continue to live someplace else. They've moved over a period of time. That's not in the figures.

These are people who actively work and seek employment through our local union all the time. Our total membership is actually 315 members.

Senator SARBANES. But on what you would regard as an active or local basis you've gone from having none unemployed to having 40 percent unemployed?

Mr. COMBS. Sixty percent unemployed.

Senator SARBANES. Well, some of them are outside.

Mr. COMBS. Some are out of town.

Senator SARBANES. Thank you very much.

Mr. Peterson, we will be happy to hear from you, please.

STATEMENT OF ROBERT PETERSON, PRESIDENT, GREATER CUMBERLAND CHAMBER OF COMMERCE, CUMBERLAND, MD.

Mr. PETERSON. When Bud Morse called me to ask me about appearing today, he told me who else is coming. And I said, well, you've got more talent than you can possibly hear in an afternoon; I don't think I'll say anything. And I did not prepare any statement. I did make some notes on some of the things that other people said that I thought might put things in some kind of a perspective.

Senator SARBANES. Identify yourself, please.

Mr. PETERSON. I'm Robert Peterson, president of the Greater Cumberland Chamber of Commerce. I think to begin with, there's a tendency to connect the coincidence of time with the effect, and to blame the now situation on the most recent action.

I thought that was brought into focus today by the fact that Mr. Oster, for instance, pointed out that Kelly-Springfield had been unable to hire anybody for several years, not just recently. And Mr. Jones from up in Garrett County pointed out that in the case of Bausch & Lomb and in the case of—he said it was the fourth largest; I imagine it was Flushing. I'm not sure who he was referring to. But, they've been going down for more than a year.

Likewise Celanese and PPG are victims of technology and sales in basic industries, rather than any problem locally.

It's a natural phenomenon of our system and I don't know that we can do much about that. Likewise, with reference to the freeway, it is true that the loss of ARC funds is certainly not going to help the advancement, the finishing of the freeway. On the other hand, we've been wrestling with that problem for almost 20 years.

It hasn't been finished mainly because it wasn't in the priorities to finish it. You've got to note that we started our freeway with a concept, and even into the basic engineering on it, before West Virginia ever thought about it. Yet when Governor Moore accepted it as a desirable thing to finish, from the start of the concept, from the State line over to Morgantown, through the engineering and the finishing of the highway, it took him less than 4 years while it was taking Maryland 20 years now. Pretty close to it.

So, those things, while we have a tendency to blame them on the current economic situation, really they have nothing to do with it, at least not as much as we tend to put on it. I was concerned with Mr. Oster's comment that elected officials must find the answers.

Frankly, part of the problem is the uncontrolled regulation and bureaucracy which is a major problem. And in addition to the cost of manufacturing and selling goods, if Government helps in the area, that is their true concern: the improvement of transportation and certainly moving ahead after 10 or 15 years of delay with the dredging of the port; better facilities in the way, for instance, of water—and the occurrence of the completion of the Bloomington Lake is a great example of that; I don't know of any better example—improving the efficiency of local services by local government; and not directly but by encouraging private development, they can help in the area of improving our gas supplies, power supplies, rail freight especially in the area here with a coal car problem we have and the offloading in Baltimore of coal.

All of that is not really Government's business but the Government can do a great deal in helping to see that it is completed. All of these things need to be done. I don't think anyone felt that a turnaround in the way we have been doing things for 40 or 50 years was going to be anything less than painful. I don't think people realized how painful. But it is, and I don't know of any better solution.

And then, I didn't mean to say anything about this particularly, but I was a little bit concerned with the downplay of the importance of sales that were made by our college representatives. There are two major things that happen in our economy. One is that somebody invents something and somebody else can sell it. Both of them can make a great career and make a great deal of money out of those two careers. Everything in between, you can teach people to do: manufacturing and getting it to where it's going to be.

But somebody had to think up the idea and somebody has to sell it. Those are the two important things. Nothing happens until somebody sells something, and I think a lot of times we tend to play that down. And our college students, in preparing for careers, would be very well off to think if they have the personality and the ability to do it, that they could probably make more money selling something than in any other career that they can get into.

Senator SARBANES. Thank you. I think your first point is not badly taken, and that is, you know, that the situation is more complex—in other words, Bausch & Lomb is cutting back for a different reason in a sense unrelated to the current turndown in the economy. And that would have happened, therefore, in any event.

I think on the freeway that while it's true we encounter lots of problems, we've been working together to try to cut through them. The fact is that the situation has now been greatly complicated by what's being done with ARC funds and therefore the prospect is made more dismal.

I feel that even more keenly with respect to the dredging of the Port of Baltimore where we encouraged some tough problems which were finally resolved and now confront a complete reversal in national policy that's been established since the very early years of the Republic. That policy has always been that improvements of the deepwater ports, the international ports, was a Federal responsibility. That's been the case from the very beginning of the country.

We had a big controversy in this country in the early part of the 19th century involving Clay and Lincoln among others, as to whether the Federal Government was going to become involved in internal improvements, the railroads and the internal waterways and the roadways. Even then, there was never any doubt that it was a Federal responsibility to do the ports.

What happened, of course, is that we finally cleared the track so that we could move on the Baltimore Harbor project; we now have a proposal for a complete reversal of policy. This proposition to go to user fees is a very complicated proposition—not only how we would do it if we adopted it, but the whole equity of doing it, and how that interrelates would bear on the port's relationships among themselves, and so forth.

So we now face a total change—an effort to achieve a total change—in policy. I am hopeful that it won't happen, because I don't think that's the way to go, and that provides another delay in that area.

I think some of these problems have to be solved in a very practical and pragmatic way. That's the attitude I took when we confronted the problem at Westvaco, and we got a good solution for that one.

Mr. PETERSON. I was very surprised at the hearing that you held in Baltimore, at the Trade Center—I don't know whether it was the president or the executive, or whoever, of the National Coal Diggers Association, took the very positive attitude that they did, that they were willing to pay.

Senator SARBANES. Sure; but what they figured was going to happen—and this was said to me afterward—was that the ports would cut one another's throats, and in the end they won't be paying very much: the ports will be absorbing it in a competitive push for the traffic.

Mr. PETERSON. According to some of the articles that have been published lately, that could happen. All the ports at one time are making moves to improve their facilities, and there's a great deal of chance, I would think, in looking at the figures in the articles that I read, that they would end up with a great deal of overfacilities. Right now, none of them are capable of taking care of the supercarriers and what not. In 5 or 10 years, if they all are successful in carrying their improvement programs forward, they are all going to be able to.

Whether that additional business will be there, I'm not sure. Perhaps that's something that you need to look at.

Senator SARBANES. It's like an area trying to attract a business. It makes more and more favorable concessions to the business; then the business turns around and says, "This county down the river is going to give us twice as many concessions as you are," so the business just sits there and bids them off, one against the other.

Mr. PETERSON. Unquestionably. How you handle that, I don't know if anybody has ever really solved.

I had hoped that when the users of the facility had decided that they couldn't pay for it, for the user fee, that that might be the answer to the whole problem. And that was before this present reversal of thinking in Washington came about. I would have thought that that might have solved the problem, but apparently, in your mind, it hasn't.

Senator SARBANES. Well, what's happening is: First of all, we don't have a policy which impedes us from moving ahead in any event. Second, it seems to me that if you go to a full user fee policy and reverse this whole national approach, you will greatly favor certain areas of the country. We are regionalizing the country in a way that's making it very difficult, I think, for the Northeast and the Midwest to compete.

Mr. PETERSON. You don't think the extra fee would make it prohibitive to use a port? Is that what you're telling me?

Senator SARBANES. No; what I'm saying is we could move ahead now. I think we ought to make it as a national decision that will affect where the deepwater ports are going to be. Clearly the Port of Baltimore is at the top of the list.

If you go to the user fees, you're going to have ports bidding, one against the other, to get the traffic, even though it might not make full sense. The next thing that might happen, or the danger, is that the State of Maryland will be called upon to underwrite the projects in order to compete with some other State that is prepared to do that.

So, the coal industry's indication that they would take the user fee was pretty smart from their point of view, because I think that they perceive that in the end you're going to get a lot of competitive bidding going on, which may leave them either with no fee or a pretty reduced fee, the extra tab then being picked up by the locality or the State, in an effort to compete and attract that traffic.

Mr. PETERSON. I guess I was naive in listening to the conversation that day.

Senator SARBANES. That was Carl Bagge. Yes.

Mr. PETERSON. I thought the reasoning was the fact that it was costing them much more to lay it out on the ground than it was to pay for the transfer and the dredging and the smaller ships, and it was going to pay off on both sides if somebody paid to get that port dredged.

Senator SARBANES. That's right. But there are some ports that are prepared, I think, with their State people, to go in and pay for it themselves in order to attract the traffic. And we may end up in that same position, which is not a position to be desired, at least as I see it.

Mr. PETERSON. Like you, I feel that deepwater ports are a function of the Federal Government.

Senator SARBANES. We were ready to move on that thing. That's a little bit like the freeway. I want the private sector to go ahead and go to work, but some of this infrastructure, you know, the national freeway and the dredging of the ports, in some way or another, are going to be done by public authorities of one sort or another.

Mr. PETERSON. I didn't mean to convey that I ever thought anything different. Those two projects are Federal projects.

Senator SARBANES. Well, thanks very much. Nice to see you. Nice to have you here. And I appreciate your patience in staying with us.

The subcommittee is recessed.

[Whereupon, at 4:35 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, January 14, 1981, in Salisbury.]

EFFECTS OF THE RECESSION ON MARYLAND COMMUNITIES

THURSDAY, JANUARY 14, 1982

CONGRESS OF THE UNITED STATES,
SUBCOMMITTEE ON INVESTMENT, JOBS, AND PRICES
OF THE JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:15 a.m., in the Wicomico County Council Chambers, Government Office Building, Salisbury, Md., Hon. Paul S. Sarbanes (member of the subcommittee) presiding.

Present: Senator Sarbanes.

OPENING STATEMENT OF SENATOR SARBANES, PRESIDING

Senator SARBANES. Today the Subcommittee on Investment, Jobs, and Prices of the Joint Economic Committee is continuing a series of hearings in the State of Maryland to review and document the effects of the recession on Maryland's communities and their citizens. In four hearings this week, on Monday in Baltimore, on Tuesday in Cumberland, today in Salisbury, and tomorrow in Silver Spring, the subcommittee will hear from more than 70 knowledgeable witnesses about the severe challenge posed by current economic conditions to employment, business and business investment, home ownership, and to community economic development.

These hearings are being held at the request of Congressman Henry Reuss, chairman of the Joint Economic Committee; and are being held in connection with the comprehensive hearings which the full committee will undertake beginning next week and continuing through the month of February. The Joint Economic Committee holds such hearings on the state of the economy every year in accordance with the provisions of the Employment Act of 1946, which directs the Joint Economic Committee to make a continuing study of matters relating to the economic report which the President, pursuant to that act, submits annually to the Congress.

While the hearings of the Joint Economic Committee on the state of the Nation's economy in Washington will receive testimony from cabinet secretaries, other administration witnesses and prominent witnesses from the public sector, these subcommittee hearings will focus on the local impact of the recession in communities across the State of Maryland.

The testimony received in the course of these hearings will constitute a valuable contribution to the work of the Joint Economic

Committee in developing the policy recommendations that the committee in its annual report will make to the Congress. It was Chairman Reuss' thought, with which I concurred, that it would be helpful to have in the committee record hearings that actually brought testimony from people who were at the very end of the line and receiving the impact with respect to many of these economic policies that are now being pursued.

The subcommittee hearings come at a critical time for local economies and communities in this State. The recession, which last fall began to spread beyond certain interest-sensitive sectors of the economy that were already in recession, pushed the national unemployment rate up to 8.9 percent, according to the figures presented last Friday at our hearing in Washington by the Bureau of Labor Statistics. The November unemployment rate for Maryland was 7.9 percent—the December figures will not be available for another 2 weeks. Frank Heintz, head of the State's employment administration agency, testified on Monday that that figure was the highest it had been in the postwar period. This 8.9-percent national unemployment figure reported last Friday is the highest monthly unemployment figure since the end of World War II with one exception, in May of 1975, when the figure reached 9 percent. We were 10 months into the 1975 recession when we reached that 9-percent figure. This time we are only 5 months into the recession but we have already reached 8.9 percent, and we are quite concerned about the economic indicators which seem to forecast a continuing decline in economic activity in the coming months.

Here on the lower shore where unemployment is a chronic problem, the recession has aggravated the situation. The unemployment rate is now in double-digit figures in both Worcester and Somerset Counties and is rapidly approaching those levels in Wicomico and Dorchester. There has been a concerted effort here to address the problem of unemployment in a constructive and long-term fashion by attracting new businesses, thereby creating new job opportunities. Local development efforts may now be undercut by the recession and by the reduction in certain important Federal programs which had helped to move forward local projects.

In recent years a number of communities on the shore have made very good use of the Economic Development Administration program, the EDA program, to work closely with the Farmers Home Loan Administration. The private industry council in this area has worked as part of the CETA program and attracted national attention for its efforts and successes. Farmers on the shore face low prices for their crops and has continued high interest rates. The interest rate situation continues to be very serious since hearings were held on this subject earlier in the fall.

At that time, I remarked that it is no exaggeration to say that the problems created by continuing high interest rates are approaching crisis proportions. That statement continues to be true today. While the prime rate has fallen from 20½ percent in September to its current level of 15¾ percent, the drop has not been effectively translated into significantly lower interest rates for home buyers, homebuilders, auto dealers or the small business community. Indeed, the Federal Home Loan Bank Board reported just last week that mortgage rates had declined in early December only from 18.16 percent to 17.54 percent nationwide, which still places homes far beyond the reach of all but a few Maryland families.

A third factor in the current recession is the sudden and dramatic reduction in Federal programs which, in recent years, have enabled the public and private sectors in Maryland communities to undertake important economic development and employment programs which would otherwise never have been undertaken. We will be fortunate to be able to explore this matter today with witnesses who are very knowledgeable about these problems.

The purpose of the hearings is to document across the State with testimony from those directly affected, the conditions to which rising unemployment, continuing high interest rates and other adverse economic indicators attest. These urgent issues will be examined at length on a nationwide scale in the hearings which begin in the Joint Economic Committee shortly. It is my expectation that the record of the Maryland experience established by these hearings will make an important contribution to the committee's work and to the response which policymakers must undertake as they address the great economic challenges now facing the Nation.

We are very pleased that so many people have been able and willing to come and participate with us this morning. We will start with testimony from the farm panel, so if Joel Boren, the general manager of the Federal Land Bank Association would come forward; Roger Richardson, Bill Guy, and Tom Bounds, we would be happy to hear from you gentlemen.

STATEMENT OF JOEL A. BOREN, GENERAL MANAGER, FEDERAL LAND BANK ASSOCIATION OF SALISBURY, AND PRODUCTION CREDIT ASSOCIATION, SALISBURY, MD.

Mr. Boren. I hope you will bear with me today. My throat's a little out of sorts. I don't know whether it's the weather or the interest rates. I think the two coupled together.

Senator, in my testimony in September 1981, I stated that costs were up and interest rates were high. The Delmarva farmer would like his cattle bought across the country, but he's experiencing difficult times. How difficult was 1981? Overall, the monthly farm price index in 1981 did not rise once. For 4 months the index price held steady and for 8 it dropped. The average farm expense index was 4.2 higher than any previous year. The national farm debt has more than doubled from 1976 levels to $180 billion, and as you mentioned earlier, the prime peaked to 20½ and dropped to a low of 15¾ percent in December. Many farmers are hanging on by a very thin thread. These farmers, in order to continue to provide their operating funds for 1 more year, this coupled with better income will let them survive.

Let us compare prices for a moment from 1980 to 1981. Corn, in December of 1980, was $3.60 a bushel. In 1981 it was $2.51. The cost per acre was $299 and the income was $300. So that's $1 income per acre, and these are lenders figures. And we use these figures as the average. Some farmers get more than 10 bushels and we estimate 100 bushels to an acre at $3 a bushel for corn.

Soybeans were $7.56 in 1980, were $6.50 in 1981. Cost per acre, $241; income was $245. This is based on 35 bushels of beans per acre at $7. Hogs averaged 45.25 cents. This year, 40.4, and to break even we estimate it's between 43 and 45 cents. Broilers range between 48 and 51 cents in 1980; 1981, 41 to 44.5. To break even we are estimating around 46 to 47 cents. You may say you cannot compare these 2 years. 1980 was a year with poor yields and higher prices; 1981 for the most part was poor prices and good yields. If the weather doesn't do you in, the market will. High interest rates will help.

Farm production credit has just reduced our markup of funds down to three-fourths of 1 percent. That is, we are only charging out member borrowers three-fourths of 1 percent over what money actually cost us. Let me tell you, that is a tight margin. An increased number of farmers are on the edge of foreclosure and/or of filing bankruptcy. These farmers are in two categories: Those that are undercapitalized who started out with 100 percent financing, and those who expanded their operation within the last 18 months to 2 years with borrowed capital. Projected profits from their operation did not meet their debt obligations.

We try to work with our member borrowers. The last thing we want to do is sell their farm. Some of the ways we try to work with our borrowers are extensions where there are viable means of repayment; reamortizing the loan; refinancing; counseling. We suggest that members get their cash flow in line with their debt level.

I firmly believe that 1982 will be the year that we will see many farmers get tired of fighting, singing the blues, and take one of the following alternatives: Sell out and take their equity, if there is any; file bankruptcy, deeding the property over or chattels to the lenders, in lieu of the lender marking that obligation satisfied.

Interest rates must be curtailed and commodity prices stabilized at a reasonable level. There are those farmers who have good equity and who can continue to operate for the time being. How long they can continue is difficult to say. Net worth is good, however, assets do not generate cash flow. They have to be liquidated. Today's farmer not only has to be a good agronomist but has to be a wise and capable financial planner along with marketing. He must have marketing skills to help him sell his products or he will not be a farmer tomorrow.

[The prepared statement of Mr. Boren follows:]

PREPARED STATEMENT OF JOEL A. BOREN

DURING MY TESTIMONY ON SEPTEMBER 1st, 1981, I STATED THAT COSTS WERE UP AND INTEREST RATES WERE HIGH. THE DELMARVA FARMER, LIKE HIS COUNTER-PART ACROSS THIS COUNTRY, WAS EXPERIENCING DIFFICULT TIMES.

JUST HOW DIFFICULT WAS 1981

1) OVERALL, THE MONTHLY FARM PRICE INDEX IN 1981 DID NOT RISE ONCE. FOR 4 MONTHS THE INDEX HELD STEADY AND FOR 8 MONTHS IT DECLINED.
2) THE AVERAGE FARMER EXPENSE INDEX WAS 4.2 HIGHER THAN A YEAR EARLIER.
3) THE NATIONAL FARM DEBT HAS MORE THAN DOUBLED THE 1976 TOTAL TO A RECORD LEVEL OF $180 BILLION.
4) PRIME PEAKED AT 20.50% AND IN DECEMBER DROPPED TO THE LOW FOR THE YEAR AT 15.75%.

MANY FARMERS ARE HANGING ON BY A VERY FINE THREAD. THESE FARMERS, IN ORDER TO CONTINUE, NEED A LENDER TO PROVIDE THEIR OPERATING FUNDING FOR 1 MORE YEAR. THIS, COUPLED WITH BETTER INCOME, WILL LET THEM SURVIVE.

LET US COMPARE PRICES FOR A MOMENT

	1980	1981	Cost/acre	Income/acre
Corn	3.60	2.51	$ 299	$ 300
Soybeans	7.56	6.15	$ 242	$ 245
Hogs	45.25	40.40	Break-even	43¢-45¢
Broilers	48-51	41-44.50	Break-even	46¢-47¢

YOU MAY SAY YOU CANNOT COMPARE THE 2 YEARS. 1980 WAS A YEAR WITH POOR YIELDS AND HIGH PRICES. 1981 FOR THE MOST PART HAD GOOD YIELDS WITH POOR PRICES. IF THE WEATHER AND MARKET DOES NOT DO YOU IN, HIGH INTEREST RATES WILL. MARVA PCA HAS JUST REDUCED OUR MARK-UP OF FUNDS TO 3/4 OF 1%. THIS IS A VERY TIGHT SITUATION.

AN INCREASED NUMBER OF FARMERS ARE ON THE EDGE OF FORECLOSURE AND/OR ARE FILING BANKRUPTCY. THESE FARMERS ARE INTO 2 CATEGORIES:

1) THOSE WHO ARE UNDER CAPITALIZED - WHO STARTED WITH 100% FINANCING.
2) THOSE WHO EXPANDED THEIR OPERATION (WITHIN THE LAST 18-24 MONTHS) WITH BORROWED CAPITAL. PROJECTED PROFITS FROM THEIR OPERATION DID NOT MEET THEIR DEBT OBLIGATION.

WE TRY TO WORK WITH OUR MEMBER/BORROWER. THE LAST THING WE WANT TO DO IS SELL OR OWN A FARM.

SOME OF THE WAYS WE WORK WITH OUR BORROWERS ARE:

1) EXTENSION - WHEN THERE IS A VIABLE MEANS OF REPAYMENT.
2) REAMORTIZE THE LOAN.
3) REFINANCE.
4) COUNSEL/SUGGEST MEANS TO GET THEIR CASH FLOW BACK IN LINE WITH THEIR DEBT LEVEL.

I FIRMLY BELIEVE THAT 1982 WILL BE THE YEAR THAT WE WILL SEE MANY FARMERS GET TIRED OF FIGHTING A SEEMINGLY ENDLESS BATTLE AND TAKE ONE OF THE FOLLOWING ALTERNATIVES:

1) SELL OUT AND TAKE THEIR EQUITY, IF THERE IS ANY.
2) FILE BANKRUPTCY.
3) SUGGEST DEEDING THE PROPERTY OR CHATTLE OVER IN LIEU OF LEGAL ACTION BY THE LENDER.

INTEREST RATES MUST BE CURTAILED AND COMMODITY PRICES STABILIZED AT A REASONABLE LEVEL. THERE ARE FARMERS WHO HAVE GOOD EQUITY AND WHO CAN CONTINUE TO OPERATE FOR THE TIME BEING. HOW LONG THAT CAN CONTINUE IS DIFFICULT TO SAY. NET WORTH IS GOOD; HOWEVER, ASSETS THAT DO NOT GENERATE CASH FLOW MAY HAVE TO BE LIQUIDATED. TODAY'S FARMER NOT ONLY HAS TO BE A GOOD AGRONOMIST BUT A WISE AND CAPABLE FINANCIAL PLANNER WITH MARKETING SKILLS TO HELP SELL HIS PRODUCT OR HE WILL NOT BE THE FARMER OF TOMORROW.

Senator SARBANES. Thank you very much, Joel.

Mr. Richardson, please proceed.

Gentlemen, I think we will hear from everyone and then I will have some questions, and we can have a discussion with the entire panel. So Roger, why don't we go on to you?

STATEMENT OF ROGER LEE RICHARDSON, REPRESENTING EASTERN SHORE FARMING INDUSTRY, EDEN, MD.

Mr. RICHARDSON. Thank you, Senator.

As we meet today to discuss the state of our agriculture economy here on Delmarva, it might be helpful to briefly look at the past and what has happened. During the 1960's and 1970's many of the crops and livestock enterprises in this region were diminished and in some cases, all but eliminated as other sections of our country began to be able to grow and ship their product in cheaper than we could. Therefore, a lot of our farms, corn, soybeans and small grains, and our best-known agricultural enterprises, the broiler industry, is also under pressure from other areas as other areas came in and tried to undercut what we could sell chicken for.

But in the last few years, with energy costs the way they are and our proximity to the Northeast and the high population area, this has somewhat helped. During 1980, for example, and these are figures from the U.S. Department of Agriculture—I disagree with some of them, but I'll use those anyway. It shows that cash farm receipts rose only 3 percent while expenses went up 9 percent. During 1981 they are supposed to have risen 4 percent, and the expenses again are 9 percent up.

As an example of that, last year, in January, we sold corn at $4.22 a bushel. This year, $2.92 is the best price so far that we've been offered. There's a $1.30 a bushel difference, and if you grow 60,000 bushels of corn, there is quite a bit of money involved. And that all comes off the top, before we pay expenses. And the very real problem is that in order for farmers to stay up to date and keep equipment that he can farm with, a tractor that 4 or 5 years ago cost $25,000—and this would be the amount of money he would have to depreciate—this year, if you were to replace that tractor, it would probably run you $60,000. The point here is you've got $25,000 in depreciation that you had to use to pay for the new tractor. The difference between that and the new tractor is $35,000. You already paid income tax on it, so you end up going to borrow money again to make up the difference.

These constantly higher investments in periods of such low profits, when there are any profits at all, of course, force farmers to borrow money. Then we get into the interest picture which has been very brutal for the last 2 years. One example that I have, quoting costs and going costs on corn in 1981, the interest cost would be $40 an acre, where in 1980, the interest cost was $21 an acre. This supports some of the things that Joel said.

Possibly the only bright spot in the farm picture is the fact that for the past two decades, the value of the real estate that we use to operate, with inflation, has gone up tremendously. This has also given farmers the opportunity to borrow more money because of the inflated value of their land, but it also creates a much heavier debt burden on them.

Another thing that I feel very strongly about that this subcommittee and any other governmental agency could do something about, is the threat of embargo as well as the actual embargo. Some time back when the Polish crisis came about, we lost about 70 cents a bushel out of the market for corn, and also soybeans. There was no embargo. But the threat of this embargo caused a reaction in the marketplace that severely affected all of us.

Above all, we must all join in making sure that both the inflation rate and the interest rates are forced downward considerably from their present levels, if we are to continue to have a strong agriculture on Delmarva.

Thank you.

[The prepared statement of Mr. Richardson follows:]

Prepared Statement of Roger Lee Richardson

As we meet today to discuss the state of our agriculture economy here on Delmarva, it might be helpful to look briefly at the recent past.

During the sixties and the seventies many of the crops and livestock enterprises in this region were diminished and in some cases all but eliminated as other sections of our country began to compete successfully for our markets. Our small fruit production, once a mainstay for many small farmers faded badly as products from the south and southwest replaced us in the marketplace. Both fresh and processed vegetables suffered pretty much the same fate. As our alternatives disappeared most of the commercial family farms, which is what we have here, settled into a program of corn for grain, soybeans and small grains.

Our dairy and livestock enterprises likewise yielded to the economic pressures and became of minor importance to most farmers. In the seventies a counter trend seemed to begin as a rather significant number of confinement type swine enterprises appeared, especially here on the Lower Shore.

Even our best known agricultural enterprises, the broiler industry, labored under pressures from other areas. However in the mid seventies rapidly rising transportation costs caused by the energy shortage began to give us an edge because of our proximity to the high consumer demand here in the northeast. Lately however in the last couple of years this huge industry has suffered from the same cost-price pressure which has adversely affected all of us.

During 1980, for example figures from USDA's Agricultural Outlook show that cash farm receipts rose only 3%. In 1981, according to this source, farm receipts rose only another 4%. During the same period cash expenses for 1980 were 9%; for 1981, another 9%. Net cash income on farms declined 20% in the last two years. If we adjust this figure for inflation we have a gloomy - perhaps one might even say frightening - situation. My personal observation leads me to believe that many of our local farmers fared even worse than these national figures indicate.

Another very real problem is that in order for our farmers to stay efficient and competitive, we are forced into a rising spiral of ever higher costs for all of our farm assets. For instance, if we purchased a tractor three or four years ago for $25,000 and if we now have to replace it, we will find that today's price for the same work capability is at least twice that amount. In a period of declining net incomes such as we are in, a farmer cannot possibly meet his actual depreciation costs let alone pay for the inflationary rise.

These constantly higher investments in periods of such low profits, where there are any profits at all, of course force farmers to borrow money. That interest rates are brutally high needs no documentation. In fact the proportion of interest costs to total cash costs has almost doubled in recent years. From my own knowledge, there are cases where over 20% of all cash farm costs are interest costs. Such a burden is very difficult for us farmers to live with.

Possibly the only bright spot in the farm picture is the fact that for the past two decades, or more, farm assets - particularly real estate - have continued to rise. Probably this rise in assets has been the factor which has allowed farmers to secure the credit with which they kept going while they looked for brighter days ahead.

However, the serious cash flow problems especially over the past few years have forced many to borrow heavily against this equity increase. We have seen farm equities increase by 25%. At the same time farmer's debt servicing burden has grown even faster.

There are some indications that we might, in this area, begin to see some of the trends I mentioned at the outset reversed here on Delmarva. Rising transportation costs for farmers who are a long way from our concentrated consumer population here in the northeast could possibly return to us some of the economic advantage we lost in past years. If this situation continues we might see some fresh vegetable farmers increase. We could see some fruit production, especially small fruits for the market. Our livestock, poultry industries would be strengthened somewhat also.

However we are still faced with the fact that changes in interprises are capital intensive and difficult in low profit times. In my opinion the great majority of our area farmers will have to stay with their corn, soybeans and small grains cropping systems.

If this committee and other similar powerful groups could assure us that we will be free of government manipulation, as in the case of the recent embargo for example, we would be a little more confident of success. If we can stop being harassed by some of the federal and state regulatory agencies and also by groups and individuals who join them in implementing many of what to our minds are unnecessary, illogical and ill conceived programs - philosophies, we could go about the difficult business of trying to cope with the cost-price squeeze.

We must somehow master production and marketing concepts, techniques, and strategies which will help us discipline ourselves and our industry to produce for the market rather than blindly repeating past programs.

Above all we must all join in making sure that both the inflation rate and the interest rates are forced downward considerably from their present levels if we are to continue to have a strong agriculture industry here on the Eastern Shore.

Senator SARBANES. Thank you.
Mr. Bounds, nice to see you, please proceed.

STATEMENT OF THOMAS BOUNDS, FARMERS BANK OF MARDELA, MARDELA SPRINGS, MD.

Mr. BOUNDS. Nice to see you, Senator. I feel sort of out of place among these heavyweights in the farming industry simply because, as you probably know, we are among the smallest banks in the State, even though we're the Farmers Bank in Mardela. There was a time, maybe, when you could service farmers' money but this is not even reasonable anymore. We will lend up to the capacity of what we have to offer, but this is not even a drop in the bucket.

The high interest rates which farmers now have to pay, we try to pare down as much as we can. All our loans are but a small, minute part of what the picture is. I know it will never get back times when first base wasn't so far away, but it seems like I can remember when there were many more small farmers that could take over the family business or continue from year to year. I don't think this is possible anymore.

I recently asked a farmer friend of ours, I asked him how long his father—not that old—could have farmed on the money that he spent in 1 year. He replied that his dad probably never expended that much in his whole lifetime, and I firmly believe this.

It was quite a shock when I entered the banking business to see the deposits that these people that I grew up with would make. I would inwardly say, "I've been living all this time among a bunch of wealthy people." But invariably, 3 or 4 days down the line, their checks would come in for their expenses and I found out that they handled a lot of money but not much of it stuck. This has been accelerated, I think, through the years and it certainly is in a much worse state than it ever was.

To get back to the size—largeness again—we're primarily agricultural in Mardela. One thing that disturbs me is that I think it's physically impossible and financially also, for a young man coming out of high school or college if he does not have, first of all, a family farm or the land somewhere else, to engage in farming. A six-figure investment is practically nothing.

Once again, I'm not a farmer but it amazes me the outlay that these people have to put out for what is not anymore a large farming operation. This does two things: It discourages the young people from entering because they're financially unable to. Second, if there aren't that many industries around, and we don't have that many, then they have no alternative but to leave the area and of this, we can stand very little.

Other than that, that would be about our picture. All I can say is, for a small bank serving farmers as well as we can, we will help them out to the limit that we can possibly do but then of necessity they have to go to people like Joel or someone else.

Thank you very much.

Senator SARBANES. Thank you very much.
Mr. Guy, please.

STATEMENT OF WILLIAM O. GUY, REPRESENTING EASTERN SHORE FARMING INDUSTRY

Mr. GUY. Thank you, Senator.

I thought Mr. Bounds was going to bat cleanup here. I see he got out of this one. So, I hope it won't be too repetitious.

Senator SARBANES. I used to play ball against him. He was a tremendous cleanup hitter.

Mr. BOUNDS. You were very kind not to bring the box scores out. [Laughter.]

Mr. GUY. As has already been mentioned, the farm community, like a lot of other businesses, is hanging on a thin line between bankruptcy and remaining solvent. With 2 years of adverse weather, high interest rates, poor yields in 1980, poor prices this past year, these have all combined to make many operations thought to be sound, wondering if they're going to remain in business.

The only real, viable operations at this time are the ones that are able to generate enough cash flow to basically finance themselves. And these are very few and far between.

The use of borrowed money has created in the past 2 years, with the extreme high interest rate, has created the problem of not being able to break even in a lot of circumstances. This is one of those times that the larger the operation, possibly the more in trouble it is because of its capital requirements.

Using so much borrowed money, it has just eaten into it. They are probably having more trouble to remain solvent than some of the smaller farms.

Some of the additional costs for those of the larger size, and I'm thinking some of those in the vegetable industry that require a lot of capital and a lot of employment, there are some additional regulations that were required over the last 5 years that have increased costs tremendously. Having to comply with workmen's comp regulations and various other things, a minimum wage person at this time will cost these operations $4-plus an hour.

The Government, with its continued deficit spending over the years, probably has helped create some of this interest problem that we're in today. It seems that all administrations of recent years can't decide whether USDA is going to set farm policy, or the State Department or someone else in the administration.

A good example was just this past weekend. In an article that I read in one of the trade magazines, Secretary Block was talking to a farm group, expressing that the last thing they wanted to do was impose another embargo. A Deputy Secretary in the State Department was making a speech someplace else and was saying that possibly we might have to use food as a sanction against Russia. Just Monday in the Daily Times, Senator Mathias had an article in there, that food was the only item that properly we could use to really hurt them.

This gets back to what Roger said a minute ago about the embargo. We've had two; basically, we have one now. The one that the Carter administration imposed in 1980 came at a time when the farm community was caught purely off guard. The prices were comparatively good at the time, but the day after it was announced, the market started into a nosedive and it has continued ever since. It has never recovered.

This creates, even though we say that we buy up some of these commodities, it creates a false market situation and agriculture operates under a demand and supply situation.

The sanctions recently announced by Reagan against Russia, though not an embargo for agricultural products, will work the same way. It will have the same effect. If they can find commodities someplace else, that's where they're going to buy them rather than buy them through this country or buy them through a Third World nation.

These three have combined to create poor trading policies in commodity markets with other countries. They have begun to doubt this Nation as a trustworthy exporter.

The most recent came at a time when the market was glutted with a large grain supply and the market has been selling, all this market season, at below cost figures. The outlook for 1982 doesn't look good. We have large surpluses still.

All indications are a continued spiral of production costs; a very dull market. While our interest rates have dropped some, they're still extremely too high. A lot of operations are going to have a lot of trouble having enough equity to borrow the money for financing their operations.

I just sat on the board of directors of a company here in Salisbury where they had their audit report this week, and I think this will reflect a lot of business and, I know, a lot of farm operations. The auditor pointed out that 92-percent increase in cost of interest money during 1981 from the previous year, at a 36-percent higher accounts receivable. He said this is not unusual in the audits that they're doing.

I think that in talking to a representative from Farm & Home, they said that their funds for operating money will be reduced considerably. Joel and Tom have pointed out their positions. They said that they would have 40 percent of their allotted funds. And I don't know just what this means. They have quite a number of clients, as Joel has mentioned, who are in the same problem. They're up to 100 percent of equity with problems to stay solvent or to borrow any more money, and some of these loans are not current at this time so there will probably be some foreclosures.

This is something that is of great concern to me. As we're seeing in the paper more recently in both business and home foreclosures, I think you're going to see the same thing in the ag community. The handwriting is on the wall, and my worry is a snowballing effect. When you see one lending institution start to foreclose and they make two or three, it will make the others start to think, well, maybe we ought to be doing the same procedure.

The properties that have been selling in the near future or recently have been dropping off. There is only so much money here to purchase these properties. As this starts to get more on the market it will also lower their sale value, creating a double problem of these people not being able to pay off the money they've got borrowed even after they've sold it, plus the fact that the market is going to come down and most of the farm community operates on their property being their capital equity.

This is their borrowing power, so if you have a piece of property that was worth $1,500 or a few thousand dollars an acre a couple of years ago and it goes down to $1,000, these lending institutions are going to go back and look dramatically at, well, you've got your equity here way too high and that will have to be adjusted.

This worries me quite a bit because I think it's going to make a lot that were in the market borrowing money really be marginal. This business is just—especially when you get into the vegetable aspect of it, has pressures galore.

This summer when we were working, I had a lady helping me packing some cucumbers, and things hadn't been going well that day. I walked by her and she stopped me and she said, "Did you ever think about walking out of here and not coming back?" I said, "Yes, I did." She said, "I don't know how you stand it."

The pressures don't get any less. Demands get greater. And I think we all wonder if we're going to hang on.

Thank you.

Senator SARBANES. Thank you. I thank all the panel for some very perceptive testimony.

Mr. Guy, I want to add one thing. I think one of the embargoes on agricultural commodities that we tend to forget took place long ago. I think it was probably as significant as any of them—the one Nixon put on soybeans to Japan. That was not a country with which we have difficult international relationships but is, you know, one of our closest allies and one of our closest trading partners.

Mr. GUY. And our largest trading partner.

Senator SARBANES. And our largest trading partner. And the reason for imposing it was not that there was an international crisis in our relationship, but simply a short supply. And therefore, we were protecting our own consumers from higher prices by forgoing our commitments abroad in terms of supply.

Their reaction was, "Well, if you're not going to keep your contract to us because you're protecting your own people, we're going to go elsewhere." Which is exactly what the Japanese have done. They're gone to Brazil. They've put in their own capital and their own people into Brazil, as a matter of fact, to help Brazil develop now a very significant soybean production, at our expense.

That embargo really intervened in a direct line of trade with a very close ally and this point you make, which I think is a very good one, there has to be a sense of trustworthiness or reliability of the United States as a food supplier. There's nothing more important to another country than its food supply.

They don't want to be caught in such a situation, particularly in an instance where there is in question the nature of an international relationship as exists, for instance, between ourselves and the Soviet Union.

Let me ask you this question: I am increasingly concerned about the trend I see taking place toward growing concentration of economic power. It's been given great emphasis in recent months, reflected in the industrial sector by major mergers. There were $30 billion in lines of credit available for the Conoco takeover at the same time that we were being told there just wasn't enough credit around to enable small business and small farmers to meet their immediate needs.

What changes are taking place, as you see them, in the structure of farming on the Eastern Shore? Do you see significant changes occurring? What do you anticipate in that area?

Mr. RICHARDSON. Senator, I feel that in the future, the thing we're going to end up seeing here on the shore is a few moneyed people that will own most of the land. Now, when I'm talking about moneyed people, I'm talking about foreign countries, other governments, for the simple reason that there's no way a young man, if something happened to him and his farm came on the market, there's no way that young man starting out can buy—for instance in 1971 it took 6½ bushels of soybeans an acre to pay the interest for maintaining his own land. In 1981 it takes 38 bushels of soybeans to stay on that land, just to pay the interest. And your optimum yield most of the time is 35 to 45 bushels.

So, you know, there is just no way that a young person is going to be able to come in and buy a farm and operate it. This is saying nothing about equipment costs. You don't have to have a very large operation to have $250,000 invested in equipment which has to be paid for.

Mr. GUY. I think you get right back to the same comment I made a while ago about the snowballing effect. I know in this county, recently, of one or two sales of property of pretty large magnitude that are gone to out-of-area buyers, supposedly offshore. But with the amount of money we're talking about, I'm wondering whether it is offshore or out of the country, if a lot of these aren't using some fronts and so forth to purchase a lot of this land.

And if a large number of farms come on the market, this will be the only way that the resale of that property will bring anything because there is not the local interest in it to buy it. A good example I was given just before Christmas of an operation—I think it was in Cecil County, but it was up along the Pennsylvania line, a dairy operation that started to expand about 4 or 5 years ago and had to make high investment capital improvement costs, and then it got to the point to meet their commitments they had to increase some more. In doing this, in the last 2 years they had to refinance twice. In this refinancing their interest rate went up 2 to 4 percent each time. And their last financing about a year ago was prohibitive. They could not beat interest costs. And this operation was sold, I think about 900 acres of farmland was sold that had been in the family for more than two generations, just to cover the indebtedness.

A developer bought part of the land and only paid probably half of what it would have brought 12 or 15 months earlier, so I think the same thing pertains right here.

Mr. BOUNDS. When I made the comment and lamented the fact that bigness seems to be taking over, I must admit it was objective as far as farming but it has to be a little subjective in my case because if the small farmers go out of existence small banks can do it also. Small businesses can do the same. So, this is not peculiar to one industry.

Senator SARBANES. Let me ask you this: I talked to an administration policymaker who said to me, "A lot of people got into farming who shouldn't have been in it. They don't have enough capital; they didn't really know what they were doing; it just looked like good times and they jumped into it." He argued that all that is going on now is squeezing what he called "marginal operators" out of business and that's really good, he said, because it's just going to leave the strong people who ought to be there in it.

He didn't reflect the same level of concern that I have about what's happening. It is my perception, frankly, that to the extent there's anything to that point about marginal operators, they went by the board a long, long time ago and the people being squeezed out now are able and effective producers.

What's your perspective on the situation?

Mr. BOUNDS. I can add just a little bit on that. Two years or 3 years ago, some people got into farming because the yields were good and commodity prices were up—"We're going to make a million dollars."

They went in, had overcapitalized themselves buying the best equipment and the largest equipment possible. When the interest rate increased, commodity prices dropped and that income was not there to service the debt, and they have fallen by the wayside. Some of them are still hanging in there, so to speak, but they're rapidly falling.

I think today's farmer is still hanging in there slightly. The 15¾ percent we're on now is the lowest possible we can cut the cost to our farmers, as opposed to 1974 at 8 percent or 7½ to 9 percent, that's almost twice. So, the farmer can't help it.

Some of the farmers, as Bill and Roger know, when you've got a lot of land at $1,000 or $2,000 an acre you're worth a lot of money. But today, if you go out and try to liquidate that land, the lending is not available at a reasonable interest rate so you can capitalize that investment and obtain a profit on it. There's no way that you can farm $2,000-an-acre land to grow corn and soybeans and make a profit on that.

The only way today's farmer can make a profit on $2,000-an-acre land in grain farming is that he has a capital base of $300 to $400-an-acre land that he accumulated 8 or 10 years ago or longer. Then he can average his costs per acre out and then make a profit.

Senator SARBANES. Do any of the others want to address this point?

Mr. RICHARDSON. Not that. But there's one point I'd like to be brought out. If you read history, so many times in many of your various civilizations over a long period of years, as long as they had a strong agricultural economy, they had a stable economy. One of the first steps in the procession of recession to depression and on down is the failure of the agricultural economy. I think this needs to be addressed and get some people in the proper places to realize this.

Senator SARBANES. I think we've taken agriculture much too much for granted in this country. The incredible success in agriculture productivity means that the percentage of the work force involved in agriculture has gotten smaller and smaller. We're now to the point where less than 5 percent of our work force in this country cannot only meet our own food needs but is also our principal earner of export earnings and therefore the largest contributor to our balance of payments.

A really small fraction of the work force is making this enormous contribution. It's in sharp contrast to most other countries, where at least the large agricultural producers have a much larger percentage of their work force involved in agriculture.

It's a tribute to the effectiveness and the efficiency and the productivity of American agriculture that they've been able to do that. But one of the consequences, I think, is that fewer and fewer people are connected with the agricultural sector. The rest of the society just takes for granted the existing state of affairs, without any appreciation of what's being done.

We've been wasteful in the way we've allowed agricultural land to be shifted out of agricultural production. In California, I think, in a 10-year period, they lost 25 percent of their best class of agricultural land into development. Once it's lost, you know, the chances are you're never going to get it back.

To what extent are the high interest rates precluding farmers from making decisions that would increase their efficiency, particularly with respect to the purchase of equipment? Do you see that as a serious problem yet?

Mr. RICHARDSON. In our own instance, we had certainly considered getting a new piece of equipment, but we abandoned the idea because of interest. We can make out with what we have another year. We'll try that.

Senator SARBANES. Will you be as efficient? I mean, are you sort of trading off a little bit in your operation by holding off?

Mr. RICHARDSON. We're trading off a little something, because most of the time, if you've got a piece of equipment 7 or 8 years old, you've got to have more downtime and breakdowns. But we feel that that's the best alternative we have. We have to live with that.

Mr. GUY. I would say the same thing. I don't intend to make any expenditures that I don't have to. With the cost of money, probably to some degree our ability to borrow it, we'd better try to see if we can finance our own operation and stay away from new purchases.

I've heard comments from other areas, up in Delaware and so forth—I think you're probably going to see a shift, as we get into spring, according to what the market is at that time plus what their cost for operation is going to be.

Some of the fellows who have been on somewhat of a rotation with corn and so forth, they can utilize growing costs for at least 1 year.

So I think—in fact, I just saw in an article this weekend in a soybean publication that some of the Southern States have a large increase again in acreage of wheat, and a couple of the Southern States are recommending that farmers not double-crop any soybeans this year after wheat, that the price does not justify it.

Mr. BOREN. We're seeing a lot, too, when they cut back—when they go to a 3-year land rotation or something, if they skip an extra year, as far as applying different insecticides and chemicals and fertilizers. Also, some of our farmers have been on an annual basis of clearing 50 acres or 25 or 30 acres. And due to the increased costs, they are not clearing the land they normally would and could clear.

Senator SARBANES. Gentlemen, we thank you very much. It's been a very helpful panel.

Mr. Barnes, from the Employment Security Administration, I think we'll hear you next.

Then, after that, we have two economic development panels that we will go to.

And if there's any witness who's under a real time constraint, let Mrs. Murdock know.

Let me take Mr. Barnes. Then we'll go to your panel. Then we'll do the Pocomoke panel. Is that all right with the people from Pocomoke?

I want to acknowledge the presence of the mayor of Salisbury, Mayor Ruark. We're very pleased to have you with us here this morning, Mr. Mayor. We appreciate the opportunity for you to be here with us.

Mr. Barnes, why don't you go ahead. Just give your position, right at the outset, for the benefit of the reporter. We'd appreciate that.

STATEMENT OF ROBERT BARNES, LABOR MARKET ANALYST, MARYLAND EMPLOYMENT SECURITY ADMINISTRATION, CAMBRIDGE, MD.

Mr. Barnes. I am Bob Barnes. I'm a labor market analyst with the Employment Security Administration for the State of Maryland.

I have prepared a general overview of employment problems and prospects on the Eastern Shore. Now, it is the Eastern Shore area in general. Each county has a problem in manufacturing and retail trade. Each county would have its own unique extent of that problem, such as Caroline County is heavily agricultural, Dorchester is heavily manufacturing, and Ocean City, of course, heavily tourist-related services.

The Eastern Shore has traditionally been considered an agriculture and seafood-based economy. However, in terms of the number of persons employed, the past several decades have witnesses much growth in the light manufacturing industry and in the retail trade industry. Also, the service industries—health and medical service-related industries and the tourist-related service establishments—have shown vigorous employment growth in the past.

This should not be taken to diminish the importance of agriculture and seafood to the economy of the area. There is still an enormous number of employees working in businesses which are directly related to agriculture, such as poultry processing, food processing, supply companies, and the lending institutions, which are all dependent to some extent on agriculture.

Due to this direct relation to agriculture, the unemployment problems in the Eastern Shore have historically been seasonal in nature. With the growth of the manufacturing, retail, and service industries, the area's employment picture is not as dependent upon the seasons as in the past. However, this is a part of our heritage, and we will always have a seasonal unemployment problem.

The past decade has witnessed healthy growth rates on the Eastern Shore in terms of population, labor force, and the number of people employed.

During 1981, employment growth slowed dramatically. The outlook for 1982 points to a retrenchment of the labor force and employment. The prospect of a continued slow economy, high inflation costs, interest rates, and lessened consumer product demand overshadows any growth of new jobs for 1982.

The current recession problems in specific industries such as manufacturing, light manufacturing, has become an important share of our economy. Manufacturing accounts for about 20 percent of the area's employment. The employment growth of the past is temporarily affected by the recession. And in 1982 it is expected to be a time of retrenchment for the light manufacturing industry. Retail and wholesale trades have become increasingly important on the Eastern Shore, currently accounting for over 20 percent of the area's employment.

However, a leveling off of growth and employment expansion of past years has occurred. The dampened economic outlook has slowed consumer purchases as a result of the differences between personal income and the inflation rate.

The construction industry suffered a downturn during 1981 and will continue to be a cause for concern during 1982. Fewer large-scale public construction projects and the downturn in residential home-buying markets have taken a toll on employment and construction.

The same high interest rates which have dampened business expansion, along with the inflationary price of housing, severely limits construction opportunities, also affecting the finance, the insurance, and the real estate markets.

In government, the recent hiring freeze, coupled with the tight Maryland budget, has halted the government growth of the past. At the same time the teachers are being laid off, there have been budget cuts in CETA, the employment service, vocational rehabilitation, and elimination of CETA public service employment program have combined to half growth in government employment.

The service industry may prove relatively stable. Workers will still be needed in the medical and health service related industries.

Also, the rapid growth rate of the travel and tourist industry is not expected to show employment losses. People from the metropolitan areas have foregone long, expensive vacations, substitution several closer-to-home trips to the Eastern Shore's recreation areas.

The ever-increasing length of the tourist season and the desirability of the short weekend trips may help to forestall employment losses in the service industries.

Transportation, communication, and public utilities should show steady employment through 1982. The need for these services is ever present.

Also, trucking is the key industry to the Eastern Shore in moving in both the majority of inbound and outbound goods.

Overall, the employment growth of the past slowed considerably during 1981. It can be expected that the number of unemployed persons will continue to be high, the number of persons filing unemployment insurance claims at the Maryland Employment Service office has increased dramatically above this same time last year, especially among blue-collar workers. At the same time, job openings listed at the employment service office have shown significant declines.

We are currently in the period of our annual season unemployment problem. And in 1982, the area will be hit doubly hard with the unemployment caused by the recession.

Normally, unemployment peaks several months after a recession has ended. So even if the recession ends next spring or summer, the unemployment problem will persist beyond the recession, and by that time we will be headed directly back into our wintertime unemployment problem again.

The entire year of 1982 and beyond will present unemployment problems for the Eastern Shore.

In addition to the seasonality and the recession, the unemployment rate is affected by the number of new people entering the labor force, especially youth and women reentering the labor force who cannot find jobs. The economy is just not growing enough to absorb these new people into jobs.

For the short term and seasonal unemployment problems, my agency will be processing unemployment insurance claims to help forestall any economic devastation to the workers covered by the UI law. However, many of these people will exhaust their current 26-week limit of benefits. They'll be faced with dim job prospects, the loss of income. They will be severely hard hit. And it will also present a further economic loss to the area for the long term.

There has been witnessed a combined and renewed effort of economic development for the area. The area did experience a healthy employment growth rate over the past decade.

With the strengthened economic developments that have been undertaken, the area may show a long-term employment growth over the coming decade. However, it's certain there will be no current employment growth and the unemployment problems will continue through 1982 and beyond for the Eastern Shore area.

Senator SARBANES. Thank you very much, Mr. Barnes. That's a very thoughtful analysis of the situation.

Frank Heintz announced yesterday major layoffs within his own department because of the cutback in Federal support. Of course, that comes at the very time that the burden on the department is increasing because of the rising unemployment generally in the economy.

Do you know yet what impact that will have on the operations of the Employment Security Administration on the Shore?

Mr. BARNES. There will be a 35-percent reduction in the employment service staff. I believe I heard on the radio that it was from 274 to 177. There's a 41-percent reduction in the WIN program staff. I'm concerned that my office will have problems delivering the service that we are mandated to provide.

Senator SARBANES. If someone comes in and files an unemployment claim—in other words, someone has been laid off and now faces the problem of how to support himself and a family—how long does it take before the first unemployment check arrives?

Mr. BARNES. Normally, it takes approximately 3 weeks.

Senator SARBANES. Three weeks?

Mr. BARNES. Yes.

Now, we are trying to keep the staff, the people that process the unemployment payments, the claims. I have a feeling that before the year is out, our budget is going to be exhausted.

Senator SARBANES. So, for the 3-week period, that person has somehow to find money somewhere to carry over in terms of just meeting current expenses; is that right?

Mr. BARNES. Yes, sir. And with the current long unemployment lines, it's going to take longer.

Senator SARBANES. It's going to take longer is your expectation?

Mr. BARNES. Yes, sir.

Senator SARBANES. Meanwhile, who in your office s being laid off? The job counselors and the people who would be there to try to help them find a job?

Mr. BARNES. These are the people that are there to assist them to find another job. These are the people who are getting laid off.

Senator SARBANES. So that help is simply not going to be available to them?

Mr. BARNES. We'll have a minimum staff.

Senator SARBANES. The other thing, of course, is that the administration reduced the length of the unemployment period down to a base period of 26 weeks.

Mr. BARNES. Yes, sir.

Senator SARBANES. So once that is exhausted, there's no support.

Mr. BARNES. I asked the UI expert yesterday if there was any chance of us tacking onto that extended benefits period the additional 13 weeks. She says we are currently nowhere close to that point. We are still going to continue with the 26-week number.

Senator SARBANES. The retail trade, which you noted has become an increasingly important sector throughout the economy—retail and wholesale trades on the Shore—is dependent, is it not, on the manufacturing sectors. And if the agricultural sector goes soft, don't the retail trades automatically go soft as well?

Mr. BARNES. Yes. Any employment expansion in retail trade is over. There's also a tendency to hire two part-time workers to fill one full-time job. While there may be a high number of OE's, they're not earning high wages.

Senator SARBANES. That was a point made to us in Cumberland on Tuesday, that the layoffs are coming disproportionately in manufacturing, but the manufacturing workers are by and large the best paid wage earners in the community. Therefore, the ripple effect of their being laid off is much greater than would be the case if the layoffs were even proportionate through the working population or more concentrated toward the lower end of the income scale.

Mr. BARNES. It is mostly the blue collar workers who are laid off. They come from manufacturing and construction, even though the service industries are showing stable employment. By "service" I mean hotels and restaurants. They don't earn high wages either.

Senator SARBANES. In a sense, given the location of the Shore, when we go into a slowdown like this, in the short run, we get, paradoxically, we benefit a little bit. I take it your point is that a lot of people who otherwise would have planned long trips out of the nearby metropolitan area can't afford them in this economic climate, and therefore they take short trips, weekend trips or a few days, to the Shore. That then helps to hold up our tourism as at a time of worsening economic conditions.

Mr. BARNES. Yes, sir. It seems people are not willing to deprive themselves of recreation time, so they substitute these weekend trips.

Senator SARBANES. We thank you very much for a very helpful statement. We appreciate your coming.

If we could have Bob Cook and Mike Abercrombie and Charlie Massey.

STATEMENT OF CHARLES E. MASSEY, SOMERSET COUNTY ADMINISTRATOR, AND EXECUTIVE DIRECTOR, ECONOMIC DEVELOPMENT, SOMERSET COUNTY, MD.

Mr. MASSEY. Senator, it is a privilege to be here. I am the county administrator of Somerset County, Charles E. Massey, also acting in the capacity of the executive director of economic development.

As far as Somerset is concerned and how the recession is affecting it, I guess you sum it up by saying, "In Somerset you take a bad situation and make it even worse."

For a few minutes here, I'd like to give a picture of the depressed situation which I'm sure you are aware of, Senator, within Somerset County, one of the poorest in the State of Maryland. I pulled some unemployment figures for a 9-month period, 1980 versus 1981. I'm going to run through those because I think it paints a typical picture of what's happening in this depressed county. A little later I'll get into what we are trying to do ourselves, locally about that situation.

In January of 1980 the unemployment rate was 22½ percent, and in 1981, 27½ percent. In February of 1980 it was 22⁷⁄₁₀ percent and in 1981, 25⁴⁄₁₀ percent. In March of 1980, 22 percent, and in 1981, 24⁶⁄₁₀ percent. In April of 1980 it was 16⁶⁄₁₀ percent and in 1981, 19⁹⁄₁₀ percent. In May, 14⁶⁄₁₀ percent in 1980 and in 1981, 21⁵⁄₁₀ percent. In June, 15⁶⁄₁₀ percent in 1980 and 15⁷⁄₁₀ percent in 1981. In July it was 15⁵⁄₁₀ percent in 1980 and 14⁷⁄₁₀ percent in 1981. In August it was 17²⁄₁₀ percent in 1980 and 18³⁄₁₀ percent in 1981. In September it was 15¹⁄₁₀ percent in 1980, followed by 14½ percent in 1981. And in October, it was 14 percent in 1980, followed by 13⁷⁄₁₀ percent in 1981.

That is the 10-month period. You can see that the 1981 figures in three cases were lower and in some cases higher. The average for those 10 months, if you add those figures up for 1980, would be 18.98 percent; and in 1981 it would be 19.58 percent.

That paints a typical problem with unemployment in Somerset County. Now, let's take another look, which I think is a real indicator, and look at the 1970 census when we had a recorded figure of 18.827 people. The 1980 census only shows 19,188. This is truly an indication we're losing our young people. Our population is getting older. The ability for taxation is getting less.

So now, let me turn—I think those two facets paint the picture. Let me turn to what we have done at the county level, the local level, to try to attack the position that I've just outlined. In July of 1980 the Board of County Commissioners appointed a planning committee to organize and recommend an aggressive economic development program for our county, realizing that we were primarily agricultural and seafood oriented. Both are reasonal in nature. We probably can look at figures such as I've given you and see some seasonal fluctations that happened in July of 1980.

For the first time in this same time frame, the county budgeted the largest amount of money for economic development in the history of Somerset County. We moved from basically a $3,000 budget to a $30,000 budget. We hired a professional consultant, still realizing a very bad situation, which was to assist with planning and the organization of our Economic Development Commission. As a matter of fact, we still have him on board assisting with this effort at the present time.

In September of 1980 the commissioners passed a resolution on the basis of recommendation of the planning committee, creating a 15-member commission known as the Somerset County Economic Development Commission, and a Committee of 100, which really exceeds 200 citizens of the county.

Senator SARBANES. When was that?

Mr. MASSEY. That was in September of 1980.

Membership on the economic development commission comes from citizens of the county appointed by the board of County Commissioners. The economic development commission has established a $50,000 budget, yearly budget, that we would need to try to answer this service problem.

Forty percent of that budget is coming from the private sector: private industry, citizens and individuals in that county are contributing 40 percent. Sixty percent is budgeted from the board of county commissioners. Hopefully, that can continue into the new fiscal year.

The economic development commission's efforts are being directed to assist and expand existing industry, what few we have in the county, as well as create an aggressive program of searching and trying to locate new industry, industry that is compatible with what I just mentioned, agriculture-oriented, as well as seafood-oriented communities.

Senator, at the local level we have taken a real, bold step forward to improve what is one of, I guess, the worst depressed areas in our Nation and that's Somerset County. We will need both Federal and State support to assist us in changing our economic situation.

In order to improve our economic posture, we realize that the Federal and State government must reduce spending and that a balanced national budget can be an asset to any economic endeavor. Therefore, in order to assist our local effort, we and the economic development commission would particularly request that you and your committee consider some of the following, if not all of the following steps:

One, retain the availability of the industrial revenue bonds as a tool for local economic development. For the short time that I've outlined that we've been into organizing ourselves for economic development, we have already approved two industrial revenue bonds for two presently located companies within Somerset County. We need that tool.

When the need may arise, if in some way we could have the Army Corps of Engineers available, probably both physically and financially for dredging of areas to accommodate what may be new water-oriented industries. As you know we're in an area where we do have water available, perhaps not in the depths that would be necessary, and we will be searching for water-oriented industry as well.

Three, in some way provide economic development through some Federal agency both for planning for economic development and providing for construction of support facilities to accommodate economic development. For instance, we may locate a very worthwhile industry but without the sewer and water that may be necessary for that industry, we could have a bottleneck.

Four, support legislation that will assist, and this is the heart, that will assist and start the national industries growing and expanding. If those industries are not moving, it makes it very difficult for one subdivision to seek new industry with little expansion going forward.

And this one in particular, I might say, has been of the greatest value to the county. We have never used it in economic development but it has been a great asset to the county. That is revenue sharing. I think without a doubt, it has proven that it takes less administration to move these Federal dollars forward to the local government and it has a history of a considerable number of years in that area.

We would say that in consideration of block grants, maybe they need to take a look at how revenue sharing has been administered. This won't be creating bureaucracies at either the Federal or State level, to use up those needed dollars.

Senator, our depressed area, we feel, is organized locally to try to proceed with expansion of light industry within Somerset County, to improve our assessable base for this jurisdiction, lower that unemployment rate we talked about, stop the outward migration of our young people who must go to search for jobs, and improve the average family income.

I don't have these figures from the recent census, but I'm sure they're not improved in light of the information I've already introduced.

Yes, Senator, we just may need and probably will need some assistance to move what we consider a bold local effort to improve a very poor situation. Thank you.

Senator SARBANES. Thank you, sir, very much.

Mr. Abercrombie, please proceed.

STATEMENT OF MICHAEL G. ABERCROMBIE, PRESIDENT, CATO, INC., SALISBURY, MD.

Mr. ABERCROMBIE. Yes, sir. My name is Mike Abercrombie, president of CATO, Inc., which is a local wholesaler and retailer of textile products.

I have some general comments I'd like to address to the wholesale trade and the retail trade in this area. One point that I would like to make, which came up earlier already, has to do with Ocean City and tourism in this area. It is a helpful buffer to some of the effects of the recession but the effect can be highly localized.

And in Salisbury, as I'm sure you're going to hear in detail, the real estate situation can be likened to a disaster but Ocean City is on the rebound, enjoying one of the best years they've ever enjoyed. Some of that has contributed to construction activity at Ocean City, and it does trickle back and help ease the situation for the firms that are located in this area supplying services in that area. As far as retail figures, I think they can be generally characterized as up to a degree for the first three quarters, perhaps level in the final quarter. Underlying that are tremendous pressures on the margins and profitability of firms that will be affected by this. It leaves the businessman in a characteristic situation. He's got to reduce his costs.

Some of this, unfortunately, is the human element. It triggers layoffs and cutbacks in personnel. It also affects the discretionary spending they're able to do.

By and large the sentiment seems to be, it's no fun, it's tough, but we're going to make it through the situation. We can do it.

Probably the major item other than concern about the sales, retail sales was, you already noted when you have a recession you have a lay-off of people and the income is not there to spend. Other than that, the major item of concern is the inflation and the effects it has.

That's been much discussed over the years but it's an ongoing problem which in the presumption of the business community, has been brought about by the Federal policies of spending and budget deficits in Washington. When you generate inflation, you're going to trigger in force high interest rates. In order to beat the inflation, so to speak, you drive the interest rate up above that.

Small business is going to be dramatically affected by that, more so than firms such as DuPont and Conoco. And the capital considerations you've noted earlier, small business typically pays a higher rate. The prime rate goes to the best, most credit worthy.

Small businesses are the ones that are starting out. They're more risky. They're individual proprietorships and they have greater need for capital, and they're more vulnerable because they're borrowing to the hilt and their borrowing costs are typically tied to several points over the prime and it floats. You run the prime up to 20 to 22 percent, you find some of these people paying 25 percent for their money.

I think many times where that might be considered a loan shark-type situation. The reason they're borrowing, to carry their receivables, carry their inventories, is to capitalize the business and have it in there. That is the major single item that the business community is concerned about.

The recession brings on another worry, and that's in the area of bad debt. We have Federal bankruptcy laws which were liberalized several years ago. There has been much discussion over the merits of that. I think the record shows that that there has been a rising, in fact a very rapidly rising number of bankruptcies. That is a matter of great concern.

Certainly it is difficult for people to have to make that decision, but the circumstances surrounding personal bankruptcy have been liberalized to the point that it's becoming, not that "I'm going to try to discharge my debts," but it's a real easy way out that will leave everybody else holding the bag.

I know personally, in my own business, I've seen a great increase in something that you virtually never saw. Now, they come through one or two a month, almost routinely.

Again, small business does not have the sophistication or the amount of time that a bank making a home loan would be, to check that out. They're more vulnerable to being taken in that situation, or to be affected in that situation of an individual being driven into personal bankruptcy.

So, I'm just pointing out that the recessionary times and the pressures are pushing more people to do that and the Federal laws, in fact, are making it perhaps too easy to do that which then brings the effect on small business, that the bad debt is soaring at the time they can least afford it. That concern is expressed by a number of people.

So, perhaps as an overall summary, I would say that the greatest concern is inflation. That is the problem. And the perception is that Government spending and the consequent borrowing to cover the debts is the cause.

The various steps taken in 1981, the Economic Recovery Act, is viewed as a step forward, but these are difficult times and you certainly can't get into the siutation that the country got into, to get out of it overnight with no pain and anguish.

By and large we would say we think we're heading in the right direction. It's just difficult and it's going to be difficult and we hope that the Federal Government is not going to simply say, well, we have a problem, drop it, and go radically in another direction and throw away the gains that we perhaps have reached at this point, trying to control inflation which will bring the interest rates down.

Thank you.

Senator SARBANES. Mr. Cook, please proceed.

STATEMENT OF ROBERT W. COOK, DIRECTOR, GREATER SALISBURY COMMITTEE, INC., SALISBURY, MD.

Mr. COOK. Thank you, Senator. I have copies of my prepared statement available. A couple of brochures accompanying that are being distributed.

Senator SARBANES. You can either read it in full, abridge it, or do what you wish, sir.

Mr. COOK. I'll go through it, but try and summarize and shorten it up a little.

For the record, my name is Robert W. Cook. I am director of the Greater Salisbury Committee, an organization governed and funded by 55 of the top business leaders in the community. They try to identify problems of the community and region and help find good solutions to these. This organization has served the community for nearly 15 years.

I also serve as chairman of the private industry council which serves the nine counties of the Eastern Shore and the three in southern Maryland. This is an organization established under the CETA amendments of 1978. The council was appointed by the Governor. The responsibilities of the private industry council, or PIC, are to seek new and better ways to train economically disadvantaged people and find them permanent, productive jobs in private business.

One of the spinoffs of both the efforts of the Greater Salisbury Committee and the private industry council is the Chesapeake County Economic Development Corporation, a new organization which has as its responsibility the creation of a regional identity for the 12 counties surrounding the bay on the Eastern Shore and southern Maryland, and by selling that new regional identity in the worldwide marketplace in order to attract new business and industry to the region, thereby expanding job opportunities and improving the quality of life for all the people. Like Mr. Massey said earlier, the need is great.

I intended to start my statement today by reviewing the unemployment data of the counties in this area, but the unemployment data which I obtained from the Employment Security Administration in my judgment, grossly understates the level of unemployment for the region. Just for example, the unemployment rates shown for Wicomico County are virtually unchanged from November 1980 to 1981 and my observations and commonsense tell me that the state of the economy and the level of unemployment is far more severe now than it was a year ago.

I think the figures that Charles Massey used in his statement of 20 percent plus are appropriate for some of the surrounding counties and certainly I think Wicomico County's situation is much worse than the data would indicate.

I have not had the opportunity to research what to me is an obvious discrepancy, but I don't believe any useful purpose can be served by understanding the level of unemployment or the gravity of the economic situation. Accurate data are required to make sound judgments and decisions to find proper remedies to alleviate these high levels. To understate can only lead to complacency, which can result in wrong solutions.

I am an economist. I don't know whether I should admit that in these times, but I am one. Maybe that's why I'm particularly suspicious of the data. And this is no reflection on Mr. Barnes, of whom I share a very high opinion as an analyst here in the area.

Having concluded that the economic conditions and levels of unemployment are much worse than indicated, the remainder of my statement will address ways in which these organizations that I'm connected with are attempting to help solve the problems.

Before doing so, I believe it must be said that the very serious economic problems are national in nature. And while we are regional organizations can attempt to solve our own problems, it's not likely that we can meet with complete success until the national economy takes an upward turn. And these national problems of a continuing decline in productivity, with a consequent loss of jobs to foreign nations who are having improved productivity levels, the conquering of inflation, the reduction of high interest rates, the high levels of dissaving, and an invasion of capital by small firms, like Mike has been talking about here, is taking place all over the place.

And the pressures on the credit markets and monetary institutions by the Federal Government and their large borrowing is causing a severe problem and driving business out of the marketplace for the reasons Mike previously mentioned.

Having recognized that the strength of the local and regional economies is dependent on national conditions, let me emphatically state that I believe it is vitally important that every effort be continued at the local and regional levels to devise new and better means of helping to improve economic conditions through manpower training programs, education, productivity improvement efforts, management improvement methods, and a host of methods which can be initiated either by local governmental bodies or by private sector leadership, but which I believe are much more effective if conceived and implemented by government and business working as a team.

I mentioned earlier the Greater Salisbury Committee is a private, nonprofit corporation which attempts to identify problems in the community. The presidents or other chief executives making up this committee represent, directly or indirectly, about 80 percent of the major employers in this area, in this community.

These business leaders stated, in a carefully designed survey last year, that the most serious problem confronting the community is the area's economy. Having identified the state of the economy as this most critical problem, the committee determined that the best approach was not a community-level or even a county approach, but a regional economic development approach.

We began holding a series of meetings with business leaders and economic development officials—like Charles at the table here—from a number of counties in the Eastern Shore region. This attempt to create a multi-county, regional body, with the Greater Salisbury's Committee serving as the catalyst, was first viewed with suspicion but soon received an enthusiastic endorsement from all the counties.

At the same time that this was taking place, the private industry council which serves these 12 counties decided—in a very frustrated way, we decided it was futile to conduct training programs for unemployed people when there were no jobs in sight for those people. It's a very demoralizing thing to train for a job when there isn't one. And, by the way, both the private industry council and other CETA agencies in this area are conducting outstanding training programs in conjunction with our community colleges, public schools, and skill centers.

So that private industry council, with the cooperation of the Greater Salisbury Committee, established and provided this initial funding for this Chesapeake Country, which you have a brochure about.

Incidentally, you have a brochure describing the private industry council as well. We created this as an activity which was authorized as an employment-generating activity under the CETA Act.

As I stated earlier, our ultimate goal is to create new jobs and a stronger economy, which, in turn, improves the quality of life for the people in this region.

Our means of accomplishing this are, first, to create a regional identity by capitalizing on the well-known name of "Chesapeake," which has been enhanced in no small way by Michener's book. Having established an identity like that, we are then attempting to sell Chesapeake Country as a good place to locate business and industry, and we plan to sell it in the world marketplace.

Third, we plan to enhance and assist the efforts of the county economic development agencies throughout the 12-county region by a marketing effort which would be difficult or impossible for them to achieve as individual counties and by helping people like Charles Massey in the other counties to improve and professionalize their own county development efforts.

The initial funding for Chesapeake Country was provided by the private industry council, but the reaction from business and local and State governments has been very enthusiastic. As a matter of fact, a lot of our new private funds have already started coming into our coffers, and we've recruited the chairman of the board of one of our largest corporations in the region to serve as the budget and finance chairman to help raise the funds.

We believe that Chesapeake Country will obtain the necessary funds from a variety of private as well as public sources to continue its efforts as long as necessary, even though Federal funding to the private industry council might discontinue, although that would be unfortunate, I believe. In fact, we at the private industry council have made it a top priority to seek ways to continue as many of our valuable employment and training and job-generating programs in the future.

Even though Federal funding might cease or be drastically reduced, we believe the work of the private industry council and the innovative ways we have found to improve the employment and training situations are absolutely essential and must be continued in order to provide job opportunities and to train and educate people to meet those opportunities.

We don't know where the funds are going to come from yet, but we're going to make every effort possible to keep these programs going.

I have mentioned the private industry council has initiated a number of innovative training and employment programs, and so far the only one I've described is Chesapeake Country. But I would like to tell you a bit about some of the other programs we believe are exemplary.

Incidentally, the private industry council, as you mentioned, Senator, has been recognized on two or three occasions for its superior performance and has been cited as one of the best PIC's in the United States by the Department of Labor.

But in something of a chronological sequence, the first thing our PIC did was to mount a massive effort to win the business community over and convince them that CETA was a four-letter word, as Fortune magazine said several years ago, that four-letter word, in our territory at least, is good.

I'm confining my remarks to the training aspects of CETA and not the now-expired public service employment or income maintenance programs. I believe very strongly that if such programs become necessary they should be governed under completely different, separate laws than the training and employment aspects.

Businessmen understand and relate to training for jobs and are sympathetic to that. On the other hand, the public service employment, no matter how necessary it might become in a very severe economic time, is a program that business tends to view as a giveaway program. Consequently, it is universally unpopular in the business community. To mix the two almost inevitably results in hurting the training and employment efforts in private business and industry.

To return to the programs of our private industry council, our second step was to establish a business counselor program. To be a businees counselor in our private industry council, you must have been a business executive, either the president, owner, or other senior executive of some firm.

All of our business counselors are retired company presidents who work for a fraction of what they're really worth and who have worked for large corporations or owned their own firms. Each of these business counselors fills a number of needs:

First, they have the ability to reach and communicate with the top executives in our business and industry. In this way, they bridge the gap between the CETA training programs and the businessman.

As experienced business executives, our counselors do provide advice and help solve problems of the businessmen in the region. If more expertise is needed, we have a working relationship with the SCORE chapter, the Service Corps of Retired Executives, or we actually have gone out and employed other retired people to serve as consultants.

In a number of cases, our counselors have made recommendations which have resulted in savings or earnings to the firm of millions of dollars, which, of course, leads to a more viable firm, a stronger economy, and ultimately more jobs.

Our business counselors are also salesmen for on-the-job training programs and the targeted jobs' tax credit programs, as well as other programs which we have devised, which we believe will help the local businessman and strengthen the economy in this region.

One of these new programs which we have advocated is a productivity awareness and improvement program. Our business counselors help sell this program in this region. As a result we have, with the help of the Maryland Center for Productivity and the Quality of Working Life, sponsored more than 40 seminars which have reached over 600 people to convince them of the importance of productivity improvement and tell them how to start a productivity program in their own firm.

We have only three business counselors, one for the lower shore, one for the upper shore, and one for southern Maryland. These counselors serve under the direction of the PIC executive director, who is also a retired company president; and they have made over 2,100 visits to business firms in our area in the little more than 2 years they've been working and have placed over 600 economically disadvantaged people in permanent and productive jobs in private business in these adverse times. I think that's remarkable.

Another program which has met with marked success is something we call our preemployment training program. This is a highly structured and carefully disciplined program of 6 weeks which we operate at four points, three community colleges, at the CETA Skill Center in Snow Hill, Md.

The object is motivational and attitudinal training, not specific skills. We take people in who were considered unemployable. After an intensive monthlong training program, they go to job practice with a real employer, under real working conditions, for further evaluation and experience. The employer is not required to keep them, only evaluate them. But remarkably, this program has resulted in a 50-percent placement rate for people who have never previously held a job in their life. In these difficult times, we believe this is a remarkable success record. This program, by the way, is being studied and emulaated by a number of communities in the United States.

We are developing, in conjunction with our Maryland State Department of Vocational Education and local school districts, entrepreneurship programs in which experienced business people go into classrooms and discuss various facets of the American economy. This has met with marked success on a pilot basis, and we plan to expand it throughout the 12-county region.

Another part of our entrepreneurship program includes a nonprofit foundation which will work with the vocational centers in the area to give students an opportunity to do all those things involved in building, selling, and designing a house.

Members of the business community serve as advisers in each of these phases, but the students do all the work and learn really how things are carried in enterprise.

We're experimenting in a similar way with rebuilding automobiles and selling them at low cost to poor families to provide transportation to work.

I mentioned earlier we have a number of skilled training programs. Perhaps the most sophisticated of these is a machine tool program operated by Wor Wic Tech Community College here in Salisbury to meet not only a local crisis but a national crisis for highly skilled machine tool people.

We believe it is essential that efficient and productive training and employment programs be continued in spite of the difficult economic times. Perhaps it is more essential and more timely than ever to continue to improve work skills during the depth of this most severe recession. At least by doing that we will equip people with skills they didn't previously have so they can move into the job market and become a productive member of the labor force when economic conditions permit.

I hope that Congress will recognize the vital importance of business participation and leadership in any employment and training program which may be enacted next year. After all, 80 percent of the jobs in the private business world, and it is only natural that the business community would want a voice in carrying out training and employment policies which affect their business.

If would be tragic to create a Government agency and program to attempt to carry out these goals which did not promote close coordination and team work between government at all levels and the business community.

Thank you for the opportunity, Senator.

Senator SARBANES. Thank you, Mr. Cook.

Gentlemen, I thank all of you for some very helpful testimony.

Mr. Cook, I am eager to get into the record something about the work of the Private Industry Council in this region, because it has been recognized as one of the very best in the country. I think spelling out some of these programs is important.

I wanted to ask whether you have done any follow-up on the 600 economically disadvantaged people to see how they have worked out over time?

Mr. COOK. Those are the ones that are still in place, Senator. That is the number who, as of right now, are still in those jobs.

Senator SARBANES. What do the employers say about their performance?

Mr. BARNES. Generally, they are more than satisfactory. They're very pleased with what's happening, particularly those who come through that pre-employment training program.

Senator SARBANES. That's the program where you are trying to change attitudes and motivation there; is that right?

Mr. COOK. The importance of being to work on time, courtesy, neatness, right down to the basics of good behavior, to be a good worker. Employers think that's vital. They are telling us: "We'd rather have someone of that program and train them to the skill ourselves than have someone with skill training who doesn't know the importance of this kind of work and job discipline."

Senator SARBANES. Let me ask you this: You make the point that it's perhaps more essential and more timely now than ever to continue to improve work skills as we move into this recession. How difficult is it to get people to appreciate the need to do that when they're in an environment where people are losing jobs and they don't see any work being immediately available?

In other words, you've got to have an ability to sort of look ahead, to be highly motivated in that circumstance. How much of a problem is that?

Mr. COOK. Well, Senator—you probably know this—there are European countries who have a model that we could look at. When they have a downturn and a high unemployment rate, instead of paying an individual unemployment compensation to sit at home, he stays right in that plant and that unemployment compensation is paid out through the firm, and the firm shifts from producing goods to upgrading skills.

I think that's a situation we might look at as something we could do. Don't just waste our time and that unemployment money by having people doing nothing. Have them do something which will enhance their skills and upgrade them and get them ready when the situation turns upward so they can be more productive and move into a better job.

Senator SARBANES. That's a very helpful suggestion.

Charles, let me ask you this question—and also Bob—what is the working relationship with the Maryland State Department of Economic Development that your "Committee of 100" and others are engaged with and the Chesapeake Country Economic Development Corp.?

Mr. MASSEY. I think probably in our case, not being fully organized, in my opinion, for economic development, we probably weren't organized well enough to take advantage of the State's help in bringing prospects through, as we should have been.

I think Bob will elaborate on that, when you move from Somerset, that you may find that the shore itself was being looked over at some time with prospects. Maybe Bob would want to elaborate on that.

Mr. COOK. I've heard that to be true. But to speak directly to the relationship of our new Chesapeake Country—of which Charles is an enthusiastic member, I might add—the Secretary of the Department of Economic Development, Jim Robertson, has been extremely supportive.

We had a big kickoff meeting in Easton less than a month ago. He was on the platform with us, and he made some very, very strong statements of support. And I've got them on tape.

Mr. MASSEY. I would say one thing, Senator. With respect to assistance from a State department to existing industry in the county, we found them more helpful in that area, maybe because we weren't well organized to receive new prospects.

Senator SARBANES. I think sometimes there's a tendency in economic development to think of it too much in terms of getting new people and not enough in terms of helping the employers you already have to expand. I've had testimony from some existing employers who feel that if not discriminated against, they are sort of overlooked in this economic development thing. They say, we've been here; we've been providing jobs; we're ready to do more, but everyone seems to be racing around the countryside trying to find a new person to come in. Obviously there are two sides to that point.

Mr. Cook. Our State does a good job on that though, Senator.

Senator Sarbanes. With existing employers?

Mr. Cook. Yes, sir. They have an office of business liaison and they have field people. They've got one—two on the Eastern Shore, one in Southern Maryland, and these people call on business on a regular basis and provide them advice and help and avenues for financing. And these are with existing businesses.

I'd like to get in the record, too, one other agency that I think is outstanding in this State and the cooperation is really good; that is the State Training and Employment Office, which comes under Buzzy Hadelman and their director, a guy by the name of Jim Callahan, the State director of training and employment, and very innovative and a tremendous person who just breaks down that barrier of bureaucratic versus business. We have a very wonderful working relationship. That's one of the reasons our PIC is so successful, whereas through much of the United States those prime sponsors and the private business people who make up the private industry councils are butting heads all the time. We overcame that very early.

Senator Sarbanes. I think that's very important. I'm coming more and more to the view that the antagonism that seems to prevail in a lot of the relationship between labor and management and business is something we just can't afford any more in this country. If you look at other countries and what they seem to be doing successfully, one is working out a partnership amongst those three elements. They don't regard one another as the enemy, and they're prepared to sit down around a table and just figure out practically how to solve a problem. We always used to be pragmatic and practical in this country. Now we seem to get caught up in fixed ideological views about things.

Mike, let me ask you about bankruptcy declarations. You say now that you find people taking individual bankruptcy almost as a matter of course in some instances?

Mr. Abercrombie. Yes. In fact, Senator, it was remarked to me that we're running into cases where you put pressure on a debtor that you're behind, that you're past the terms agreed, you have to get this paid, and he uses the bankruptcy as a threat to get you to back off. It's one of the situations—it's a tradeoff, but there is a widely prevailing view that the pendulum has gone so far in favor of the debtor that it's out of balance. You can look at the statistics, and it's just an alarming rate of increase, and there aren't that many stigmas and penalties associated with it. And it's too easy just to walk away from your obligations.

Senator Sarbanes. I also wanted to say that it seems to me that the high interest rates put in place to help check inflation are, in fact, having the opposite effect. Now I know this is a fine line, and I don't anticipate interest rates so low that we would simply be opening up the floodgates, but it seems to me we're at such a high level that a couple of things are happening. One, the high cost is obviously passed on and becomes another factor in price increases and, therefore, in inflation. Two, and perhaps more important, the high interest rates are stifling economic activity and, therefore, contributing to the recession and worsening unemployment.

The deficit then automatically goes up markedly. Each 1 point rise in the unemployment rate nationally means about $25 billion in Federal deficit, about $19 billion or $20 billion in lost taxes. Those people are simply sitting idle; they are no longer earning, and another $5 billion or $6 billion in payments go out of the Treasury to support them, in the form of unemployment or medical care or whatever the various programs are that serve to keep them and their families afloat. We don't want interest rates so low that you're triggering excessive economic activity and fueling the fires of inflation, but on the other hand, there is a point where they're so high that economic activity is so dampened down that we have a recession. Then many of the problems we've been trying to address get worse, not better.

That's been my view about the current situation we're in. The other point goes back to Bob Cook's testimony about making some distinctions and judgments about Federal programs. I think we need to prune the tree. I don't think we want to tear it up by its roots. And that requires looking carefully. Charles made the same point. You have a list of recommendations here, some of which require the Government to be prepared to spend some money in order to move things along. What you've got to do, though, is look carefully at what program you're talking about. If you get a good project and you need the corps to dredge it, just as you did here with the Wicomico River, the private sector can't move forward if the corps didn't come and do what it was supposed to do.

The IRB's are now under some attack, as you know. I think there have been some abuses, frankly.

Mr. MASSEY. That's probably the case.

Senator SARBANES. I'm not for throwing the program out. It's been used, for instance, by some communities for retail outlets, which weren't needed. In those cases they're just getting a windfall. That discredits the program for the kind of use that you and others want to make of it.

Gentlemen, we thank you very much. It's very helpful testimony. We appreciate it.

Mayor Clarke, we're delighted to see you and to have you here. Ladies and gentlemen, we're ready to hear from you in whatever order you care to go, so please proceed.

STATEMENT OF HON. J. DAWSON CLARKE, MAYOR, POCOMOKE CITY, MD., ACCOMPANIED BY RUSSELL BLAKE, ADMINISTRATOR

Mayor CLARKE. My name is J. Dawson Clarke, mayor of the city of Pocomoke City. We thank you very much for the opportunity to present this statement concerning the effects of the current economic recession on the city of Pocomoke City, Md., its residents, businesses, and industries. Pocomoke City is a full service, independent community of approximately 3,800 people on the lower Eastern Shore. As you probably know, we're only 5 miles above the Virginia line. The town's economy is diversified with major industrial employers such as the Campbell Soup Co. and the Chesapeake Plywood Co., and over 100 small to large commercial businesses engaged in retailing and services.

Recent statistics indicate that the unemployment rate in and around Pocomoke City has averaged 16.06 percent over the past year and is increasing. In the past few months, we have seen many signs of the recession in Pocomoke City, including the following: Reduction-in-force of the Campbell Soup plant due to reduced product sales. In other words, late last summer, they closed this plant for 3 weeks. One week the employees received their pay, the other 2 weeks they did not get paid. Reduction-in-force at the Chesapeake Plywood Co. due to slowdowns in the construction industry. Who needs plywood if they're not doing any building, due to the high price of money? Drastic reduction in the number of building permits issued for new homes or businesses, due to the high interest rates. Failures and closing of several small and large businesses, including a downtown printing shop, gun repair and sale shop, a pizza restaurant, a chain drugstore, the A&P supermarket, and a wood stove sales center.

I might add, Senator, I've lived in Pocomoke City 54 years. There's always been an A&P store, but as of today, they are holding a going-out-of-business sale. We will no longer have one.

Increased numbers of applications for city jobs. They're coming in every week, and a decrease in income tax revenues returned to the city by the State. Increased requests for section 8 housing. Rental subsidy applications. Increased number of delinquent water and sewer utility bills. Increased incidence of thefts and breaking and entering crimes, and this has increased more recently than ever before. Delays in payments of property taxes from local property owners.

To correct these problems, the mayor and council have increased their commitment to stimulate and promote economic development in many ways over the past few years. One of their earliest decisions was to acquire and develop vacant industrial property on Broad Street, to be able to compete with other areas in attracting new industry. Using funds from HUD's Community Development block grant program, the Economic Development Administration, Worcester County General Revenue Sharing, the State of Maryland, and local sources, the city has acquired over 65 acres of ideally located property, constructed water and sewer lines, a new water tower, access road, railroad siding, public loading dock for rail shipments and a 15,000-square foot industrial building. We have also annexed the entire 65-acre industrial area, including nearby property already owned by the city, and cleared two other wooded sites for subsequent industrial development.

In 1981, the city was awarded another grant by CDBG to subsidize high interest rates and thus provide additional incentive for new industry to locate in the city shell building. In late 1981, these efforts paid off when the city signed a 5-year lease agreement for the use of the building by Bill Muller—The Toymaker, Inc. Mr. Muller, who will also testify before you in just a moment, plans to employ up to 60 persons in his wooden toy manufacturing shop within the next 2 years. I might say, if you look at national television, you've seen him many times, including a spot on the "Real People" show.

Although this is not a large number of jobs that this gentleman will be offering, the city is hopeful that other industries will follow Mr. Muller's lead and locate in Pocomoke City. In fact, Senator, we have the rest of this industrial park, whereby we are offering an acre of land at $4,000, including sewer and water on-site—that's to the first applicant.

The new industry will help to reduce unemployment; diversify and stimulate our local economy and general additional tax revenues for the city, State and Federal governments; however, it is clear that without Federal assistance to the city for industrial park development, this industry would have located elsewhere, as Mr. Muller will tell you in just a moment.

Another major commitment by the mayor and council was to stimulate the economy of the downtown business district, in order to reduce the number of vacant storefronts and maintain the viability of the heart of the city in competition with other area shopping centers. I am sure that you have heard all around the shore and across the country the trouble that towns and cities are having with the downtown shopping areas.

To accomplish these objectives, the city has removed all downtown parking meters, constructed new parking lots and planted sidewalk trees in the sidewalk and minipark landscaping. Plans this year call for additional landscapping, pedestrial level lighting, brick walkways, and downtown street resurfacing, all funded by a development grant from HUD.

The other major element of this program is the unique 6-percent interest subsidy incentive for new or expanding businesses in the downtown area. Pocomoke was lucky enough to offer the 6 percent. Since these funds were approved 5 months ago, two new businesses have taken advantage of this program and announced the opening of a new office machines business in January 1981 and a new shoe store coming in July. Both businesses have stated that they would not have opened new businesses at this time at prevailing interest rates for bank loans of up to 20 percent. So they took advantage of our 6-percent subsidy; however, with the city subsidizing the interest rate down to 6 percent, they decided to take the risk and open these businesses in two vacant downtown buildings. There are still several vacant storefronts in Pocomoke City's downtown area, but we are hopeful that our innovative efforts will result in additional new businesses downtown.

In Pocomoke City and the immediate area, the current economic downturn and record high interest rates have resulted in unemployment rates up to twice the State average and have contributed to the failure of several businesses of various sizes.

On the positive side, our community's economy is diverse enough so that it will still be healthy despite these setbacks. We have recently seen such developments as the construction of a new Pizza Hut, the major expansion and relocation of an auto parts distribution outlet, construction of 28 new apartments now underway, right at this moment, foundations are being laid, two new businesses in the downtown area and the first industry in our industrial park.

We also understand that the Navy will soon expand its operations at nearby Wallops Island Flight Center, which would be very beneficial to our economy. Senator, I might add, we'll probably need your help, because this is a high priority. The Congress has got to give the word "go." It's been told to us that within the next 5 years about 200 Navy people would move into our area, if this goes through.

It is our opinion that economic development in the near future can be stimulated and encouraged by an effective partnership between the Federal Government, cities, and private enterprise for the mutual benefit of all. As you were talking about, over in Europe and the foreign countries, they have done such things. To that end, we would encourage your support for the continuation of such successful programs as HUD CDBG and the UDAG programs, EDA, general revenue sharing, and GNMA-assisted mortgages.

Thank you very much for the opportunity today to present this statement to the subcommittee, and we have Mr. Muller, the "Toymaker" here, who at the present time has a small factory on route 13, south of Pocomoke City in Accomack County, Va. And why is he coming to Pocomoke City? You'll have to let Mr. Muller tell you.

Senator SARBANES. Mr. and Mrs. Muller, we're delighted to have you with us, and we're anxious to hear from you. Ralph Waldo Emerson, I think it was, once said that if you build a better mousetrap, people will beat their way to your door. I think you're toy business is proof of Emerson's observation. People are, indeed, beating their way to your door. We've been delighted to hear from you.

TESTIMONY OF BILL AND ANN MULLER, BILL MULLER—THE TOYMAKER, INC., OAK HILL, VA.

Mrs. MULLER. I'll do the talking for the family. He interrupts a lot. [Laughter.]

Senator SARBANES. That's like my family.

Mrs. MULLER. I feel out of place here. I can explain an awful lot about wooden toys, but I don't know an awful lot about what we're talking about today, except what I know from personal experience.

Mr. MULLER. Please don't mention those percentages, will you?

Mrs. MULLER. We were looking at industrial park property in Accomack County, Va., where we're now located, then we were told of the Pocomoke City industrial park. That just happens to be a sample of what we make. And we went up. There was a shell building, 14,400 square feet, to be exact. We got total cooperation from Mayor Clarke, from Mr. Blake and the city council. The building came with the subsidized interest loan, which was a big factor in our deciding to take the building, because of the high rate of interest. At least in Virginia, the expansion loan would have run at least any place from 18.5 to 20 percent. We just felt we were a small business, growing fast, but we couldn't afford to pay that kind of money for money.

As I say, we had absolute total cooperation from the city of Pocomoke and from everybody involved. Granted, we are not in our nice, pretty great big new building yet, but we're working on it. The target date looks to be about March 15.

All of this sounds real great, except for a few things that aren't so great. We've had over 400 applications for jobs, and initially when we first move in, we will have to take some of our key personnel, and maximum, we will have, say, 25 jobs openings. We have been approached by the Virginia Employment Commission, the Maryland Employment Commission, the Maryland Rehab Commission, the on-the-job training people and representatives from about three minority groups, as to who and how many we're going to hire.

That's an awful lot of people. We get résumés in the mail as well, from phone calls from people personally, from people who are willing to work in a shop, in a woodshop, who have degrees in engineering. There's a manual arts teacher right there from this city, who, because of school cutbacks, needs a job. We hire mainly women, not that we discriminate, it's just that women have an easier touch, and they also don't get as bored as men on repetitious jobs like sanding and drilling.

Mr. MULLER. They're prettier, too.

Mrs. MULLER. And a lot of our women—we call them girls, most of them are under 30—have children, and most of them don't have a husband. And with the cutback in ADC funds, most of them have to have two jobs now. It's winter. They have to pay rent and buy fuel, and on one salary it's a choice of whether you keep the house warm or whether you eat.

Mayor CLARKE. Would you tell the Senator what the woman said to you?

Mrs. MULLER. An elderly colored woman who lives in the neighborhood—she doesn't work for us, but she comes in every so often and maybe somebody will have a little odd job for her to do or—she takes in ironing, and this and that. She got her—her medicare was cut, and her social security—they call it the Gold Check. She lost that. She didn't have money enough to buy oil, and she was breaking up her furniture and putting it in the wood stove in order to stay warm. And this day it was 5°.

Mr. MULLER. This is only one case.

Mrs. MULLER. And that night on the radio we heard about the terrible tragedy of people snowbound in California who were having to burn their furniture to keep warm until they were rescued. Who's going to rescue this woman? There's nobody coming with dogsleds or anything else.

As I say, the title 20 funds were cut that was subsidizing the babysitting programs. Some of our girls have to pay as much as $40 and $50 a week for a babysitter. That's maybe two-thirds, not two-thirds, maybe a third of their income or a little bit more.

What we're noticing, as I say, we're getting approached by everyone to make more jobs, and we're feeling the recession, too. Our business has increased considerably. We not only manufacture, we wholesale, as well as we sell retail. We have seen a very definite trend of the retail, not falling off, but the character of our retail business changing, particularly with the summer tourists. Where a family would buy three $10 toys, last summer they still bought three toys, but they would buy three $5 toys. It just so happens that our wholesale is picking up, which is the reason we need larger quarters. We're also going to expand the line and diversify the line more, which we have not in the past had room for. And hopefully, we will be able to create as many jobs as people come knocking on the door for. But we couldn't do this without the building and the cooperation of the city of Pocomoke and the interest-free money.

You have to be an idealist to be a toymaker, and what my husband is beating me on the arm about, we have little or no day care. We don't have a day-care center. There are one or two private day care in this sector, taking a page out of, I think, Olivetti in Italy and Japan also does it, Bill's dream—I'm not saying we're going to do it, we would like to do it—is to set up a day-care center in the building, so that the women that work for us could know that their children were being taken care of on a nominal-fee basis. And they could be with their children.

Mr. MULLER. It makes a big difference in a woman's mind.

Senator SARBANES. It sure does. That's the kind of program there ought to be some public money for, Federal money to help you on, I think. You say they're doing it in other countries?

Mrs. MULLER. They'd doing it in other countries; it works. A woman is much happier if she knows—OK, so maybe the baby had a little bit of a cough in the morning, well, instead of calling her babysitter 20 times, if the day-care center is right there, she can go and check on the baby herself.

Mr. MULLER. You wouldn't believe how we run our business.

Senator SARBANES. No, I believe it. I've heard about it. [Laughter.]

Mr. MULLER. We're not always happy, but we're still a family.

Mrs. MULLER. It's not a Pollyanna thing. We happen to care very much for the people who work for us and for their families. If we didn't, we couldn't build toys.

Mr. MULLER. We couldn't do it. We want to help everybody. Sometimes we do, I think.

Mrs. MULLER. And I think that covers all the points. We miss the CETA program quite a bit, because that kept a lot of our people working, but CETA funds were totally cut off in northern Accomack and the shore and almost everyplace else. So——

Senator SARBANES. Mr. Muller, did you want to add anything?

Mr. MULLER. No. I have a question, Senator.

Mr. Reagan, who is our President, and I respect him just for that, that's all. Why did he get in there and say he's going to cut taxes, and he's going to balance the budget? I personally think he can forget about that. Why does he keep picking on the working man and the poor people and the kids? Why don't he get on the rich man?

Senator SARBANES. I've been asking the same question myself. I think that's a good question. You know, we've had tax cuts for the oil companies and for the very wealthy. We're cutting programs, some of which should be trimmed, but some of which go to help people who really need it, to make them more productive. This building you're moving into would never have been there if it hadn't been for the Federal EDA program to help make it possible. I've worked closely with the officials of Pocomoke to help bring it about, and that's a way of moving the country forward. All of that's being set back.

Mr. MULLER. He keeps cutting all this stuff, putting people out of work, and they don't pay taxes. What are we going to use for money?

Senator SARBANES. That's right. I think you're asking a fundamental question.

Mayor CLARKE. Senator, I always thought prosperity meant everybody having a job and a pay check to pay their bills. One President I remember years ago, said "a chicken in every pot" and "a car in every garage." I remember that well. So you have the CCC camps, the WPA, and we had CETA, which was a good program. It's taken advantage of, yes, but you've got to put these people to work. Instead of that, we're working in the opposite way. We're putting people out of work.

Senator SARBANES. That's right.

Mayor CLARKE. After the 26 weeks which you spoke about awhile ago, what's going to happen? How are they going to eat? How are they going to pay for this heat? I don't know.

Senator SARBANES. I want to thank you all for your testimony. I want, again, to congratulate the Mullers on their superb product and the superb attitude with which they have gone about doing it. It's really a model. I really want to underscore that.

And Mr. Mayor, I want to thank you for a very, very thoughtful and perceptive statement. I want simply to underscore that working with you and Russ Blake and other officials of Pocomoke has been a pleasure. I think we've been able to work well together. I have a soft spot for Pocomoke. My uncle had a restaurant there for many, many years. You all have tried to do the best you can to move things forward, I think with some considerable success, and we're pleased to have the Mullers in Maryland, at least in terms of where their operation is.

Mrs. MULLER. The Mullers are both Marylanders born and bred.

Senator SARBANES. Where from?

Mrs. MULLER. Baltimore.

Senator SARBANES. Whereabouts?

Mrs. MULLER. West Baltimore.

Mr. MULLER. St. Martin's Parish.

Senator SARBANES. Yes, sir. I live there now, and I was born and bred down here right in this town, as a matter of fact.

Mayor CLARKE. Thank you very much.

Senator SARBANES. We thank you all.

[Pause.]

Senator SARBANES. Gentlemen, that was a success story. Now we're going to housing. [Laughter.]

At least we got a little upbeat here. Have you worked out an order or anything amongst yourselves to start?

Please identify yourselves for the reporter and then we'll move along here. Then we have the panel of the college people, which we will take next. I appreciate everyone's patience in staying with us. Hursey, go ahead.

STATEMENT OF R. HURSEY PORTER, JR., PRESIDENT, HURSEY MANAGERIAL CO., SALISBURY, MD.

Mr. PORTER. Senator, I'm Hursey Porter, president of Hursey Managerial Co. here in Salisbury, also immediately past president of the Maryland Association of Realtors. I'm currently serving as chairman of the Maryland Association's task force on mortgage finance. This is the third time I've had the pleasure of appearing before this committee. I testified back in December and recently as September before the full committee in Washington.

Senator, I find it interesting to see how our theme has changed. The last hearings were on the impact of high interest rates. Today we're here to discuss the effects of the recession. I think it tells a story in itself. The effects of the high interest rates, yes, do lead to a recession. I hope that if I have to come back before this subcommittee again that we don't have to go into a deeper description of the effects, the effects of the recession as far as the housing industry is concerned, and I'm sure that my cohorts here this morning on this panel reflect the same feelings. I find it interesting that the administration is finally today acknowledging the fact that we are in a recession. This has not been news to housing. We've been in one since October of 1979, at which time the Federal Reserve took its monetary policies to task.

I'll be showing you some statistics in a few moments that I think will reflect the effects of the recession on our local economy and how it has been fitted in with the housing sector. I'm not here today to call out the plight of housing, but I am here today show how that plight has now, as we have warned it would, affected the entire economy, in particular our local economy, also, unfortunately, the demoralizing effect it's having on all the citizenry of this area, as well as this country.

Back in August we first testified in Annapolis that the high interest rates had reached a crisis stage, and we also stated at that time, Senator, that it would, in a matter of a very short time, affect the entire economy. Since then we have seen no improvement in interest rates. They were 16 to 17 percent at that time. Today they're 17 to 19 percent, as it relates to housing mortgages. There is very little difference between the 15 and 20 percent. For one thing, most people can't afford either one.

Yet we have seen a decline in the prime. We have not felt the effects as far as home mortgages are concerned. Ninety percent of the mortgages that are available to the home consumers today are of the variable rates for the short-term nature, which is frightening at best to the consumer. Ninety percent of our citizenry still today cannot afford to purchase and most could not afford to refinance if they had to do so. Thus we're seeing a higher delinquency and foreclosure rates on those that have existing mortgages.

Now what has happened locally, as far as the impact on our local economy as it relates to housing. I offer you these figures which come from our multiple listing service, which I think clearly represents the decline in home sales over the last 3 years. In 1981 there were 385 residential units sold in the Wicomico County area through the multiple listing service. That represented 17 million dollars' worth of property. These are homes only. In 1980, we had 522 transactions, residential transactions. Therefore, we've seen a 24 percent decline in just residential units in 1980 through 1981. In 1979, there were 718 units sold. That's a 43-percent difference between 1979 and 1981. 1978, which was supposedly our last normal year in housing, we had 841 residential units sold in the county. We're 46 percent from that figure today. That represented 41 million dollars' worth of homes.

In terms of total real estate sold in the Wicomico County area in 1978, this is commercial, residential, lots, farms, you name it. There were 1,158 total transactions through the multiple listing service, which is a good general guide. In 1981, that figure declined to 620 units. That is a 59-percent difference. Why? I think we can observe for the record and the trends of interest rates since 1978, and very clearly see the pattern that's taking place. Interest rates have radically gone up, continually gone up. Home sales and general real estate sales have declined. This same average of loss of sales in units is not just in Wicomico County. This is throughout the State and throughout the country.

Having last year as serving as president of the Maryland Association, I had the opportunity to talk to the presidents from all over the country of their State associations. You find that the figures are going to be within a matter of 3 to 4 percentage points anywhere you look. So we're off about 45 to 50 percent from what the demand itself is out in the marketplace.

Back in September in Washington, I offered some figures which up until I'd been given them, I had not really thought about as far as the impact of a home sale in a community. I'm speaking of existing home sale, not a new home sale. A new home sale, as you'll probably hear from Mr. Gillis today, is five or six times this impact figure. On an existing home, each one that is sold, there is between $7,500 and $10,000 pumped back directly into the economy within 1 year of the sale. It's very simple to be able to see where they're coming from. People spend between $500 and $1,000 on their homes in fixing them up prior to the sale, the painting and the necessary repairs to have it marketable. Between $2,500 and $3,500 is paid out into the local economy at the time of sale. This represents such things as the necessary legal fees, closing costs, transfer taxes into the local and State government, surveys, furnishing, moving expenses, and, yes, real estate commissions.

We in the real estate industry spend our commission dollars back in our local communities. We do not put them out in foreign investments.

About $2,000 to $2,500 is aftersale expenses. When people buy a home, they at that point begin to make it their own by means of capital improvements. They go out and buy furniture. They buy carpet, they buy wallpaper, paint, to make it into their home. That's $2,000 to $2,500.

We can add it up and you can see $7,000 to $10,000 average transaction.

Is it any wonder in the local community, that we're hearing local business people cry hard times that are not necessarily in the housing business but are reflective of the housing industry, by the products and the goods and services that they may offer. If we take the figures of $7,000 to $10,000 per transaction and use the local loss of sales against that, we will find that over the past 3 years, this community, Wicomico County, Md., has lost at least $4.5 million directly back into the local economy just on the items which I have gone through, not considering the loss of jobs and, of course, the increased unemployment which we've already heard about here today.

There has got to be a new direction in monetary policy from our Federal Government and from the Federal Reserve and it's going to have to be done shortly. Senator, as you will recall I made this remark back in September, that we were at a crisis level and that we were going to see an extreme crisis and a very severe recession unless something was done soon.

I offer several things which I simply want to get into the record. No. 1, Senator, I do feel that there's going to have to be new revenues brought back into the Federal budget. We're looking at a $109 billion deficit, at least that's the projection for this coming year. Back in September they were projecting a $42.5 million deficit which we thought was bad enough, but now we're looking at $109 billion.

There's got to be new revenues whether it be done through deferral of the tax cuts or excise tax, or a value-added tax. I don't know, but it's got to be done because this is not the time to cut taxes when we're in a severe deficit.

No. 2 is a continued reduction in Federal spending.

No. 3 is, I hope, a total review of the deregulation of the depository institutes and a total review of the monetary policies as far as money market funds are concerned. We are no longer dealing with Main Street and the local bank. We are dealing, unfortunately, today with Main Street versus Wall Street and it's something that the average American public is not capable of dealing with.

Last, I hope we can see a less restrictive—and I know, Senator, you share this thought—a less restrictive monetary policy on the part of the Federal Reserve System. We have said it before: A tourniquet around the throat is not the cure to a bleeding finger.

That doesn't mean we have to open the floodgates in order to bring interest rates down, but if Mr. Volcker has in fact tried to bring a recession about in order to curb inflation, he's done a masterful job at it. And I think now is the time for the Federal Reserve and the Congress itself to take a hard look at the Federal Reserve and the makeup of that particular body. If one controls any particular segment in our Government, that controls the economy, it will control the destiny of this great Nation.

Finally, I simply want to close by saying that, Senator, I do appreciate and I know the housing industry appreciates very much your deep concern and understanding about the problems that we have been going through and I do hope that in the coming year that the Congress, this Congress that's in session now, will have this first and uppermost on their minds as far as getting the economic problems looked at.

Thank you, Senator.

Senator SARBANES. Thank you, Mr. Porter. Of course, we just had to beat the OMB back on the Ginnie Mae problem. Apparently they have at least deferred it, but that's just another onslaught on the housing industry.

Mr. PORTER. If I may add one more thing, please, for the record.

I had a long conversation this past week with the president of the National Association of Realtors, Mr. Julio LaGuarda. I will read if I may into this particular testimony his remarks concerning the Commission on Housing which has been set up by the administration in Washington. I quote:

> The essential thrust of the President's Commission on Housing report on financing housing for the future was to effectively remove thrift institutions from their traditional role in home financing, something that could devastate an already battered housing industry for the longer run. The Commission has demonstrated that it would be more appropriately called the President's Commission on Financial Institutions rather than housing. The leadership and the membership of that commission represents the thrift industries rather than the housing industries.

Unfortunately, sir, we have been separated. The thrifts and the housing industries have been separated through deregulation over the past several years. I did want to get that into the record, and I hope that you, Senator, can take a look at this because we do not have representation of housing on that Commission as it should be. It is primarily that of the financial institutions.

Thank you, sir.

Senator SARBANES. Mr. Adams, please proceed.

STATEMENT OF GEORGE F. ADAMS, VICE PRESIDENT, LOYOLA FEDERAL SAVINGS & LOAN, SALISBURY, MD.

Mr. ADAMS. My name is George F. Adams. I am vice president of Loyola Federal Savings & Loan, with lending division responsibilities for the Eastern Shore. I'd like to address also, my remarks today to the high interest rates and how they affect people here on the Shore.

In August of 1981 a senior vice president, Thomas Marvell, with our association appeared before your committee, Senator, and discussed with you how industry changes have affected our industry and how we have gotten where we are today with respect to high rates.

I don't think it is necessary or beneficial at this time for me to go back over that material that he pointed out. I would simply point out that there have really not been any major changes since the August hearing today, in the overall picture. We are still very much affected by the competition of the money market funds for our savings dollars. Our savings base has not been strengthened, and in actuality it has eroded since the August hearing.

The All Savers Certificate did accomplish a certain amount of success in stopping the erosion of the base, but it's still money that we have for less than 1 year, money that we cannot put out for long-term real estate loans. If we did that, we would simply compound our problem in 12 months to some extent that the all-savers money, a large portion of it, did come from other higher certificates.

High interest rates have caused a great deal of problems locally as well as across the Nation in qualifying potential buyers. Obviously rates of 18 percent as compared to 11 percent can do nothing else. Buyers simply can't afford to buy houses at the same price range that they recently sold, and definitely they are not able to move from one level of house to another.

As an example, an annual income necessary to qualify for a $50,000 mortgage at the above stated 18 versus 12 percent rates: at the 18 there's a difference of approximately $10,000. In other words a $50,000 mortgage at 18 percent interest rate would require approximately $32,000 of annual income. That same $50,000 at a 12-percent rate would require approximately $22,000 annual income.

This takes many people in our marketplace out of the market when you consider that according to the Greater Salisbury Chamber of Commerce figures, less than 17 percent of our population makes an income in excess of $25,000.

Finally, in reference to delinquency rates, we have seen a gradual increase in our 30-day delinquencies over the past year. We are still as our 30-day delinquencies over the past year. We are still as our association, we are still well below the national average. But we have witnessed a month-by-month creep in that rate. Our 60-day, our 90-day, and our foreclosure rates have not witnessed the same increase. We are also below the average there.

Thank you, sir.

Senator SARBANES. Thank you.

Mr. Hanna, you may go next please.

STATEMENT OF HENRY HANNA, PRESIDENT, AHTES & HANNA REAL ESTATE, SALISBURY, MD.

Mr. HANNA. My name is Henry Hanna. I am president of Ahtes and Hanna partners, a real estate brokerage company here in Salisbury, and past president of the Coastal Board of Realtors.

I have with me today all of the statistics on what's happened to sales in our market area, some of which Hursey has reviewed. But I don't believe listening to all those numbers can really give a feel for what's going on in this community. That seems to be what we're interested in today.

In the dollars and cents figures, the number of houses, every way you measure it they're down 40 to 54 percent. But if you look at the number of people who were working in the real estate industry who are in the sales portion of that, that is down by 41 percent, the number of people who who are sales associates. And those people didn't leave this industry easily or quickly. They've hung on for the past 2 years and they've continued to work hard, do the best that they could to try and find creative, new ways to solve problems.

For the most part I'd say they used their personal savings first to sustain themselves with the belief that hard work and problem-solving attitudes would find the proverbial light at the end of the tunnel. But they have not, and they are now seeking work in other areas.

Unfortunately, for the most part they have not been able to find other jobs. Numerous people that are in the sales end of the business, they've sought other work and have not been able to find it.

I think that one way that I might be able to relate the impact in our community is to relate about our company. Our firm has fared far better than the average industry statistics. This year our percentage of the market is stronger and larger than it was 2 years ago. Someone mentioned earlier the concentration of power in farming and finance. I take no pleasure in the fact that our share of the market is greater today because it's a market that's shrunk so that it's not good for anybody.

A lot of small businesses, real estate businesses, have closed their doors or if they haven't closed their doors, they're really out of business and the broker is trying to pick up some other line of work. I think we have not seen the worst of it yet because these people really are independent and they'll stay in there until they are absolutely forced out of it.

We have a construction division within our company and we were building 20 homes a year with an average price of $50,000. That was $1 million in new improvements that would have been added to our local tax base. We have been forced, as a management decision, to shut that portion of our business down because there were not qualified buyers for those homes.

That took an additional number of people who were laid off, salaried people and subcontractors that are out of work. Most of them we've kept pretty close ties with. They're driving 30 miles to Ocean City looking for work, or an hour or more in other directions, trying to stay in work, but they're really not finding it.

So, I think that the good people who have worked hard and have been laid off, probably one of the most severe impacts is what it does to their sense of values in the sense that they felt that hard work and the right attitude and being an optimist would give you results that you want.

Over 2 years of this market hasn't really shown us that we're any closer to a solution, and we don't have any solution to offer.

I'm trying to give you a feeling for the impact locally. I might add that the lost income is not only significant to those of us in the real estate industry. Those people who were secretaries, and the accounting and advertising people that are related to us—that maybe if you have an opportunity to ride around Salisbury, travel down 13 or go to any of the other retail shopping areas and look at the empty store fronts, they're not all directly related to our problems but they are part of the overall problem.

If you have a chance to have a cup of coffee at any place where you see a lot of pickup trucks parked out front, most mornings you can get a real feel for what the contractors and subcontractors are dealing with. I think if you have a chance to go any place that has a shuffleboard after 4 p.m., you can probably hear the real problems and the real impact on people in the housing industry that are out of work.

They are good people, hard-working, and intelligent. They're not looking for any special handouts or help. They just want a chance to work.

Senator SARBANES. Thank you.

Mr. Gillis, please proceed.

STATEMENT OF DONALD GILLIS, W. T. GILLIS & SON CO., AND PRESIDENT, LOWER SHORE HOME BUILDERS ASSOCIATION, SALISBURY, MD.

Mr. GILLIS. Senator Sarbanes, I'm Don Gillis, president of the Lower Shore Home Builders Association. I have been in construction for 23 years.

In the Lower Shore Home Builders Association, we are a branch of the National Home Builders Association. We have about 73 members. We have been very fortunate in what few members we have lost. we have picked new members up.

We are not an organization of big contractors in the way of commercial work, the ones that would build high rises and this type of thing. We are basically homeowners' builders. We have some members that do commercial work but it is not on a giant scale.

The organization, everyone you talk to, business is off. There again, it's a repeat of what Mr. Hanna, and all what he has said. We had one of the bigger builders in Salisbury; he told me that they had averaged two settlements a month. Last year that has dropped to 12 settlements for 1981. And he said eight to nine of those settlements were presold, before they were started they were presold homes.

He said at this time he hasn't laid anyone off of his crew. In other words he's trying to work as many men with half of what he was doing, now. But he said the way things were, it was inevitable that we'd have layoffs coming up. He said he was doing some figuring, but here again, everything that we're looking at right now, we're looking at March and April, which does not help the situation. He was not that encouraged at what he had coming up.

Ocean City helps. That's a completely different market over there. We have people in that area who are on a fixed salary on the higher end of the income scale. They are people that the recession they feel but it doesn't hurt them like it does the local people. Ocean City can only accommodate so many builders from this area because they already have a certain amount of subcontractors and commercial people who do work in the Ocean City area.

Part of our subcontractors, I know, are doing some work in the Ocean Pines-Ocean City area that they haven't done in the past. Again, as Mr. Hanna said, it's a matter of driving that 30 miles to try to keep things going.

I have reduced my staff as of the 1st of January. I've consolidated the two businesses, which is Wilson, Teague, Gillis & Son and the Gillis Solar Center, into the solar business. I am now president of that. That at this time is my salvation.

Ninety percent of my work right now is people who are willing to spend money to save. The people—the homeowner has become a do-it-yourselfer. He's not even doing that much in the way of additions. It's a matter of "fixing up what I have to keep on going." If he put an addition on, he's looking at an additional payment; he's looking at an additional real estate tax, and he's looking at additional utility costs.

The average man and below, he's just struggling now to hold what he has. The interest rates are the thing. Until something is done to get the rates down to where people can afford the loans, I don't foresee any relief.

I am not an economist. I wish I had the answers. I don't. I have been doing some work with the poultry industry on the solar side. I know for a fact, working with them, that the poultry industry—the same thing, it's down. The chicken houses or the boiler houses are not being built.

I've worked in commercial work, the small end of it, for the last 3 years, more so than I ever have. As the housing starts to drop off—that's down. Here again, the merchant, his sales are down. He's certainly not going to spend to expand now or upgrade what he has—trying to make do with what he has.

We're going to see a change in our housing. Mr. Banks talked earlier about the young farmer; if he didn't inherit it from his father he couldn't make it. What worries me is the young couple that's got married or getting married now. If they don't have some outside help there's no way that they'll be able to afford a home unless both are working. He'll be in a jam even making rental payments at this time.

Mr. Porter brought out that if a homeowner today lost his home due to fire or something like this there's no way he could put that home back and make the payments. Can't do it. So, I think 2 years ago in our business—January, February, and March are always bad. We know it's going to be bad.

Two years ago when things got bad we said, well, we'll tighten the belt and we'll make it. Last winter came and you tighten the belt again and you say, well, we'll continue somehow. When this fall came and we had to tighten it again—you've only got so much belt to tighten and it becomes a thing where most of the contractors are making it now with a reduction in their crews, on home improvements. That's basically what's there.

It's not good. Most of us are doing the best that we can to make it.

All I can say is, I thank you for coming here.

Senator SARBANES. Thank you, gentlemen. It's really a very comprehensive statement.

I only have a couple of questions. First, Mr. Hanna, let me ask you and Don Gillis: We have had testimony to the effect that one of the contributing factors to the higher cost of housing is that those in the construction end of it—and you had a construction division at one time as I recall your testimony—are constantly disbanding the work force that they've put together. Later, they can't always get back the best people. In any event, even if they can they have to fit it all back together again and that results in inefficiencies in your own operation which could translate into higher costs for housing.

Is that your experience? Do you perceive that is happening?

Mr. HANNA. I think it's accurate.

Mr. GILLIS. The main thing with most of the contractors, the good men that we have had we hold on to. And only up until—well, with a lot of the real well established contractors, only until the last year have they had to let part of them go. You do anything you can to hold the men that you have. I've had to let a man go that has been with me over 6 years. I hated it.

But now, if things were to start again, yes, I think you're absolutely right, it would be a drawback for me to go back and come up with good, qualified people to start again.

Senator SARBANES. You have to put a full crew together again.

Mr. GILLIS. To go again. That's right.

Senator SARBANES. Of course, Hursey knows, from the previous hearings, that we've been trying to get the Fed to ease their policy, not open the floodgates, just ease it, so people can do business.

If they did that, it would help to achieve the goals that they talk about achieving, not impede them from achieving.

We are encountering this assertion by some administration people, that the prime rate has come down from 20½ to 15¾ percent, which is, of course, true. But then if you look at the mortgage rates, they've hardly come down at all, from just 18 percent to about 17½ percent. What rate do you need, where you could at least sort of do business again? 12 to 13 percent?

Mr. PORTER. That would open the door. It wouldn't open the floodgates. But in our local economy, it would certainly open the door. But I think it's going to have to change.

Senator SARBANES. What are people doing here for housing under these circumstances? They can't afford to build a house. Normally, that's what they would have done. Where are they going for housing?

Mr. PORTER. Locally, the rental market—it's put an extreme pressure on all the rental markets.

Senator SARBANES. Of course. Then the rents go up.

Mr. PORTER. So the rents definitely go up. So you're only taking the pressure off of one segment and putting it on another. And it's just like the testimony that was given here a while ago. Unless there's two people working within the household, many times they can't even afford to pay the rents that are being received today, which again, to me, puts a demoralizing situation upon the citizens. Parents are not able to be home with their children during the day, as they should be, and it's a vicious cycle.

Senator SARBANES. I was interested, Henry, in your observations about the impact of this on people thrown out of work. This week's Time magazine has an essay right at the end, entitled "The Anguish of the Jobless," and it's a very perceptive piece about the psychological and emotional impact of unemployment on people. I think unemployment is destroying certain basic attitudes.

There is a problem with people who are playing the system and not wanting to work. I recognize that problem. Obviously, we ought to address it. I think that's, to some extent, probably overexaggerated. But in any event, to the extent it's there, you have to deal with it as it is. Those are people that are trying to rip off the system, and I don't have any sympathy with them.

Then you have other people who are just caught by the system. They want to work; and when they get the chance, they do work and they do a good job. And they're just being bounced out of the system and all of the problems that are connected with that.

Thank you very much, gentlemen. We appreciate it.

Now, we hear the concluding panel, the college panel—if they'd come forward and take their places.

Gentlemen, we appreciate your patience in staying through the morning. Maybe it was helpful to you to get the feel of what's happening out there.

Mr. Nadelman, please proceed.

STATEMENT OF MARTIN H. NADELMAN, DIRECTOR, STUDENT SERVICES, WOR-WIC TECH COMMUNITY COLLEGE, SALISBURY, MD.

Mr. NADELMAN. My name is Martin Nadelman. I come here today having served as director of student services at Wor-Wic Tech since its inception in August 1976. Our community college serves the citizens of the lower Eastern Shore of Maryland by offering vocational-technical programs. Our current enrollment is approximately 650 students in the credit courses and 1,100 students in our continuing education courses.

Our student population exhibits characteristics which are typical of other community colleges, average age about 28, the majority attending part time. About one-third are trying to upgrade their skills from present jobs.

Wholly 99 percent of our students are from Maryland, with 80 percent coming from our support counties of Worchester and Wicomico.

Upon completion of their studies, over 90 percent remain in the support area to work.

What does this 90 percent have to look forward to? A job market filled with uncertainty, disappointment, or jubilance? The answer is any of these possibilities, depending upon the program of study.

As you may or may not be aware, prior to the initiation of any program at the college, the State board of community college requires surveys to determine sufficient local program interest and, more important, sufficient local job opportunities to warrant program approval by the State board of higher education.

We have been fortunate in having begun seven new programs within the past 6 years. Solemnly, we have deactivated two of these for lack of local job opportunities, carpentry, and wholesale and physical distribution.

A third one, automotive apprenticeship technology, is clinging by a thread, with only three apprentices in a program designed to handle 60.

The reasons for the deactivation is obvious. A sharp downturn in the economy has left the housing and automotive industry on the lower Eastern Shore in the same shape as the national, very sluggish. Apprentices and trainees are the first to get let go in times of retrenchment.

Just this fall we began a new machinists' program with the help of tens of thousands of dollars from the State and Federal sources. Already, with our initial class, we are finding placement very difficult.

Even with Federal and State incentives of partial reimbursement for wages, employers still seem unable or unwilling to hire apprentice-intense industries. Unemployed individuals with years of experience are looking for work anywhere, even at entry-level positions, just to be able to work. This leaves the newly educated machinist in a very difficult position in which to compete for a job.

Though the picture I have thus far painted looks bleak, there are many high points. Even through the difficult last 2 years, we have managed to place over 90 percent of our graduates or have seen them go on to further their education. In some instances, our graduates had to settle for less than ideal job opportunities within their field of study, and others have even had to take positions in other occupational areas.

What can we do to help assure job opportunities for graduates on the lower Eastern Shore of Maryland? The college will need to continue to meet the needs of local industry. The community leaders will need to continue to strive to encourage industry to come to the area. And the State must provide incentives for large firms to locate within the State.

The Federal Government must take greater steps to stimulate the economy and lower unemployment. If these initial steps are taken, I can see the local economy recovering, thus leaving entry-level positions for graduates of 1- and 2-year programs.

I thank you for this time to speak. I trust the leaders of Government are listening.

Senator SARBANES. Thank you very much.

Mr. Franklin, please proceed.

STATEMENT OF HERMAN FRANKLIN, VICE CHANCELLOR, STUDENT AFFAIRS, UNIVERSITY OF MARYLAND EASTERN SHORE, PRINCESS ANNE, MD.

Mr. FRANKLIN. Thank you, Senator.

I'm Herman Franklin, vice chancellor of student affairs at the University of Maryland Eastern Shore. The University of Maryland Eastern Shore, of course, is located in Somerset County.

As you've already heard testimony related to the present economy and its effect on employment, I could talk about the university's inability to maintain its building because of high inflation, I could talk about the possibility of having to lay off personnel because of restrictions on budgetary availability. I could talk about the effect that the economy is having on the students and their parents. But because there's so little time allotted, I have chosen to essentially enumerate the concerns as students have expressed them.

The students at the university, of course, are concerned about the economy and the impact that the economy has on their present and their future goals. We understand, of course, that minority students in particular and low-income students in general are frightened by the feeling of helplessness which they see coming upon them. They feel that we are moving toward even harder times, that they would be victims of the political machine.

With the wave of excessive unemployment that we see coming across our Nation, the unemployed, those persons who have experience, are competing, of course, for those jobs which young people just coming out of college have been trained for in the past four years.

In enumerating the concerns, as students are making them known to us, which you have before you, also, I have enumerated quite a few of them. I would simply read through them rather quickly:

Our students are concerned about the scarcity of part-time jobs, as well as full-time job opportunities for them when they leave school.

They're concerned about the dismal future for summer employment—"What am I going to do once school gets out?"

They're concerned about the scarcity of entry-level jobs in the community in this area.

They are concerned about the low salary scales for entry-level positions for graduates who opt to stay in the local community.

They are concerned about the absence of significantly large numbers of industries in the area and the current reduction in the present work force.

They are concerned about the need for teachers—or students, rather, who are trained as teachers who have to accept alternative job offers.

They are concerned about the need for graduates to stay in the area to accept second jobs in order to make ends meet.

They are concerned about the absence of significant numbers of interships in the local area to give students experiences in their chosen major.

They are concerned about the absence of strong affirmative action programs.

They are concerned about the State's freeze on hiring.

They are concerned about the real effect that block grants will have on them.

They are concerned about the rising crime rate due to the increased unemployment.

They are concerned about the status of social programs.

They are concerned about the possibility of the need to raise property and other taxes that will have a drastic effect on their parents.

They are also concerned about the political changes that seem to benefit the rich and harm more drastically the poor and the lower-income.

Those are the concerns that I wish to put on the record that students are expressing as it relates to the direct effect that the economy has on them and their chosen community.

Senator SARBANES. That's very helpful, Mr. Franklin.

Mr. Lackie, please proceed.

STATEMENT OF JAMES C. LACKIE, DIRECTOR, CAREER DEVELOPMENT, SALISBURY STATE COLLEGE, SALISBURY, MD.

Mr. LACKIE. My name is James C. Lackie. I am director of career planning and placement at Salisbury State College here in Salisbury.

We are a multipurpose, fully accredited State college, offering liberal and professional educational programs at both the undergraduate and graduate levels. The college draws its student body primarily from the State of Maryland, with a 15 percent out-of-State population.

Essentiailly, my responsibilities fall into two primary areas: The first is career counseling for undecided majors, freshmen, and transfer students. The second area is job placement for our graduating senior and recent alumni.

I'd like to focus my remarks on the problems our students face in access to the job market following graduation and for part-time employment while still in school.

Speaking for our graduates, unemployment is not the primary problem. Salisbury State graduates have incurred the lowest unemployment rate of any of the State colleges and universities, with the sole exception being the professional schools of the University of Maryland Baltimore.

The real problem our graduates face is underemployment. That is a nationwide problem for college graduates. The impact of underemployment is much more severe for those with nontechnical majors, such as the traditional liberal arts.

If unemployment is suffered, it is most likely to result from a combination of patterns in the labor market and some employment cutbacks resulting from the sluggish economy.

Let me cite an example. Currently teachers, notwithstanding a few critical shortage areas, are facing layoffs. Needless to say, a marked decrease in new hiring is also widespread.

However, one should not totally blame these layoffs and hiring cutbacks on the present economy. The problem has been brewing for over 7 years, primarily as the result of demographic changes.

The present economy has, to a degree, accelerated layoffs and reduced new-hires and numbers of school districts. But those cutbacks have already been going on and would have continued anyway. The pattern seems to indicate that if a full recovery occurred tomorrow, teacher layoffs and the slowdown of new hires would continue.

A recession is generally measured in terms of several quarters, while hiring patterns in the professions are responsive to more gradual and nebulous factors.

Given the professional training cycle of 4 to 8 years of college, a freshman student entering what appears to be a high-demand career field can, upon graduation, find that the market for his or her skills has deteriorated during the period of training. Consequently, he or she may be forced to consider taking less than what they had expected to receive.

I should also point out that the reverse case can and does often occur.

There are some immediate social and economic ramifications for some students graduating from Salisbury State College during the midst of a slumping economy. If the graduating senior wishes to avo underemployment, he or she is often forced to seek employment in another geographic location.

Another effect is that the starting salary offers tend to decline as supply and demand factors change. Having to accept less than a fully professional job leads many students toward feelings of frustration and resentment.

Some student faced with a depressed job market turn towards graduate school, hoping to improve their lot or at least defer their job search in an improved job market in the future.

For our college's students, the impact on the local economy is most often felt in the loss of part-time and summer employment opportunities. The majority of our students work, and that work is essential to their ability to finance their education.

Additionally, as unemployment increases, some students' parents lose their own jobs and the final base for those students is further eroded.

Interest rates for student loans are having a severe financial impact on our college students.

In summary, it is my observation that following graduation our graduates are most adversely affected by the regional economy, which causes more increases in underemployment than in unemployment. And while they're still in college, a sluggish economy, such as the present one, coupled with program cutbacks, impacts most severely on the students' ability to finance their education.

Senator SARBANES. Thank you very much.

Gentlemen, let me ask you this question: How much of an impact on the learning environment in the college does the fact that we're in a recessionary environment have? Is that discernible? If so, what is the nature of the impact that it has?

Mr. FRANKLIN. Well, if I understand the question, you would notice it most in the reduction in enrollment, because everything that happens to the student in terms of his inability to provide for himself to get to school and pay for the education once he gets there—or if he comes, and you get him into schools somehow and he doesn't have the funds to pay for the education, then it has an adverse effect in the classroom. There is a direct relationship to the availability of funds to sustain oneself.

Senator SARBANES. Assuming that's not the problem, what about their attitude, which sort of says, "Well, there's not much out there after I get out of here. So, in a sense, what's the purpose of all of this?" Do you get much of that?

Mr. FRANKLIN. I don't see that at my place.

Mr. LACKIE. We get some of that. Interesting, college students, being rather bright people, have neat defense mechanisms. One of them is an unfortunate one that we're seeing. A number of students, for want of a better term, prostitute their long-range career goals for the short-term job market. So we see much more "vocationalism" built into the mental processes as one looks at career considerations. That's undoubtedly why our school of business administration is the largest within the college.

Clearly, that did not happen because in those students' development processes which occurred back in the 1960's, when they probably should have been developing social mentalities—you know, that desire to be entrepreneurship, I saying, was not part of that development process. And now, all of a sudden, it's emerging. Clearly, it's because they're looking at the economy and saying, "Gosh, things are really bad. I'd at least better get into accounting or business or something that's going to be an income-yielding area." And I have some concerns about that in the long range.

Mr. NADELMAN. We see it from the other end. We see a shift in the students. Again, they're bright people. If there's no jobs out there in automotive apprenticeships, why should I enter that program? So they go into something else.

Senator SARBANES. I'm interested that you dropped carpentry from the curriculum, but I think anyone will tell you that we need skilled carpenters in this society, if one projects out our needs. You don't need them if you're only going to build 800,000 houses a years, but 800,000 a year doesn't begin to meet the Nation's demand. We need to build 2½ times that many houses a year to house our people properly. And if you're at that kind of level of production, you're going to need a lot of skilled carpenters, yet we've not produced them.

Mr. NADELMAN. Well, again, community colleges are here to meet the local needs. The local needs just don't have that right now. And it's also an apprenticeship-type program. If the local contractors aren't hiring carpentry students and preapprentices, there's nothing we can do.

Mr. FRANKLIN. One other point with my school, too. Students do see education as an alternative to unemployment. Many of my students, 90 percent plus are on some type of financial aid. They come with the idea of talking about alternatives to unemployment, and then the aid that they thought was going to be available is also being cut, and they bring with them very little personal financial resources. So we can see reductions in the finance aid section of the campus, and we find the available student who would like to come to the college but needs every available financial aid he can get, so the result is reduction.

Senator SARBANES. Shrinking opportunities everywhere, so that options which previously would work aren't even working now, because the possibility of that option is taken away.

Have you experienced an impact yet on your enrollments? Do you anticipate that happening?

Mr. LACKIE. Ours has gone up. I don't know what that means.

Mr. FRANKLIN. The enrollment is going up, but it's not that significant. I think it would be more significant if the financial resources that I mentioned, at least my own perception is that the enrollment increase is for the most part those people who are seeing education as an alternative to unemployment. The problem, when the students leave to go home in the summer, they go in anticipation of finding employment to help to pay their expenses when they come back. When they come back, we expect them to bring *x* number of dollars as a personal or parental contribution to their education, and they don't have that money.

Mr. NADELMAN. As a 2-year school, I see it definitely. Our students are community students. Two-thirds of them are already working. They don't have to worry about being unemployed. They're trying to better their skills to get a better job, and we have a lot of women coming back to school to try to get into the work force. So our enrollment is also increasing, and the students can see a greater opportunity to go out to work. Here's a 1-year program; here's a 2-year program.

Senator SARBANES. There's an immediate payoff.

Mr. LACKIE. Senator Sarbanes, there may be one thing that we'll have to watch and see how it develops. At the State college level we are getting some initial feeling that maybe what's going to be supporting the enrollment, in fact, could possibly accelerate it, is that as the economy does decline, parents who previously had sent their students to a more prestigious private institution with a very high tuition cost, are now turning to the State colleges as a viable alternative. I'm looking at essentially what we feel is a good solid education at a heck of a lot less.

Senator SARBANES. Gentlemen, you've been very helpful. We appreciate your testimony, and I appreciate your patience in staying with us.

Thank you all for participating today.

The subcommittee will stand in recess until tomorrow at 10 a.m.

[Whereupon, at 1:30 p.m., the subcommittee recessed, to reconvene at 10:00 a.m., Friday, January 15, 1982, in Silver Spring, Md.]

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

STATEMENT OF WILLIAM I. WINGATE, PRESIDENT, BOARD OF COUNTY COMMISSIONERS, DORCHESTER COUNTY, MD.

The County of Dorchester is still in a high percentage of unemployment. This has been a factor the County lived with for years. The facts contributing to this seem to be,

(a) Seasonal employment due to the agriculture and water industries.
(b) An over load of unskilled labor.

We have taken what we believe to be positive steps to help turn this situation into a stable economic trend for our County and its citizens. The steps taken are as follows:

1. Have purchased and will have completed by the end of 1982 a 47 acre industrial park complete with roads and utilities.

2. Taken over the local airport, by the end of this year will have spent approximately one half million dollars to modernize and upgrade to help with transportation plus open the area for a site to house light industry.

3. The biggest step was in creating an Economic Development Committee through the Dorchester Chamber of Commerce. This is being supported with funds from the local banks and businesses, City of Cambridge and Dorchester County. This committee has now hired a full time Director who has priorities and accomplishments to meet. They are,

(a) Assist existing businesses in the area to maintain balance and to expand.

(b) To help establish job training programs between business and Community College.

(c) To make contact and try to relocate new business to the area.

(d) To be a liaison with the County Government to help with financing and tax concessions when applicable.

(e) To advertise the benefits of the County internationally through our own efforts and the facilities of the State.

The State of Maryland has been in the last few years very cooperative in assisting with these goals by putting Economic Development in the State a top priority.

4. The City of Cambridge and Dorchester County are progressing with the Cambridge Creek project which is a housing and retail business complex.

We as local government in cooperation with the State continue to keep our doors open for ideas of working with our existing businesses and entice new business to our area.

The Federal Government has been of valuable help to the local governments with grants and assistance through EDA and EPA.

With the new economics being pursued by Washington, I feel there are certain directions that the Federal Government must take to improve the economic stability of our nation.

These are only two, but I feel they are important:

1. Industrial Revenue Bonds must be kept intact, however, I feel that they should only be used to assist existing and new industries to expand or relocate with this financing assistance only when it means new employment or the retaining of existing employees.

2. I strongly feel that the Federal Government must get its own financial house in order to show our nation and the world that this county is once again a stable and industrious nation.
The high cost of operating money I feel is being caused by the Federal Government buying up such a high percent of available monies in order to meet their deficits. The tax structure cannot be restructured to improve our economy as long as we need the third largest percentage of our tax dollar to pay off the interest on our National Debt. The tax structure must be changed to give industry and our private citizens the incentive to forge ahead.

My strong feelings of correcting this problem would be to put a special tax (such as a percentage sales tax) on all manufactured goods and all imported goods within the nation.

This over a short period of years would free us of our National Debt and cut this years budget by approximately 90 billion dollars. I feel this would once again replace the confidence of our own people and the world in the United States Government. We must have this confidence and initiative to meet a clear and progressive future for our nation.

Thank you for allowing me to submit this report.

EFFECTS OF THE RECESSION ON MARYLAND COMMUNITIES

FRIDAY, JANUARY 15, 1982

Congress of the United States,
Subcommittee on Investment, Jobs, and Prices
of the Joint Economic Committee,
Washington, D.C.

The subcommittee met, pursuant to recess, at 10:05 a.m., in the Maryland National Capital Park and Planning Commission Auditorium, Silver Spring, Md., Hon. Paul S. Sarbanes (member of the subcommittee) presiding.

Present: Senator Sarbanes.

Also present: William R. Buechner, professional staff member.

Opening Statement of Senator Sarbanes, Presiding

Senator Sarbanes. Today the Subcommittee on Investment, Jobs, and Prices of the Joint Economic Committee holds the fourth and final in a series of hearings in the State of Maryland to review and document the effects of the recession on Maryland communities and their citizens. Earlier this week the subcommittee heard from knowledgeable witnesses in the city of Baltimore, in Cumberland, and yesterday in Salisbury about the severe challenge posed by current economic conditions to employment, productive investment, homeownership, and community economic development.

Today, of course, marks the 53d anniversary of the birth of Rev. Martin Luther King, Jr., and I think in a very real sense this hearing can be regarded as being held in his memory. Rev. Dr. King had a profound understanding of the fundamental importance in our American society of a self-respecting job at decent wages. As we all know, one of his great commitments was to jobs for all Americans. It is worth recalling that Rev. Dr. King was in Memphis to be at the side of people seeking a living wage when he was so tragically killed. I am aware that there is a march taking place this morning on the Mall in honor of Rev. Dr. King, in support of the efforts in which I and others have joined to make his birthday a national holiday. But I think in many ways it is an equally profound tribute to his memory that hearings of this sort, focused on the recession and on people being thrown out of work, should be held.

These hearings are being held at the request of Congressman Henry S. Reuss, chairman of the Joint Economic Committee, in connection with comprehensive hearings which the committee will undertake

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beginning the week of January 18 and continuing through the month of February. The Joint Economic Committee holds such hearings on the state of the economy every year, in accordance with the provisions of the Employment Act of 1946 directing the committee "to make a continuing study of matters relating to the economic report" which the President, pursuant also to provisions of the Employment Act, submits annually to the Congress. While the hearings of the Joint Economic Committee on the state of the Nation's economy to be held at the capitol will receive testimony from cabinet secretaries, other administration witnesses and prominent witnesses from the private sector, the subcommittee hearings will focus on the local impact of the recession in communities across the State of Maryland. The testimony received in the course of these hearings will constitute a valuable contribution to the work of the full committee in developing the policy recommendations that the committee in its annual report will make to the Congress.

The subcommittee hearings come at a critical time for local economies and communities in the State. The recession, which last fall began to spread beyond certain interest-sensitive sectors of the economy which were already in recession, pushed the national unemployment rate up to 8.9 percent in December. A week ago this morning, in fact virtually at this very time, Janet Norwood, the head of the Bureau of Labor Statistics, reported to the Joint Economic Committee at a hearing on Capitol Hill that the unemployment rate for December had gone to 8.9 percent, the highest monthly unemployment figure we have experienced in the country since World War II, with the exception of May of 1975 when it stood at 9 percent. That 9 percent figure came at a time when we were 10 months into the recession. This 8.9 figure comes at a time when we are only 5 months into the recession, and when the economic indicators seem to be forecasting a continued deterioration of economic conditions.

The situation in Montgomery and Prince Georges Counties differs in certain significant respects from other parts of Maryland. There are indications that the Washington metropolitan area, which has long been considered relatively immune to cyclical patterns of economic activity, may now face many of the problems of economic recession which confront communities all across the State. As public sector employment declines, a private sector in the midst of a severe recession cannot offer alternative job opportunities to citizens in local communities.

Unemployment is a reflection of and a contributing factor to recession. It is not the only factor in recession, however. When the Subcommittee on Investment, Jobs, and Prices held hearings in Maryland just before Labor Day, I remarked that "It is no exaggeration to say that the problems created by continuing high interest rates are approaching crisis proportions." The statement remains as appropriate today as it was over 4 months ago. The prime rate has fallen from a high of 20½ percent in September to its current level of 15.75 percent, but that drop has not been effectively translated into significantly lower rates for home buyers, homebuilders, autodealers or the small business community. Indeed, the Federal Home Loan Bank Board reported just last week that mortgage rates declined in early December only from 18.16 to 17.54 percent nationwide, rates which remain far beyond the reach of all but a few Maryland families.

The purpose of these hearings, as I indicated, is to document with testimony from those directly affected the conditions to which rising unemployment, continuing high interest rates and other adverse economic indicators attest. These urgent issues will be examined at length on a nationwide scale in the hearings which begin in the full Joint Economic Committee next week. It is my expectation that the record of the Maryland experience established by these hearings will make an important contribution to the committee's work, and to the response which policymakers must undertake as they address the grave economic challenges now facing the Nation.

To open we will have a panel from the State government, Dolores Paunil who is the labor market analyst with the employment security administration; and Thomas Saquella who is executive assistant to the secretary of the Maryland Department of Economic and Community Development. If you will come forward and take seats here, we would be happy to hear from you.

Senator SARBANES. As you begin your testimony, and I say this for the other witnesses as well, if you could give your name and your position for the reporter it would be very helpful and we would appreciate it.

Ms. Paunil, I think we will probably hear from you first.

STATEMENT OF DOLORES PAUNIL, LABOR MARKET ANALYST, EMPLOYMENT SECURITY ADMINISTRATION, MARYLAND DEPARTMENT OF HUMAN RESOURCES, COLLEGE PARK, MD.

Ms. PAUNIL. My name is Dolores Paunil. I am a labor market analyst for the employment security administration's research and analysis division. I am involved solely in research providing information to the public on labor market conditions in the Washington suburbs. I am happy to be here this morning and have the opportunity to speak to you about the labor market conditions in the Maryland suburbs.

Much has been written and said about the economic distress that has been experienced by the State of Maryland throughout the past year. For most of 1981 the State's unemployment rate has remained at over 7 percent with November's rate of 7.9 percent equaling the high recorded in November 1976.

Maryland's Washington suburbs—Montgomery, Prince Georges, and Charles Counties—while experiencing some stagnation locally, have continued to demonstrate a resistance to cyclical instability. Unemployment levels have been higher in 1981 than in 1980, but have remained well below State and national levels. A preliminary 11-month rate for 1981 indicates that unemployment averaged 4.4 percent in Maryland's Washington suburbs compared to a rate of 7.1 percent statewide.

Historically, the Maryland portion of the Washington area has enjoyed a prosperous, stable economy, bolstered by its proximity to the Nation's Capital. This location has resulted in the availability of a large number of Federal jobs for the area's labor force and has helped attract many private firms who do business with the Federal Government.

Close to 30 percent of all jobs in the suburbs are to be found in local, State, or Federal Government agencies—jobs generally unaffected by economic declines. Only about 4.5 to 5 percent of unemployment in these counties is to be found in the cyclically sensitive manufacturing sector—and industry division which accounts for roughly 14 percent of jobs statewide. In addition, the high level of personal income in the Washington area can sustain consumer demand for a longer period while elsewhere it may be declining. The result of these factors has been a stable economic climate which has been fairly well insulated from national recessions. Unemployment rates are consistently below State and national levels during all phases of the business cycle.

Ironically, the presence of the Federal Establishment has in recent years served to encourage growth in the private sector, primarily among businesses in the service industries. This major industry division now accounts for more than one in four jobs located in Maryland's Washington suburbs. Consultants, research and development firms specializing in Federal contracts, high technology defense-related manufacturers, and associations and law firms seeking to represent members' or clients' interests with the Federal Government have been relocating or expanding existing facilities in and around the Washington area. The resulting growth in the services sector, coupled with continued expansion in wholesale and retail trade, has caused a substantial increase in the private economy and a relative decline in importance of the Federal Government. This has proven to be a fortunate turn of events.

Last summer, unemployment began rising in the District of Columbia area counties. Much of the rise was due to the normal seasonal influx of students into the labor force. However, unemployment failed to decline at the end of the summer as would be expected. In October, the unemployment rate in Maryland's District of Columbia suburbs had increased to 4.8 percent, about 37,000 persons. It remained at that level in November. While this is not an intolerable rate of unemployment, at least when compared with the State and national rates of 7.9 percent, it is above the level usually experienced by this area.

A number of factors, almost all occurring during the latter part of 1981, caused the rise in joblessness. Several major employers, including a grocery chain, a printing/publishing company, and a food processing firm closed permanently. Some cited economic reasons for closing; others did not. Over the past year a moderate decrease in nondurable goods manufacturing has been noted as well as a more substantial weakness in the construction industry. Prince Georges and Charles Counties have borne the brunt of the job losses. There has been a relatively small effect in Montgomery County, although very recently indications are that unemployment insurance claims are up even there.

Cutbacks in Federal spending have resulted not only in Federal job losses but also in layoffs of some local and State government workers employed in federally funded social services and employment and training agencies. More layoffs in those programs are expected.

The much publicized Federal reductions in force have resulted in a notable decline in the number of Federal jobs in the Maryland suburbs, but relatively few actual layoffs. Several affected agencies, informed well in advance of anticipated RIF's, were able to assist in placing most of their workers in other Federal jobs. Other workers found jobs in the private sector or retired. However, it appears that Federal job losses in the District have resulted in a larger proportion of actual layoffs than among agencies in the Maryland suburbs. Some of the affected workers, of course, are Maryland residents.

In summary, it appears that the current recession has had some negative impact on the Maryland portion of the Washington metro area, albeit a rather moderate one compared with the serious, prolonged economic distress present throughout the rest of Maryland. Some local industries have experienced losses; in others, employment has not grown as strongly as it might otherwise have.

What may have a greater effect on the Washington suburbs is the recent change in Federal fiscal policy. While the dire predictions of massive Federal layoffs and large-scale unemployment have not materialized, it is probable that future cutbacks will be more difficult to absorb. Displaced Federal workers who find other employment reduce the number of job vacancies which would otherwise be available to jobseekers. The lesser skilled, less experienced workers, whether RIF'ed Government personnel or new entrants or re-entrants to the labor force, will have increased difficulty in finding suitable work. Moreover, Government agencies which were created to provide assistance to these persons are now being curtailed.

In the next couple of months unemployment is expected to increase in the Washington suburbs. While this is a normal occurrence at this time of year, jobless levels are expected to be above those of a year ago. Still, the Washington area counties should continue to have the lowest unemployment rates in Maryland.

Seasonal increases in construction are expected in the spring, but the industry has a long way to go to reach full recovery. Longrun growth is anticipated in service industries: computer software and management consultants, high technology research and development, and communications equipment/electronics manufacturing.

In the short run the recession will slow the rate of business expansion. If history is a good predictor, the Washington area should be able to withstand the present business decline relatively well. However, a concurrent reduction in the public sector will affect this resiliency. This area has never experienced a significant cutback in Federal employment or grants. The longrun effects of the current Federal fiscal policy on the Washington area are unknown.

[The prepared statement of Ms. Paunil follows:]

Prepared Statement of Dolores Paunil*

Much has been written and said about the economic distress that has been experienced by the state of Maryland throughout the past year. For most of 1981 the State's unemployment rate has remained at over 7 percent with November's rate of 7.9 percent equalling the high recorded in November 1976.

Maryland's Washington suburbs—Montgomery, Prince Georges, and Charles Counties—while experiencing some stagnation locally, have continued to demonstrate a resistance to cyclical instability. Unemployment levels have been higher in 1981 than in 1980 but have remained well below State and National levels. A

*Coauthored by Pat Arnold, Director, Research and Analysis Division, Frank O. Heintz, executive director, Employment Security Administration, Maryland Department of Human Resources, Baltimore, Md.

preliminary 11 month rate for 1981 indicates that unemployment averaged 4.4 percent in Maryland's Washington suburbs compared to a rate of 7.1 percent Statewide.

ECONOMIC BACKGROUND

Historically, the Maryland portion of the Washington area has enjoyed a prosperous, stable economy, bolstered by its proximity to the Nation's Capital. This location has resulted in the availability of a large number of federal jobs for the area's labor force and has helped attract many private firms who do business with the federal government.

Close to 30 percent of all jobs in the suburbs are to be found in local, State, or Federal government agencies—jobs generally unaffected by economic declines. Only about 4.5 to 5.0 percent of employment in these counties is to be found in the cyclically sensitive manufacturing sector—an industry division which accounts for roughly 14 percent of jobs Statewide. In addition, the high level of personal income in the Washington area can sustain consumer demand for a longer period while elsewhere it may be declining. The result of these factors has been a stable economic climate which has been fairly well insulated from national recessions. Unemployment rates are consistently below State and National levels during all phases of the business cycle.

ANNUAL AVERAGE UNEMPLOYMENT RATES

Year	Maryland portion of the Washington metro area	State of Maryland	United States
1981	[1] 4.4	[1] 7.1	7.6
1980	3.8	6.4	7.1
1979	4.1	5.9	5.8
1978	3.9	5.6	6.0
1977	3.3	6.1	7.0
1976	3.9	6.8	7.7
1975	4.4	6.9	8.5

[1] Preliminary 11-mo average.

Ironically, the presence of the Federal establishment has in recent years served to encourage growth in the private sector, primarily among businesses in the services industries. This major industry division now accounts for more than one in four jobs located in Maryland's Washington suburbs. Consultants, research and development firms specializing in Federal contracts, high technology defense-related manufacturers, and associations and law firms seeking to represent members' or clients' interests with the Federal Government have been relocating or expanding existing facilities in and around the Washington area. The resulting growth in the services sector, coupled with continued expansion in wholesale and retail trade, has caused a substantial increase in the private economy and a relative decline in importance of the Federal Government. This has proven to be a fortunate turn of events.

CURRENT SITUATION

Last summer unemployment began rising in the D.C. area counties. (Statewide, unemployment levels had been above 1980 rates all year.) Much of the rise was due to the normal seasonal influx of students into the labor force. However, unemployment failed to decline at the end of the summer as would be expected. In October the unemployment rate in Maryland's D.C. suburbs had increased to 4.8 percent (about 37,000 persons). It remained at that level in November. While this is not an intolerable rate of unemployment, at least when compared with the State and National rates of 7.9 percent, it is above the level usually experienced by this area.

A number of factors, almost all occurring during the latter part of 1981, caused the rise in joblessness. Several major employers, including a grocery chain, a printing/publishing company, and a food processing firm closed permanently. Some cited economic reasons for closing; others did not. Over the past year a moderate decrease in nondurable goods manufacturing has been noted as well as a more substantial weakness in the construction industry. Prince Georges and Charles Counties have borne the brunt of the job losses. There has been a relatively small effect in Montgomery County, although very recently indications are that unemployment insurance claims are up even there.

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What may have a greater effect on the Washington suburbs is the recent change in federal fiscal policy. While the dire predictions of massive federal layoffs and large scale unemployment have not materialized it is probable that future cutbacks will be more difficult to absorb. Displaced federal workers who find other employment reduce the number of job vacancies which would otherwise be available to jobseekers. The lesser skilled, less experienced workers, whether RIFed government personnel or new entrants or re-entrants to the labor force will have increased difficulty in finding suitable work. Moreover, government agencies which were created to provide assistance to these persons are now being curtailed.

OUTLOOK

In the next couple months unemployment is expected to increase in the Washington suburbs. While this is a normal occurrence at this time of year, jobless levels are expected to be above those of a year ago. Still, the Washington area counties should continue to have the lowest unemployment rates in Maryland.

Seasonal increases in construction are expected in the spring, but the industry has a long way to go to reach full recovery. Long run growth is anticipated in services industries: computer software and management consultants, high technology research and development, and communications equipment/electronics manufacturing. In the short run the recession will slow the rate of business expansion. If history is a good predictor, the Washington area should be able to withstand the present business decline relatively well. However, a concurrent reduction in the public sector will affect this resiliency. This area has never experienced a significant cutback in federal employment or grants. The long run effects of the current federal fiscal policy on the Washington area are unknown.

Senator SARBANES. Thank you very much. I think we will hear from Mr. Saquella, and then I can direct some questions to both of you.

STATEMENT OF THOMAS S. SAQUELLA, EXECUTIVE ASSISTANT, MARYLAND DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT, ANNAPOLIS, MD.

Mr. SAQUELLA. Thanks, Senator.

My name is Tom Saquella. I'm executive assistant in Maryland for the Secretary of Economic and Community Development. I know you heard from Frank Heintz in Baltimore Monday and Dolores today about the unemployment figures. I will try not to repeat what they said, but I will try to describe some general trends in the American economy which point up the fact that Maryland is much less able today to insulate itself against recession than it has been in previous years.

Maryland economy has had a reputation for performing much better than the national economy as a whole during recessions. While such a statement was justified for much of the postwar period, it has probably not been valid since the 1975 recession and is certainly not justified in the present recession. This change in ability can be largely traced to changes in Maryland's employment and industrial mixes.

Maryland, like most Northeastern States, experienced a gradual reduction in its manufacturing employment due to the emergence of first the Southeast and later the Southwest as manufacturing centers. In Maryland, unlike in other Northeastern States, this decrease was more than offset by growth in nonmanufacturing employment—spearheaded first by the growth in the Federal Government and later in State and local employment as well as the retail and financial sectors. During the 1975 and 1980 recessions, government employment was not growing as rapidly as in the past. Consequently, Maryland felt the 1975 and 1980 recessions more severely than previous recessions. The current recession has made this trend remarkably clear; namely, that Maryland is no longer isolated from the effects of national recessions.

In 1977, a State report and a later report of the Johns Hopkins Center for Metropolitan Planning and Research, reported that Maryland lost 40,000 manufacturing jobs between 1970–75. After this report, Maryland became serious about economic development and began to make up these losses in the manufacturing sector, especially in the durable goods sector. Approximately 14,000 of the 20,000 manufacturing job losses in the durable goods sector were recovered by 1979. However, about 7,000 of these jobs were lost during the current recession. Much of these losses can be traced to highly recession-prone industries such as transportation equipment, autos and trucks, and primary metal, steel, which have a large base in Maryland and are doing poorly throughout the country. All is not bleak for Maryland. Several industries in the State, such as electric and electronic equipment, are doing well despite the recession and are performing better in Maryland than in the Nation.

In short, the State is experiencing manufacturing employment losses, but for the first time, government employment is down, decreasing by 12,000 jobs in 1981. The bottom line is that for the first time since at least the mid-1960's, based on the preliminary data available, total annual employment in Maryland has actually declined in 1981.

Today, Maryland finds itself caught in what I would describe as a vicious economic dilemma. As I mentioned previously, beginning in 1979, Maryland began a major push to attract high technology industry to Maryland. This industry was targeted, after extensive research and analysis, due to its growth potential and environmental advantages and Maryland's concentration of the necessary scientists and engineers. The results have been good as reflected in the fact that the electronic component industry is doing well in Maryland. This effort, however, is now being retarded by national economic problems.

Maryland's Office of Business and Industrial Development reports that 57 industrial prospects who they were working with have dropped expansion plans because of either soft market conditions or high interest rates. While one should not assume that Maryland would have located all 57 prospects, these 57 prospects involved a potential capital investment of $136 million and 4,875 jobs.

The other part of the dilemma, already mentioned, is difficulty being experienced by traditional manufacturing industries. As an example, Maryland is experiencing significant layoffs at General Motors in Baltimore City, Bethlehem Steel in Baltimore County, Mack Truck in Hagerstown, and PPG in Cumberland. General Motors has also delayed the modernization and expansion of its Baltimore plant, which was announced at $500 million. The manufacturing situation goes beyond these auto-related industries. Dresser-Wayne Industries, a textile firm in Salisbury, furloughed 80 people and then closed the plant for the first 2 weeks of this year, which involved a furlough of another 340 people.

In short, the current recession has accelerated the gradual and long-term decline of traditional industries and dampened Maryland's efforts to attract future growth industries to offset the declines in the traditional industries. I used the word "dilemma"; maybe vicious circle would be a better word.

This situation is further worsened by the declines in the construction industry, long a significant factor in Maryland's economy. While a comparison of 1980 and 1981 figures for volume of construction contracting shows Maryland much better than the Nation for residential construction, Maryland, like the Nation, is experiencing severe decline in nonresidential (office buildings) and nonbuilding (roads, sewers). The bottom line is a 13.1 percent decrease in contract construction employment in comparing November 1981 with November 1980.

The impact on construction activity points up a less obvious impact on State government's ability to deal with the current recession. When the construction industry was adversely impacted during the 1975 recession, Maryland was able to mitigate this impact by providing housing construction financed through the sale of tax-exempt housing revenue bonds by the State's Community Department Administration. In 1975, CDA financed almost 50 percent of the multifamily construction activity in Maryland. This option is now less available to Maryland because of the high rates and volatile nature in the municipal bond market. Nationally, housing bonds declined from 30 percent of the municipal bond market in 1980 to 15 percent in 1981. Revenue bond financing for single-family housing is further hampered by the Mortgage Subsidy Bond Act of 1981.

Another less obvious result of the current recession is the impact on previous Federal, State, and local investment in infrastructure to further economic development. Due to the curtailment of private investment, many of the facilities financed by government are sitting underutilized or not utilized at all.

In conclusion, Maryland, like most other States, is hit hard by the present recession. While we can still withstand it somewhat better than other States, our ability to do so has deteriorated over the last several years. How Maryland will finally fare in the current recession remains to be seen, but the curtailment of Federal programs will undoubtedly exacerbate Maryland's economic problems.

Thank you.

Senator SARBANES. I want to thank you both very much for two very thoughtful statements.

Ms. Paunil, let me ask you: At the same time that unemployment is increasing, the cutbacks in Federal cost-sharing with the States have forced your department to lay off a number of people; is that correct?

Ms. PAUNIL. That's correct.

Senator SARBANES. What do you anticipate the impact of that will be on the services that you're called upon to provide to the unemployed?

Ms. PAUNIL. Well, the State Employment Security Administration will be able to provide a lot less service to the people that are laid off. The State Job Service, the agency that is charged with placing employees in employment, is experiencing most of the cutbacks. Staff now is pretty much down to a skeleton crew, which is able to do little more than register people for the Job Service and take job orders from employers. There really is not enough staff at present to do any file searches and do much placing of people into jobs. They're just basically following the letter of the law and registering people. And I understand that we can expect maybe as much as about one-third cutback in staff in the employment services.

Senator SARBANES. How long do people who are laid off and come in and file an unemployment claim have to wait before they receive their first unemployment check?

Ms. PAUNIL. Right now it usually averages between 2 to 3 weeks for the full processing.

Senator SARBANES. In other words, somehow they have to bridge that period themselves, in terms of meeting their families' needs; is that correct?

Ms. PAUNIL. That's correct.

Senator SARBANES. Is that period lengthening as a consequence of the increase in the number of unemployed and the cutback in the department's staff?

Ms. PAUNIL. I don't believe there's been an increase yet, but there should be. The unemployment insurance processing division hasn't experienced any severe cutbacks yet. Most of the cutbacks have been in the job service placement department, but I understand the next round of cuts is going to affect the unemployment insurance division, as well, and lessening of staff can't help but increase the time in actually getting an unemployment check.

Senator SARBANES. Is this the most severe problem that you can recall in this area with respect to unemployment?

Ms. PAUNIL. Right now, unemployment is as high as it was during the recession levels of 1975 and 1976, and we expect it probably will go higher. How much higher, we don't know. The problem is, is the main shield from the recession, which has been Government employment, is now also not that source of security it was in the past, so it's really hard to make a prediction on how this area's going to fare. So far, as you can see, it's still well below the State in unemployment levels, but we really don't know what's going to happen.

Senator SARBANES. Mr. Saquella, I was very struck by your point that in the past we've prided ourselves in the State. Our economy does better than the Nation, and we've always pointed to that fact. I take it, that you are saying, in effect, that because of these economic trends, that's either no longer the case or is, at least, not as much the case as it was in the past.

Mr. SAQUELLA. I would say it's the latter, sir, not as much the case as in the past at all. And our State unemployment rate is getting very close to the national average.

Senator SARBANES. Earlier this week Frank Heintz testified that when the national figure was 8.4 percent and the Maryland figure was 7.9 percent. The latest national figure is 8.9 percent. We don't yet have the Maryland figure which will come, what? In about 2 weeks' time?

Ms. PAUNIL. Excuse me, Senator, I might like to add, the national rate of 8.3 and 8.4 percent is a seasonally adjusted rate. In Maryland, we don't seasonally adjust the statistics. So a more comparable figure is to use the nationally nonseasonally adjusted rates, which was 7.9 percent in November, and it was the same in Maryland. So I think basically we could say that pretty much now Maryland unemployment rates are about the same as the national figure.

Senator SARBANES. I appreciate that. It's a very important statistical point—about the way in which the statistics are kept—to get into the record. In effect, because one was seasonally adjusted and the other was not, you would say, that the figures really were comparable in November. Most of the gain that the State has made in attracting manufacturing jobs since it launched this effort has been wiped out by the recession. A good part of it has already been wiped out and, of course, I guess the prospects are that much is going to go by the board.

Mr. SAQUELLA. The gains that we made in high technology, other types of industry, are being—if not offset, are being more offset now by the layoffs in the more traditional industries in Maryland, which are still very big in Maryland. Steel, autos, and those industries which are somewhat very much national. In layoffs, they are more than offsetting whatever gains we've been able to make, since starting in the late 1970's.

Senator SARBANES. You have been a very helpful panel. We appreciate the obvious care that has gone into preparing your testimony this morning.

Next, if we could have the public sector employment panel come forward: Ernie Crofoot, the director of Council 67 and vice president of AFSCME International; Jerry Klepner, the director of legislation for the National Treasury Employees Union; and Donald MacIntyre, national vice president from the District of Columbia area of the American Federation of Government Employees.

Mr. Crofoot, why don't you go first.

STATEMENT OF ERNEST B. CROFOOT, DIRECTOR OF COUNCIL 67 AND INTERNATIONAL VICE PRESIDENT, AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES, AFL-CIO, WASHINGTON, D.C.

Mr. CROFOOT. I thank you, Senator.

I am Ernie Crofoot, and I am international vice president for the capital region of the American Federation of State, County and Municipal Employees.

Our union is the largest public employee union in the country, and the third-largest union in the AFL-CIO, representing over 1 million members in the United States, including 25,000 here in Maryland.

Our members have been seriously affected by Reaganomics in two ways:

Like everyone else—citizens, consumers, and taxpayers—they have been ravaged like everyone else by the current recession.

As public employees—the workers who keep our Government operating efficiently and the people who provide the public services we all depend on daily—we have also bourne the brunt of the administration budget cuts. It is on our role as public employees that I will concentrate today.

I know you are well aware of the statistics that show the economic problems that Maryland and its citizens face. We at AFSCME feel that there are really two problems that cannot be separated: The recession and the Reagan budget cuts. I will address each briefly.

The recession has had a crippling effect on Government finances. On the one hand, tax revenues fall off: Fewer people are working, so fewer income taxes are collected; high prices and high interest rates mean people buy less goods, thus depressing sales tax collections; businesses make lower profits, which reduces the taxes they pay.

On the other hand, a recession increases the demands placed on Government: Claims for unemployment, welfare, and other forms of assistance go up dramatically. Further, this recession, with its unprecedented high interest rates, has made it extremely difficult for State and local governments to raise funds on the bond market.

The recession had a severe impact on Maryland State employees last year. Because revenues were so tight, and because Maryland has no collective bargaining law for public employees, the legislature gave no pay raise last year to the 54,000 employees of the State of Maryland—and this in a year when inflation pushed up the cost of living 10.3 percent.

Still, the State of Maryland and local city and county governments might have managed with the recession if the Federal budget cuts hadn't come along. The effects of those cuts on the State and local level are beginning to be felt; they are severe now, and may be even more horrenous in the years to come.

AFSCME estimates that Maryland State and local governments will lose at least $265 million in Federal aid in fiscal year 1982. Because of the dire straits the recession plunged us into, there just isn't money to make up the losses. The results are painfully obvious: Service cuts and layoffs of public employees are inevitable.

We've already begun to experience the layoffs. To cite a few examples, over 10,000 people in the Baltimore area who were enrolled in job training programs through CETA are now out on the streets. Another 1,000 workers in the city of Baltimore may lose their jobs shortly. About 150 State workers have been cut from the payrolls. And in Prince George's County, Federal cutbacks in the school lunch program have forced a 17-percent reduction in hours for our members who prepare and serve those lunches.

Cutting Federal aid undermines the ability of State and local governments to provide public services. And it is local public services—police, fire protection, education, libraries, mass transit, garbage collection, and the like—which are most important to people in Maryland communities.

Another serious problem that has been building for some time is the declining condition of the public infrastructure. Tight Government budgets have resulted in delays for capital projects, but if the economy is to grow, those investments cannot be put off any longer. Public services and public facilities such as roads, bridges, and sewage systems have always been the silent partner which has facilitated and made possible the growth of our private enterprises.

Our incumbent leadership is blind to the fact that we live in a complex, highly intricate and interdependent economy. The fact is that if you bleed the public sector, you will cripple the private sector. To reinvigorate our private sector, we will have to rebuild our pubic services. Our public schools must be made to produce students with better technical skills, as our physical plants must be built up to carry out the increased loads created by an expanded economy.

All of this will cost money. Public employees are not divine; they cannot repeat the miracle of the fishes and loaves. They need better and more resources if they are to accomplish their mission.

We at AFSCME believe that the strategies of the Reagan administration are counterproductive. We commend you, Senator Sarbanes, for holding these hearings to assess the impact of the recession on our State.

We urge you to take back to the Senate the message that the people of Maryland want a revitalization program that will provide training for the unskilled, compassion for the less fortunate, and adequate funding for governments to carry out those necessary and vital functions that we all benefit from.

Senator SARBANES. Thank you very much.

Mr. Klepner, please proceed.

STATEMENT OF JERRY D. KLEPNER, DIRECTOR OF LEGISLATION, NATIONAL TREASURY EMPLOYEES UNION, WASHINGTON, D.C., ACCOMPANIED BY C. JAMES SPELLANE, DIRECTOR OF RESEARCH

Mr. KLEPNER. Thank you, Senator.

First of all, I would like to join with my colleague, Mr. Crofoot, in agreeing with everything he has stated.

And also, I would like to introduce, on my right, Mr. Jim Spellane, director of research for our union.

I also would like to commend you, Senator, for holding these hearings on the impact of Reaganomics on Montgomery and Prince Georges Counties. We share your concern over the hardships that have been forced upon many working Americans by the economic policies of the current administration, particularly Federal employees.

It is indeed fitting that these hearings coincide with the birthday of the late civil rights leader, Rev. Dr. Martin Luther King, Jr. Rev. Dr. King was a man who was dedicated to alleviating the suffering of his brothers and sisters, and who clearly recognized that unemployment was a major affront to the basic human dignity of each individual.

For years, the myth persisted that the Washington, D.C., metropolitan area was "recession proof" because of its Government-based economy. Recent events, however, should dispel this misconception once and for all. With major cutbacks in the budget and reductions in the force, RIF's, in many agencies, Federal employees know all too well the insecurity that accompanies troubled economic times.

It is difficult to assess the exact impact that the President's actions have had, and will have, on Montmogery and Prince Georges Counties. Much of the data for making such a determination is imprecise or not yet available. Nevertheless, based on existing information, we believe that the Maryland suburbs of Washington have indeed been significantly affected by the current economic difficulties, and will continue to be in the future.

Just looking at two indicators: We have found the initial unemployment claims in Montgomery County, for Federal employees, rose 150 percent in the first 2 months of this fiscal year, over a comparable period last year. With regard to the private sector, using the same base, the initial unemployment compensation claims rose 50 percent over a comparable period last year.

Not only are Federal workers losing their jobs, but industries that rely upon the Federal Government, such as consulting firms and other groups, are losing business; and as a result, they are also engaging in layoffs at this time. If you take a look at the cost, the direct cost, to the State of Maryland simply in unemployment benefits for Federal employees, we have determined that they average $12,200 per week for an average Federal worker at a benefit level of $100 per week.

In addition to that, the costs on the community are even greater. People who are unemployed cannot afford luxury items and, in many instances, they cannot even afford basic items that are necessary to live. So you have an impact on the local business, you have an impact on local retailers and local service industries, as well.

The entire community is affected, in an adverse sense, by the unemployment of the Federal work force and the unemployment of the consulting firms that rely upon the Government.

Unfortunately, we feel that this is just the beginning of Reaganomics and its adverse impact on the Government work force.

In assessing the impact of the Reagan economic program and the massive unemployment that has spread in its wake, we must also look to the future. With major reductions-in-force anticipated in scores of Federal agencies, and little funds available for consulting firms and other groups that rely upon nondefense Government contracts, there is little hope for gainful employment for the many Federal workers who have lost their jobs and those who will be the victims of RIF's in the months ahead.

I am afraid that we are witnessing only the beginning of unprecedented unemployment in Montgomery and Prince George's Counties that will have an adverse impact on every business person and resident in these areas. For Federal employees and millions of their coworkers in private industry, Reaganomics has truly become the cancer, and not the promised cure to the economic ills of our country.

Once again, we appreciate the opportunity to testify on this very important topic. If there are any questions, I will be glad to answer them.

[The prepared statement of Mr. Klepner follows:]

Prepared Statement of Jerry D. Klepner

I am Jerry D. Klepner, Director of Legislation for the National Treasury Employees Union. We are the exclusive representative of over 120,000 Federal workers, including those at the Department of Energy facility in Germantown and the Nuclear Regulatory Commission offices in Bethesda and Silver Spring. In all, our union has approximately 2,000 members in Montgomery and Prince George's Counties, including many who work in Washington, D.C. but live in suburban Maryland.

We commend the Senator for holding these hearings on the impact of "Reaganomics" on Montgomery and Prince George's counties. We share your concern over the hardships that have been forced upon many working Americans by the economic policies of the current Administration, particularly Federal employees. It is indeed fitting that these hearings coincide with the birthday of the late civil rights leader, Martin Luther King, Jr. Dr. King was a man who was dedicated to alleviating the suffering of his brothers and sisters, and who clearly recognized that unemployment was a major affront to the basic human dignity of each individual.

For years, the myth persisted that the Washington, D.C. metropolitan area was "recession proof" because of its government-based economy. Recent events, however, should dispel this misconception once and for all. With major cutbacks in the budget and reductions-in-force (RIF's) in many agencies, Federal employees know all too well the insecurity that accompanies troubled economic times.

It is difficult to assess the exact impact that the President's actions have had, and will have, on Montgomery and Prince George's counties. Much of the data for making such a determination is imprecise or not yet available. Nevertheless, based on existing information, we believe that the Maryland suburbs of Washington have indeed been significantly affected by the current economic difficulties and will continue to be in the future.

In order to measure the effect that Federal reductions-in-force have had on suburban Maryland, we first determined the number of Federal workers in Montgomery and Prince George's counties. Based on the latest available information, Montgomery County contains 41,417 Federal workers while Prince George's County has 24,333. It is important to note that these figures reflect the number of Federal employees who work in these two counties; they do not include those individuals who are employed at U.S. government installations in other locations but live in suburban Maryland.

The largest Federal employers in the two county area are: the Department of Agriculture with 3,728 workers in Prince George's County, the Department of Energy with 1,925 employees in Montgomery County, the Department of Commerce with 5,822 workers in Montgomery and 5,208 in Prince George's, and the National Aeronautics and Space Administration with 3,581 employees in Prince George's. By far the agency with the largest work force in the two counties is the Department of Health and Human Services (HHS) with 19,696 employees in Montgomery and another 2,610 in Prince George's.

What then has been the impact of RIF's on these workers? Most of the agencies in the two counties have experienced layoffs. Among the hardest hit were the Departments of Commerce, Energy and HHS. For example, the National Bureau of Standards, an agency of the Commerce Department located in Gaithersburg, Maryland released 156 employees-or 5 percent of its total workforce - in Fiscal Year (FY) 1981. The Department of Energy in Germantown experienced 35 separations, 6 early retirements, and 66 downgradings as part of its RIF action. In addition, DOE may be implementing a phaseout of its operations in FY 1982 which, according to Energy Secretary James Edwards, could involve the reassignment of over 60 percent of the agency's workers.

Just as the Department of Health and Human Services is the largest Federal employer in Montgomery and Prince George's counties, so too the agency stands to lose the greatest number of employees. Due to delays in formulating plans, HHS experienced no RIF's in FY 1981. This, however, was only a postponement of the problem. Now that FY 1982 is underway, the Department is in the midst of a major RIF totalling 7,755 workers or 5 percent of the entire agency work force. No firm figures have been released on how the Maryland suburban HHS installations will be affected. However, if these facilities bear a proportional share of the RIF's, another 1,115 local HHS employees will find themselves jobless and numerous others may be forced to accept pay cuts or take early retirement.

What do these numbers mean? To find an answer to that question, it is useful to examine certain unemployment statistics provided by the Maryland Employment Security Administration (ESA). Let me point out that unemployment figures are divided into two categories, initial claims and continuing claims. Initial claims are those made by an individual the first time he or she applies for and receives unemployment compensation. Continuing claims are an aggregate figure indicating the number of weeks all unemployed persons received payments. Since an initial claim can only be filed once by each individual, whereas one person can file up to

26 continuing claims, the former category presents a more accurate picture of how many persons are actually unemployed.

Accordingly, the ESA statistics show that inital claims in Montgomery County by those from private sector employment increased by 3 percent in FY 1981 over the previous year. In the first two months of FY 1982, initial claims increased by 50 percent over a comparable period in FY 1981.

The Maryland ESA also computes the number of initial claims made by those who have left Federal employment. In Montgomery County, the number of individuals in this category decreased from 488 in FY 1980 to 362 in FY 1981. However, in the first two months of FY 1982, initial claims by former Federal workers increased by 150 percent over the first two months of FY 1981.

In Prince George's county, the numbers reflect similar conditions. Initial claims by private sector employees increased by 10 percent in FY 1981 and by 35 percent in the first two months of FY 1982. The figures for initial claims filed by former Federal workers indicate that the timing of the RIF's in Prince George's county differed from those in Montgomery, but that the effects were equally bad. In FY 1981, the number of such claims was 860, up from 612 in FY 1980, an increase of 40 percent. While the total initial claims filed by ex-Federal workers was down by 55 in the first two months of FY 1982, the number of continuing claims in this category remained about steady, indicating that those unemployed in FY 1981 were still having difficulty finding other employment.

We must point out that these figures underscore the folly of President Reagan's economic promises. The implementation of RIF's in those agencies in Montgomery and Prince George's Counties will have little or no impact on the Federal tax bills of residents in those jurisdictions, but will certainly affect the state and local taxes of Maryland citizens.

For example, based on available data, we have estimated that the average pay for RIF'ed employees in the suburban Maryland area in FY 1981 is that of GS-9, step 1. While most of the employees actually separated were in either higher or lower grades, the GS-9 salary figure represents the closest to a median that we can estimate. Based on the Maryland ESA's figures, 1,222 initial claims for unemployment compensation were filed by former Federal workers in FY 1981. According to the unemployment laws of the state of Maryland, an individual who received a GS-9 salary would be eligible for approximately $100 per week in benefits. This means that the taxpayers of Maryland were paying the bill for $12,220 worth of unemployment benefits <u>per week</u> for former Federal workers. Over a 26-week period, the maximum anyone can receive unemployment, the total cost would be $317,720. The longer each of these individuals receives unemployment, the greater the burden on the taxpayers.

Clearly, these figures are rough estimates. Not every former Federal worker filing for unemployment was RIF'ed and surely some of those separated from their U.S. government jobs found other work. But our projections are an initial attempt to measure the effect that unemployment among the Federal work force has on the Montgomery and Prince George's communities. With further RIF's and more new unemployment claims in FY 1982, the problem will only worsen. Even though the President is promising great savings through his budget cuts, the imposition of this additional burden on the state at a time when the Federal government is reducing aid to state and local governments means that, as usual, the bill for the President's program will fall on the very taxpayers he is claiming to help.

The figures we have cited represent only those who actually were employed by the Federal government in Montgomery and Prince George's counties and are eligible for Maryland unemployment benefits. Yet, since the economy of the Maryland suburbs is so closely linked to that of the Washington, D.C. Metropolitan Area, no consideration of the impact of RIF's on these localities can be accurate without examining the effects on the region as a whole.

The D.C. Metropolitan Area leads all other parts of the nation in the number of RIF's that have been implemented. While this region employs 12.5 percent of the entire Federal work force, agencies in Washington, D.C. and its Maryland and Virginia suburbs have borne nearly 25 percent of the RIF's that occurred in FY 1981 and early FY 1982. The D. C. area's RIF totals double that of the next most affected region, and touch about 1½ percent of the area's Federal work force, again almost doubling the amount of workers affected in any other locality.

The task of measuring the effects of these RIF's on Montgomery and Prince George's Counties is difficult, but it is a factor that cannot be ignored. While most of the individuals in the Metropolitan area who were separated or downgraded may not have worked in suburban Maryland, it is reasonable to assume that many of them live here. They shop in Montgomery and Prince George's stores; they pay state and county taxes; they eat in county restaurants; they keep their money in county banks. In addition, those affected by RIF's buy their homes in the two counties. At a time when the housing industry in Maryland, like that in the rest of the nation, is suffering a severe slump, the implementation of RIF's in this area is yet another setback.

In fact, the Mortgage Bankers Association of America reports that 4.14 percent of housing loans in the state of Maryland had installments past due and .16 percent of conventional loans were in foreclosure as of September 30, 1981. While these figures are below the national average. they still represent an 18 percent and 23 percent, respective increase in these categories over FY 1980. We strongly suspect that the RIF's were a substantial contributing factor to these developments.

In summary, Montgomery and Prince George's counties are a key part of the economy of the D.C. metropolitan area and of the state of Maryland. In fact, together these two counties contribute 36 percent of Maryland's tax base (Montgomery, at 21.33 percent, pays the largest portion of taxes of any county in the state). Any policy that negatively affects a major portion of the area's economic base, such as the Federal government, will have a lasting impact on this region and on the state of Maryland. We believe that the implementation of significant RIF activity in the two counties will place a grave strain on the resources of Montgomery and Prince George's counties and erode the foundation of good public service at a fair cost to the taxpayer that has been a source of pride in this area and in the state of Maryland as a whole.

In assessing the impact of the Reagan economic program and the massive unemployment that has spread in its wake, we must also look to the future. With major RIF's anticipated in scores of Federal agencies and little funds available to consulting firms and other groups that rely upon non-defense government contracts, there is little hope for gainful employment for the many Federal workers who have lost their jobs and those who will be the victims of RIF's in the months ahead. I am afraid that we are witnessing only the beginning of unprecented unemployment in Montgomery and Prince Geoge's counties that will have an adverse impact on every business-person and resident in these areas. For Federal employees and millions of their co-workers in private industry "Reaganomics" has truly become the cancer and not the promised cure to the economic ills of our country.

Before closing, Senator, I would like to acknowledge the assistance of the Federal Service Task Force, Chaired by Representative Michael Barnes of Maryland's 8th District, for providing much of the data that formed the basis of my testimony. At a time when few reliable figures on Federal RIF's existed, Representative Barnes' group provided a valuable service by amassing this important information and making it available to the public.

Once again, we appreciate the opportunity to testify on this very important topic. If there are any questions, we will be glad to answer them now.

Senator SARBANES. Thank you very much.

I think we will hear from Mr. MacIntyre first, and finish out the panel; and then I will have some questions.

STATEMENT OF DONALD M. MacINTYRE, NATIONAL VICE PRESIDENT, 14TH DISTRICT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AFL-CIO, WASHINGTON, D.C., ACCOMPANIED BY DONALD HAINES, LEGISLATIVE ATTORNEY

Mr. MACINTYRE. Thank you, Mr. Chairman.

I am Donald MacIntyre, national vice president for the 14th District of the American Federation of Government Employees, AFL-CIO.

With me is Donald Haines, our legislative attorney from our headquarters office.

AFGE represents over 750,000 employees of the Federal Government and the District of Columbia. My own 14th District covers the Metropolitan Washington area, including Montgomery and Prince Georges Counties in Maryland.

We are pleased to be able to appear and testify before the subcommittee on the effects of the current recession on Maryland's communities.

Rather than read my prepared statement, I would like to have it introduced, and I would like to summarize it, to save time.

First, I would like to say that I would like to join in your remarks concerning the effort to make a national holiday of the birth of the Reverend Dr. Martin Luther King. Had I not been here, I would have been marching with our members, on Constitution Avenue, at this time.

I do think it's fitting to be here and to address the recession impact on the Maryland communities, on his behalf.

The size of the Federal work force in this State—those people who are actually at Maryland jobsites—is approximately 125,000. In addition to that, we estimate there are 75,000 employees who reside either in the District of Columbia or Virginia, who are also at Maryland jobsites. This translates into a $400 million loss of pay when we address the pay caps that Federal employees have suffered just last year, as you know, Senator.

Each year, the pay adjustments have been reduced because of economic and budget restraints. And just last year alone, the 4.8-percent wage adjustment was one-third what the President's agents recommended. We estimate for every $1 in payroll received by a Federal employee, that translates into $1.90 of money being circulated in the business community.

As a Maryland resident, I could easily observe the state of the economy at this present time. Just last Friday, my wife and I went to Comus, Md., to the Comus Inn. We were shocked to see only eight couples there to enjoy the entertainment of three professional musicians. Movie theaters are currently half-filled. The Rockville Mall is now closing. Hecht Co., one of the major department stores in this area, had major sales before Christmas—which is the first time I've experienced that. Even today's Post shows their sales are 50 percent off today.

Real estate—I observed throughout the area that we see more for sale signs than I've ever experienced in the past. Of course, that can be translated as that being a result of the high interest rates.

The last blow to Federal employees, just this month, was the position of the Reagan administration to decrease health benefits at the same time they've increased employees' contributions to as much as 40 percent over last year's payments.

But pay and benefits have no real meaning if you do not have a job. As we all know, thousands have already been RIF'd by the Federal Government in this area. More have been furloughed. And more are scared to death, by receiving general notices, that they are subject to being furloughed or RIF'd.

These uncertainties have a tremendous impact on the local business community. One is not likely to buy a new car, TV set, or a new suit or coat if they are not sure if they're going to be fully employed in the next week or month.

The private sector opportunities are extremely limited, notwithstanding the fact that the Government is providing training for employees who are subject to RIF, as to how they might seek employment in the private sector. It is my understanding that the private sector is also not expanding, because of the high interest rates and the impact of these rates on new construction.

So, it is a very dismal picture that brings us here today. I hope that this information, and that of my colleagues here, will be of assistance to the subcommittee, and that it will recommend to the Congress an economic revitalization program which recognizes the value of the Federal work force and which puts America and Maryland back to work.

Thank you.

[The prepared statement of Mr. MacIntyre follows:]

PREPARED STATEMENT OF DONALD M. MACINTYRE

I am Donald MacIntyre, National Vice President for the Fourteenth District of the American Federation of Government Employees, AFL-CIO. AFGE represents over 750,000 employees of the Federal Government and the District of Columbia. My own Fourteenth District covers the metroplitan Washington area including Montgomery and Prince Georges Counties in Maryland.

We are pleased to be able to appear and testify before the Subcommittee on the effects of the current recession on Maryland's communities. I am sure that the other witnesses will leave the Subcommittee in no doubt about the recession's devastating impact on the lives of thousands of Marylanders. I would like to focus my attention on the economic problems afflicting Federal employees and how these problems contribute to the recession in Maryland.

Federal civilian employment is a major component of the economic life of Maryland. And here I am referring to the direct effects of employment of thousands of Marylanders by agencies of the Federal Government. Later in these remarks, I will discuss how much more these workers contribute to Maryland's economy through their own purchases and those of their family members.

There are about 125,000 workers employed by the Federal government at job sites in Maryland. Many of the more than 350,000 Federal employees in the metropolitan Washington area work in Washington but live in Maryland. These employees are in excess of the 125,000, and they should be remembered when we talk about the total impact of Federal employment on Maryland. But the available information deals with those Federal employees working at Maryland job sites, and we'll use those figures first.

The annual Federal civilian payroll for Maryland job sites is now approximately $2.75 billion dollars. To put this figure in perspective, we can compare it with totals for other Maryland industries. Federal civilian payroll is about twice as large as the combined annual payroll for all transportation and utilities; twice as large as the combined annual payroll for all the wholesale trade; and twice as large as the combined payroll for all finance, insurance and real estate activities in the state. It is nearly twice as large as all construction payrolls combined. The Federal Government's payroll in Maryland alone is about the size of the payroll for all retail trade in the state. And the Federal payroll, again taken by itself, is more than half as large as the entire manufacturing payroll in Maryland. (These figures are taken from the 1979 U.S. Department of Commerce publication County Business Patterns which we have adjusted to 1981.)

Often times when people read in their newspapers about the Federal Government and what's happening to Federal workers, they don't realize that they are reading about their neighbors down the street or their customers and patrons. Maryland has a big stake in the Federal Government and how it is treating the Federal civilian work-force.

As a consequence, Maryland suffers when those employees suffer. AFGE's Pay and Classification Department estimates that each of Maryland's Federal employees is, on the average, being paid about $2000 less a year than they are entitled by law to receive based on the salaries paid comparable workers in private industries. Maryland's Federal workers have been denied comparable wages becase of the pay caps imposed by the Administration. As a further consequence, Maryland's economy is deprived of $250 million dollars in direct Federal payroll for Maryland job sites that it otherwise would have. In addition, if we assume that at least 75,000 of the 350,000 Federal workers in the metropolitan Washington area live in Maryland but work outside the state, then Maryland's economy is deprived of another $150 million dollars in direct salaries and wages.

Thus, as unemployment has risen in Maryland's automobile and steel industries and as housing starts and other construction activity have plummetted, the Reagan Administration's pay caps have prevented $400 million dollars from otherwise being pumped into Maryland's economy. This, of course, is on top of the budget cuts in social programs. But even this figure does not adequately describe how hard times for Federal workers translates into recession in Maryland.

A general rule of thumb used by economists is that every dollar of Federal civilian payroll translates into about $1.90 worth of increased economic activity on the local level. In other words, as Federal workers earn their paychecks, they in turn spend those paychecks in local grocery stores, hardware shops, car dealers, banks, insurance companies, and other businesses. They also buy homes and condominiums. Their purchases make possible other purchases by the businesses and contractors, whose purchases further stimulate the economic activity of the community. Thus the estimated $400 million in direct Federal payroll loss for Maryland residents translates into about a $790 million loss in local economic activity.

In the past, this economic activity has been available to cushion the effects of recession in other industries. That is no longer the case. Although the Federal payroll remains large, the ability of the average Federal worker to make major purchases has been severely restricted because Federal wages have just not kept pace with either inflation or private industry. In addition, this Administration keeps thinking of new ways to reduce that disposable income even further. A good example is the insistance that benefits be cut and employee payments be increased for the Federal Employee Health Benefits program. The rise in those costs will virtually wipe out the paltry raise Federal employees got last October.

Even this, however, does not adequately describe how the treatment of Federal workers exacerbates the economic downturn in Maryland. In the past, the Federal Government was often available as an alternative employer when recession struck hard at private industry. That is no longer the case. Thousands of Federal workers face the loss of their own jobs or the prospect of furloughs without pay. Thousands more fear this possiblity because their agencies sent them a general RIF notice saying they may be RIFfed rather than taking the time to sent specif notices to those who actually will be most likely affected. Such agency actions spread the sense of economic gloom on which recessions feed far beyond the range of those whose lives will be directly affected by the eventual reduction-in-force. In addition, many other thousands of Federal jobs that were once authorized are now not being filled so that the total loss in Federal employment exceeds the number of those employees who are direct victims of a RIF.

This climate of uncertainty and insecurity also has its own impact on Maryland's economy. When an employee is unsure about where or whether he will have a job next week or next month, that employee is unlikely to be interested in making major purchases or investments--even assuming the unlikely financial ability to do so. Federal employees are not buying cars or houses today. As a result, the economic uncertainty which the Admnistration has imposed on these employees is unavoidably transmitted to other parts of the Maryland economy.

In my remarks, I have attempted to focus on Federal employees and Maryland's recession. I would like to conlcude by stressing how interdependent all the elements of Maryland's economy have become. When Federal employees are fairly treated and have money to spend, they help stimulatee local economic activity which in turn provides employment and profits for others in the retail, manufacturing and service industries. Their role in the real estate market provides valuable opportunities for employment in the construction industry.

In addition, their state and local taxes provide a firm base for the services which all have come to rightly expect from state and local government. To use a term once in vogue in this Administration, as Federal civilian employment in the past provided a modest "safety net" for Maryland's economy.

The current recession demonstrates how all of these other economic sectors suffer when the Federal Government attacks the pay and number of its own employees. The tragedy of all of this is that as the Admnistration has eliminated the "safety net" role of Federal employment, it has also undermined other safety nets. Revnue sharing, job funds, educational loans, training programs, unemployment benefits, housing programs, shcool lunches, food stamps, and so many other programs have been cut. Like other Marylanders, Federal employees and their families and communities will also suffer from the Administration's assault on these programs. That assault, of course, comes in the middle of unbelievable interest rates--rates which are bankrupting businesses and individuals alike and rates which this Administration's policies appear to be forcing even higher this year.

I hope that this information will be of assistance to the Subcommittee and that it will recommend to the Congress an economic revitalization program which recognizes the value of the Federal workforce and which puts America and Maryland back to work.

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Senator SARBANES. Thank you very much.

Mr. Klepner, in your prepared statement, I think we need to add another zero to these figures now. You say that based on available data, you have estimated that "the average pay for RIF'd employees in the suburban Maryland area in fiscal year 1981 is that of a GS-9," that's the closest to the median. Based on Maryland's ESA figures, 1,222 initial claims for unemployment compensation were filed by former Federal workers in fiscal 1981. According to Maryland's laws, "an individual who received a GS-9 salary would be eligible for approximately $100 per week in benefits. This means that the taxpayers of Maryland were paying the bill"—shouldn't it be $122,200 worth of unemployment benefits per week?

Mr. KLEPNER. Yes. It should. The typewriter got cold at that point.

Senator SARBANES. All right.

And then the other: "Over a 26-week period, the maximum anyone can receive unemployment, the total cost"—that would be $3,177,000?

Mr. KLEPNER. That's correct.

Senator SARBANES. So the cost to the State in unemployment, just for those 1,200 laid-off Federal workers—we're not looking at the rest of the work force, now—on this analysis—it seems to me, a reasonable way to proceed would be almost $3.2 million?

Mr. KLEPNER. That's correct. Senator.

Senator SARBANES. I was struck, Mr. Crofoot, by the reference toward the end of your prepared statement—and I think it's a very important point—to the interrelationship between investment in the public sector and investment in the private sector, how much of the infrastructure on which the private sector relies is a publicly developed infrastructure; and if we allow that to deteriorate—bridges, roads, rail, the basic municipal services and all the rest of it—it's going to have an impact on the private sector, as well.

We had an example that involves Mr. Klepner's people, right here in Silver Spring. We worked very hard to have a consolidated new headquarters for the Nuclear Regulatory Commission, within walking distance of where we are right now. Every study group which has looked at the work and activities of the NRC made that recommendation. They have found much of the NRC's shortcomings to be attributable to the ragmentation of its work force in—what is it now, 11 locations?

Mr. KLEPNER. Eleven locations. That's correct.

Senator SARBANES. Eleven locations. After a great deal of effort, a solution was finally worked out to consolidate the NRC offices right here, within walking distance of the Metro station. That's now been put on hold. That's certainly my understanding.

That's yours, I assume?

Mr. KLEPNER. That's my understanding, as well. Unfortunately in the budget that the Reagan administration set up for the last fiscal year, there were no funds to build that building, even though the House and Senate—largely through your efforts, Senator, and Congressman Mike Barnes, as well—had approved in the prior year's authorization bill the building of that building within a 5-year period.

However, the funds have never been forthcoming from this administration. And as a result, right now the situation is the same as it has always been. Some of the work force is in the District, and most of the work force is in 11 locations in Montgomery County.

Senator SARBANES. I want to stress—because I want to make sure the record reflects it—the rationale behind the consolidation. It was one of the leading recommendations of the Kemeny Commission, which studied the activities of the NRC subsequent to Three Mile Island. What was desparately needed to provide for the effective workings of that agency was its consolidation into one facility, and an upgrading of the facility.

Of course, that's now been put into suspension.

Mr. MacIntyre, I want to go into this point you make about the effect on those people who still have jobs, of the RIF's and the layoffs and the worsening economic circumstance.

How do they then behave, in economic terms, and what's the impact of that, as you see it?

Mr. MACINTYRE. Well, first, their behavior at the work site has a negative impact on the efficiency of the Government—which I'm sure we're all concerned about.

Second, this uncertainty as to what their future employment relations will be has an impact on buying decisions. So the point we're trying to make is: This has to have a negative impact on the local economy, because they're not going to make major purchases when they don't know if they're going to have a job in the future.

Senator SARBANES. They're just trying to hold on to whatever they're received, in case bad times hit them as well?

Mr. MACINTYRE. Yes, sir. I guess they are putting a hold on their purchases, just as you indicate the Government's put a hold on the NRC consolidation.

Senator SARBANES. What do you hear back from the people who are being RIF'd?

Are they delinquent on their mortgage payments and their car payments, and so forth, or not yet?

What do you hear on that?

Mr. MACINTYRE. I'm sure some of them are. I haven't heard personally, but I know that the job opportunities are not there, and that we are just beginning to feel the impact of these layoffs. I think 2 months from now, we'll have a much better reading as to the seriousness of it, and the full impact than we have right now. It's just really beginning.

There are people laid off now, but we're hearing about the second wave and the third wave, and more and more cuts. So I think we're just at the early stages of that.

Senator SARBANES. Did you want to comment?

Mr. KLEPNER. Yes, I did. I would just like to agree with Mr. MacIntyre's statements.

We represent the Department of Energy workers in Germantown, among other facilities. And over the past year or so, the Department of Energy has been one of the focal points of the administration's efforts to disband certain portions of the Government.

Those people have literally been living in day-to-day fear that at any point in time, they may be without a job. That's had a very serious adverse effect on the productivity of the employees. It has a serious adverse effect upon their enthusiasm for their jobs. And those who have been RIF'd, or those who have been furloughed, but primarily those who have been RIF'd have not been able, in large part, to find other employment unless they're in that very specialized field, such as computer technology.

The job market is such that there just is little employment available. And as a result, despite efforts to find employment, they are just not there. So it's a very, very serious problem.

And as Mr. MacIntyre said, even for those people who are currently employed, most of them are not willing to spend money to make purchases, for fear that they will be unemployed in the very near future.

Senator SARBANES. Gentlemen, thank you very much for your testimony. It's been very helpful, and we appreciate it.

We have with us Mr. David Cardwell, representing John Touchstone, who is the director of the department of community and economic resources of the Metropolitan Washington Council of Governments, of COG, which of course is—I guess a joint venture might be a good way to describe it—of the local area governments, Maryland, the District, and Virginia.

Mr. Cardwell, we would be happy to hear from you.

STATEMENT OF DAVID CARDWELL, ACCOMPANIED BY ROBERT DUNPHY, ON BEHALF OF JOHN E. TOUCHSTONE, DIRECTOR, DEPARTMENT OF COMMUNITY AND ECONOMIC RESOURCES, METROPOLITAN WASHINGTON COUNCIL OF GOVERMENTS, WASHINGTON, D.C.

Mr. CARDWELL. Thank you, Senator, I would like to read Mr. Touchstone's prepared statement for the record. And Robert Dunphy, who should be joining me very shortly, we'd be glad to entertain any questions you may have.

Senator SARBANES. Fine.

I've skimmed this. It's a very good statement, and we would certainly want to have the benefit of it.

Mr. CARDWELL. In order to understand the possible effects of the recession upon the Washington regions, particularly more urbanized Maryland suburban areas, such as Montgomery and Prince Georges Counties, I'd like to describe the regional economy of the metropolitan Washington area that has been examined over the past few years by the Metropolitan Washington Council of Governments.

This region has historically been somewhat protected from the dramatic shifts in the business cycles which occur in other urban areas throughout the Nation. This is primarily due to two reasons:

First, the Washington region's economy is primarily service-oriented, with very little manufacturing and industry. The recent increase in high-technology industries such as telecommunications and computer-oriented businesses is indicative of the types of high-technology businesses which are attracted to this region.

Second, as you are well aware, the Washington region is the headquarters of the Federal Government, which has historically been characterized by the stability of its employment. Even in times when economic conditions were causing plant shutdowns and layoffs of workers as seen in the 1973–74 recession, the Federal civilian work force in this region increased by over 18,000 employees.

In fact, during the freeze imposed by the previous administration, Federal employment increased 18,522, or 5 percent, from 1976 to 1980. This stability in a Federal work force that exceeds 400,000 persons, including uinformed military personnel, has provided this area with a cushion against most national economic trends.

Metropolitan Washington, over the years, has enjoyed the benetfi of this healthy growing economy. The Federal Government added approximately 51,330 civilian workers during the 1970's to this region. By 1980, Federal civilian employment in this region had increased from 317,500 to 366,217 employees, with over 15 percent, or 55,000, working in suburban Maryland.

The growing importance of the Federal role in national affairs also provided an important impetus for an expanding private sector. Over the past 10 to 15 years, the Washington region has attracted many new businesses and interests to the region. Due to the Federal Government, the Washington region has attracted many associations, lobbyists, and other interests that have had dealings close to Government.

Also, the well-educated labor force has attracted high technology firms in recently years to the point where the Washington region has a higher number of scientists and engineers per 10,000 population than anywhere else in the Nation.

Between 1970 and 1980, the Washington region witnessed economic growth as well as diversification of its economic base. The total employment increased by 326,700 jobs or 28 percent. Per capital personal income more than doubled, from $4,090 in 1970 to $10,259 in 1980. Retail sales increased over 74 percent. Construction boomed, with issuance of commercial building permits valued at $25 billion. Since 1972, savings deposits doubled to $22 billion.

I should point out that Maryland suburbs, which account for 42 percent of the region's total population, enjoyed a major portion of this growth and diversification. For instance, between 1968 and 1976, Montgomery and Prince George's Counties experienced an increase of 100,000 jobs among the region's 21 major employment groups, which was the largest increase anywhere in the region.

However, in many cases, the growth in Federal employment and spending in the Washington region which fueled much of this growth also resulted in increased pressure on regional prices and retail goods. As a result, both the cost of housing and the demand and price of office space increased to levels matched by only a few of the major national markets.

The scenario I have just described regarding the economic health and well-being and diversification of metropolitan Washington during the sixties and seventies is the reason that many observers feel that the so-called recession-proof economy is now more susceptible to national economic conditions.

The private sector, which now employs the large majority of persons in this region, is subject to the same recessionary forces facing other regional headquarter cities such as Atlanta, San Francisco, and other major urban centers.

Moreover, coupled with recent changes in Federal policy toward a reduction in size and expenditures, this region that was somewhat resistant to recessionary trends is feeling, by most accounts, a disproportionate burden of the Federal budget reductions and employment cutbacks.

The future of this region's economy is sketchy due to the fact all of the strong long-term trends of growth and expansion are no longer the case. The rules have changed dramatically during the past few years in total employment growth, population, and other demographic characteristics.

A fuller view on the effects of this most recent set of economic circumstances upon this region will not be known for several more months when more data is available. However, a few indicators of what has and is currently happening are available. For instance, a look at the third quarter statistics for 1981 and a comparison to the same period in 1980 finds:

First of all, a historic drop in the number of employed residents in the region of 30,000 persons.

A 21-percent increase in the unemployment rate from 4.3 percent to a regional rate of 5.1 percent.

New housing construction was off by 34 percent; all construction was down by 25 percent.

Although the inflation rate for 1981 was under 10 percent, sales figures indicate that there was actually a decrease in the net amount of goods sold.

Federal, State, and local government employment was down 13,500 persons. This figure probably does not include the 3,000 to 3,500 Federal layoffs that occurred on or after October 1 of last year.

The short-term outlook is not good. The administration has already announced future plans for reductions in employment. Although it is not known exactly where these reductions will take place, the recent trends would indicate the Washington region is likely to receive the largest number of employment cuts.

Moreover, with the growth of the region's private sector slowing, the types of employees being terminated from the Federal, State, and local governments will, in all probability, find it hard to secure comparable jobs.

High interest rates and the tight money supply which have plagued the construction industry have made it very tough for developers to generate the finances to move forward with development plans, both commercial construction and residential construction.

Therefore, efforts to attract and retain businesses in the region is becoming more important. We have seen an increase in local governments' commitment to this through more aggressive and innovative economic development programs. Examples of this include major development along Interstate 270 in Montgomery County and the development of the foreign trade zone in Prince Georges County.

At the same time, Federal assistance for some of the necessary infrastructure is becoming increasingly scarce. This will increase the need for State assistance, especially in the area of transportation.

Senator SARBANES. Thank you, Mr. Cardwell. That's a very interesting statement. In many respects it parallels what Mr. Saquella and Miss Paunil had to say at the outset in their statements about economic trends in this area which may now make it less sheltered or protected from general trends in the economy.

You observed, to start with, that we have been sheltered in the past; and then you noted that the rules have changed dramatically during the past few years and that now we're being affected in a much more direct way.

You made reference to the Federal role in helping to develop and support the necessary infrastructure. I wonder whether you'd be in a position to talk a bit about the importance of the Metro System for the economic development of the National Capital Area?

Mr. CARDWELL. Only to the extent that the Council of Governments has been involved in Metro before and after study, looking at the effects of the Metro rail system upon the region. A preliminary system is now underway to look at construction activity and land-use activity and impacts around Metro station areas.

Recently, figures for 1971 showed that there was a large number of projects planned around Metro station areas for the next 18 to 24 months and that the majority of the office space or available or usable space would be in those areas. And that hints at the importance of transit system upon development. Those plans include the entire 101-mile system, which indicates development is going on—nonresidential development is going on around areas that are currently not under operation, as well as areas within the downtown corridor.

Senator SARBANES. So the projected economic development plans of the local government jurisdictions themselves—and also of the private sector—are really premised on the completion of the full 101-mile system which the localities affirmed 5 years ago, after doing a second full study of the project Metro System. Is that correct?

Mr. CARDWELL. I'd say the completion of the 101-mile system is important, as almost all transportation systems, roads, and improvements to existing roads are important for economic development.

At a recent meeting of the Washington Area Business Development Officials, many of the Board of Trade, there was discussion about a developer in Montgomery County who was very interested in the area along the I–270 corridor and, in negotiations with the county, wanted a number of transportation improvements for access to that site.

The county, working with the State, was unable to commit for a long-term period for those improvements. Thus, the developer and the current landholders backed out of the development. That does not mean that that site will not be developed. As a matter of fact, the county said they still had a number of prospects that were very interested.

That developer that was involved in that moved on to what he felt was greener pastures in Fairfax County.

Senator SARBANES. Have you been able to observe any differences within the metropolitan area with respect to the impact of the current economic recession, compared with past recessions?

Mr. CARDWELL. The figures are for this period, which we are using, for the most part, a lot of unadjusted unemployment rates and preliminary data that has not gone through the final gyrations, if you will, of finalizing the data, indicate that this period is as severe as the 1973–74 recession is for employment decline, decrease in employment growth among various sectors.

We have noted that the private sector, while it has been increasing over the past few years, is increasing at a much slower rate. It looks like the private sector job growth is somewhat leveling off in the region.

Senator SARBANES. It's been suggested to me that that area in this region feeling the impact of this recession more markedly than past recessions—in other words, that it is reaching out more broadly in a geographical way than was previously the case. Do you have any reason to think that?

Mr. CARDWELL. I would assume that would be primarily due to the fact that the economy is more diversified now. The Federal Government provided—well, there were no layoffs in the Federal Government during past recessions the way there are now. As a matter of fact, programs tended to expand to cope with those troubles that were happening elsewhere in the Nation.

As a matter of fact, in 1980, the services sector in the Washington region for the first time is employing more persons than the Federal Government. The Federal Government is the region's single largest employer, but it is not the thrust and security that it once was.

Senator SARBANES. Did you want to add to that, Mr. Dunphy? Did you have anything on that point?

Mr. DUNPHY. I think it's been pretty well said, Senator. Increasing diversification of the economy makes the Washington economy much more subject to the kind of recessionary trends that we haven't really seen before.

Senator SARBANES. Now, does the area—do you perceive the area therefore having more difficulty in adjusting to a worsening unemployment situation than other areas might have who have sort of had more experience with it in the past?

Mr. DUNPHY. I think so. I think that's probably one of the problems that this region faces.

Senator SARBANES. Some areas would be quite satisfied with the figures here—it's all relative in a sense—people don't compare their own region with other regions, because they don't know the other regions. They compare their own region with what it used to be and what they anticipate it will be, I guess.

Mr. DUNPHY. That's right.

In talking about this, one of the things that doesn't come out of the figures is this problem of dealing with recessionary trends that people in this area have not been accustomed to in some of the other areas of the State. They expect layoffs and strikes, certain kinds of business cycles that this region has not been used to. As a result, people have not prepared, and there's a lot of concern in a lot of people's minds of what they're going to do.

It's possible that in an industrial area there may be a lot more flexibility in retraining people to do other jobs. But when you reach an area with service orientation and a high number of professional people, as here, it's much more difficult.

Senator SARBANES. I think we're going to get into the mortgage delinquency question with the next panel. That seems, in some respects, to be more of a problem here than in some other areas of the State. It may be attributable to the point you are making, that in some areas where they have experienced past ups and downs—people have sort of put up certain safety mechanisms—although it's becoming difficult, I must tell you. But here, where it has not been the case, they have not put up those safety mechanisms, and therefore they find themselves much more exposed and extended when a situation of the sort we're experiencing comes along.

Mr. CARDWELL. Another comment on the housing market that our housing staff has noted, during 1980 and the first 6 months of 1981, there was not one multifamily rental unit built in the Washington area that was not subsidized by a Federal-State program. The developers just do not see the incentive—apparently did not see the incentive to do it on their own to construct multifamily rental units in this region.

Senator SARBANES. Yes. Well, of course, with the high interest rates, they just wouldn't be able to do it. And of course, those subsidized programs are now being cut back sharply.

Mr. CARDWELL. That's right.

Senator SARBANES. Gentlemen, we thank you very much for your testimony.

Mr. Dunphy, did you have anything you wanted to add?

Mr. DUNPHY. I have nothing to add, Senator.

Senator SARBANES. Would you thank Mr. Touchstone for a very thoughtful statement. We appreciate it very much.

I would ask Bill Middleton if he can wait, please. We will hear now from the college panel—I think they're all here—and then we can hear the housing panel at the end.

But if you are under some time pressure—all right, then Martin Poretsky might get here. We'll have him as well.

We will go to the college panel: Mary Johnson from Bowie State; Mr. Borchard from Prince Georges Community College; Mr. Bachhuber from the University of Maryland; and Mr. Meade from Montgomery College.

We welcome you all here.

Ms. Johnson, maybe we ought to give you the honor of leading off. All right?

STATEMENT OF MARY G. JOHNSON, DIRECTOR OF CAREER PLANNING AND PLACEMENT, BOWIE STATE COLLEGE, BOWIE, MD.

Ms. JOHNSON. Senator Sarbanes and members of the subcommittee, it is indeed a pleasure for me to testify before you today.

My name is Mary G. Johnson and I am the director of career planning and placement at Bowie State College, Bowie, Md.

Bowie State College is a 4-year, coeducational, liberal arts college. Its enrollment is approximately 2,500—fall 1981—with an undergraduate enrollment of 1,880. The college is a historically black college with a current enrollment of 63.9 percent black and 28.3 percent white. Other races include Asian, Indian, and Hispanic. Maryland residents make up 86.6 percent of the student enrollment.

Bowie State College offers 27 majors. The largest undergraduate departments are business administration, psychology, and communications. Some of the other departments include history/politics/public administration, English, mathematics, and so forth. Since the recession and Federal cutbacks, majors in social work, psychology, English, and sociology are going to experience difficulties in finding employment in their areas of concentration. However, we must realize that 4 years ago, when there was a more prosperous economy and projections made, these areas were projected demands.

Bowie State College will graduate approximately 250 undergraduates in May 1982. Even though more than 70 employers have been on campus this year, I foresee problems in obtaining employment for the 1982 graduating class. Some of these problems are:

One, a majority of the campus recruiters are seeking technical personnel: Accounting, mathematicians, engineers, and computer science majors. Bowie does offer accounting and mathematics. Majors in mathematics can take up to 24 hours in computer science. Therefore, students in these majors are the most sought after graduates. There is a dual degree in the engineering program with the University of Maryland and George Washington University. However, our engineering majors are not yet ready for full-time employment until they have completed engineering courses at one of the above-mentioned universities. Other recruiters are seeking business administration majors for management and sales careers.

Two, many students seek employment in the Federal Government because they live in the metropolitan area and they feel that Federal employment is secure and has excellent benefits. Recent cuts/layoffs in Federal hiring will lessen the opportunities available to students.

Three, the Cooperative Education program which is used by many students as an entrance in the Federal Government has suffered a reduction in the number of agencies requesting students. The number of co-op slots has been reduced and the conversion of students to full-time employment has caused delays.

Four, the elimination of the Federal summer internship program and CETA will decrease the options for students this summer.

Five, students who major in social work and psychology are interested mainly in employment in the field of human services. Layoffs, the combining of programs, and cuts in program services will eliminate many of these opportunities.

Six, students who seek employment in the State of Maryland government are also affected, especially since the professional careers exam will not be given during 1982. Hiring freezes/layoffs and reassignments have also cut the number of new hires in professional careers.

Seven, the job market for teachers is tight and expected to remain that way through the 1980's. Even though this is due partly to reduced enrollments in the elementary schools, budget cuts have caused schools to close, therefore reducing the need for some teachers. The needs are in math, science, English, and special education. However, students in these areas, with the exception of special education, are seeking other careers in private industry/government.

In closing, I believe that college students on a national scale who have spent 4 to 5 years in time and money preparing for careers will be disappointed, become depressed, and frustrated with the problems of seeking employment and economic changes in the economy which affect hiring.

Thank you.

Senator SARBANES. Thank you very much for a thoughtful statement. Mr. Borchard, please proceed.

STATEMENT OF DAVID C. BORCHARD, DIRECTOR, CENTER FOR CAREER DEVELOPMENT, PRINCE GEORGES COMMUNITY COLLEGE, LARGO, MD.

Mr. BORCHARD. My name is Dave Borchard and I am director of the Center for Career Development at Prince George's Community College. Our job in the career center involves doing three things: One, to assist students as they come to college—incidentally, students of all ages. Our students range from 16 and 17 to their sixties—to assist them in developing realistic career goals and plans. And then second, to assist those students who need to find either full- or part-time work to finance their way through college. Then third, to assist our graduates in finding work.

I have a prepared statement which I will not read but I will just make a few summary points from.

Senator SARBANES. Your prepared statement will be included in the record. Thank you.

Mr. BORCHARD. I discussed three points: First, who our community college students are today; and then look at the relationship between student trends and job market conditions; and third, to just briefly look at what I feel the main job market challenge that faces the college and our students today.

Just a little bit of information about the college's mission and who our students are. Most people have about a 10-year out-of-date attitude that the community college's job is to provide the first 2 years of a liberal arts education and everyone transfers on, and that's pretty much what Prince George's Community College started at nearly 25 years ago. We still do have a fairly large component at the college of the traditional recent high school graduates who are attending in order to attain the first 2 years before transferring on to institutions represented on my left and right here, University of Maryland and Bowie.

But we have become far more comprehensive over the past years. We now offer areas to assist people who are going directly into the work force, to provide the kind of skills necessary to enter the work force at the technical or semiprofessional level. And then third, to assist people who are employed. We have a large number of people who are employed but need to enhance their job skills. And so, that's the third function that we perform.

Last fall we had about 14,600 students registered in our credit hour programs. We had additional 6,000 or 7,000 taking noncredit offerings. About 41 percent of the population was in the transfer programs and 41 percent were in the career technical programs and the remaining 18 percent were what we call undecided.

Who the students are, we really need to talk about two student populations at the college. The one student population which is the traditional students, high school graduates, they have a mean age of about 20. And most of them are attending during the daytime in the traditional courses. They attend full time.

And in contrast, the nontraditional population that has really been booming over the past 10 years, attend primarily in the evening and weekends. They have a mean age of 26. They are primarily female today, and a very large percentage of minorities in that group.

The relationship between the job market and student trends is kind of interesting to watch. The thing that I note, in listening to our earlier speakers, is that we really lack—it's hard to tell in what's happening at the community college until well after the trends have already occurred. I guess the important thing to note is that our graduates are dependent upon the Washington, D.C., job market which is highly dependent on the Federal Government positions. There is a kind of recession expectation that when jobs are hard to come to by, enrollments in college, particularly at the community college, rise significantly; and second, that graduates have a difficult time finding jobs and that those who do find jobs will probably have a difficult time finding jobs related to their degree.

In looking at what the case is and remembering that we're looking at what's happened over the past couple of years, first in enrollments we do have a significant increase in enrollments this year after kind of plateauing enrollments in the late seventies. We experienced about a 10-percent increase in our student head count in the fall semester and about a 7-percent increase in credit hour enrollments. The spring registration is currently underway right now and it looks like the same kind of trend, so a significant increase there in enrollments.

Each year we follow up the graduates to see what kind of success they have enjoyed in finding jobs. We followed them up 1 year after graduation, so the last class we have statistics on at this point is the class of 1980. And in comparing the class of 1980 with 1979—and incidentally the Government freeze was already affecting us to some extent in 1980—so, in comparing the graduates of 1979 with 1980 we notice that the graduates of 1979 do appear to have enjoyed more success in finding employment than the graduates of 1980. In our Career Tech programs in 1979, 90 percent of those graduates were employed 1 year after graduating. In contrast, 84 percent of the 1980 graduates were employed 1 year later.

It probably should be noted there that about 33 percent of our Career Tech graduates continue on in education, and that figure is about the same for both years so that variable seems to be about the same.

Also in the kinds of jobs that they found, we had the 1980 graduates reporting less success in finding jobs related to their degrees than in 1979. And the statistics are in the report; I won't go into those now. But a significant number reported, based on their own perceptions, that they found jobs not as closely related to their degree as the 1979 graduates.

Now, the assessments about that, I think it's easy to attribute those statistics solely to job market conditions. I think we need to be a little bit careful about that for a number of reasons. One is, the escalating costs at the 4-year institutions and universities have made the community college a pretty appealing buy, particularly at a time when dollars are hard to come by. And, the disparity between the cost of attending a community college and attending a university and a 4-year college has begun to widen fairly significantly over the past couple of years and it looks like the trends in the future will probably continue that way.

Another factor to consider, and of course this we can't substantiate with any kind of hard statistics, we can only assume that the students are aware that the key to employability today is in the acquisition of high technology skills and so we see about a 2- to 3-percent increase in the number of high school graduates that typically come to Prince Georges this year; that's probably out of recognition that you neea to get high technology kinds of skills today.

A large number of people who are employed are returning to community college because they realize in order to move up within their jobs they need to get management skills, they need to acquire computer awareness and so on.

Because of the poor job placement rate for the class of 1980 over 1979, probably has something to do with what's happening with available positions in the Federal Government. Our students have traditionally looked to the Federal Government as the source of secure, good-paying jobs. That trend has been leveling off and students need to have better job-hunting skills in order to find jobs in the private sector, to become aware of where the jobs are and then to market themselves. They didn't need to do this when Federal Government was coming on campus. It really was easy if everyone knew where the source of the jobs was and it wasn't difficult to locate them.

So, I think part of the problem there is lack of awareness on the part of the students who do have the kinds of skills that are employable today about where to go to find positions and then how to sell themselves there. So, I see the challenge as a result of this, that the challenge of what's happening now is first to the college.

There are several things that we need to do and are in the process of looking at. One is, our faculty represents the trends of evolution of what's been happening. Most of the full-time faculty are in the liberal arts area. We need to find qualified faculty, large numbers of qualified faculty to teach the technical areas in a time of high operating costs. It's a very difficult internal transition, to make those kinds of balances between full-time positions in the traditional liberal arts areas and full-time positions in the new technologies and that's one of the things we're looking at and it involves some very difficult decisions.

Another thing that the college must—another challenge to the college is to make career development an ongoing part of our educational offering. We simply have to provide the means by which students make realistic career decisions and where they learn—where they acquire job-related or work experience related to their educational programs. And third, they learn self-marketing skills.

We have been doing that at the college, recently introduced a credit course we call career decisionmaking-life planning. At the present time about 600 students a year are enrolling in that course. We have made significant expansions in our career development program and thousands of students are now beginning to use the program to look at their career goals and find out what kinds of things are available.

To the students the challenge is to do an effective job in career planning. One of the things—there's two problems that I see. One is that students who do not do an effective job in career planning—those who are undecided tend to drop out of college and they can't afford to do that in a day and age that requires good skills, communications skills, technology skills, in order to be employable.

So, we have high dropout rates among those who we classify as undecided or unrealistically decided. Also the lack of career planning, I think, will result in the kind of situation that we had in this country in the fifties and sixties. Everyone knows that jobs are in computers so everyone who's coming to the college now says, "Tell me where the jobs are. I hear they're in computers." And so the computer science rooms are burgeoning.

I think the long-term effect of that is, we may end up at some point in the future with a surplus in that area and at the same time we'll be hurting for teachers. Not only that, but in the career planning field we recognize there's a relationship between talents, one's unique talents and interest patterns, and positions and jobs that match those.

So, what we needed up in the sixties was a lot of teachers who went into that occupation and shouldn't have because they had neither the skills nor the interest. And I think we're paying the penalty for that today in our educational institutions. I can see the same thing if everyone's going into those areas now where it's easy to see there are jobs available, without looking at, "what do I have to contribute and where can I do that."

So, what we see is the primary challenge now is to enlist and motivate all of our students including returning students, those who are making some changes, to do effective jobs of career planning, and then to expand work opportunities to acquire and explore work-related roles. And then third, to really know where the jobs are available and learn effective self-marketing skills.

Senator SARBANES. Thank you very much.

[The prepared statement of Mr. Borchard follows:]

Prepared Statement of David C. Borchard

Community College Students and Job Market Conditions

The purpose of my presentation is threefold. I will begin by presenting a brief profile of today's community college students and then cite some data which indicate interaction between student trends and current job market conditions. And lastly, I will discuss what I believe to be a job market related challenge that faces the community college and its students.

The College and Its Students

Prince George's Community College was founded in 1958 for the purpose of providing the educational foundation for transferring to a senior college or university. Over the years the College has become comprehensive in its mission. The three primary functions of this mission are:

- a continuing commitment to providing a foundation for transfer to a senior institution;

- providing the essential knowledge and skills needed for going directly into the work force at the technical or semi-professional level; and

- enrichment of existing skills and talents.

The College currently offers a total of 50 programs leading to an Associate in Arts degree (16 of these in the liberal arts transfer area and 34 in the technical and career education area). Additionally, the College offers 9 certificate programs in the technical field.

During the 1981 Fall Semester, a total of 14,650 students were enrolled in these degree oriented programs. Forty-one percent (41%) of these students were enrolled in transfer programs, 41% in technical and career programs, and 18% were classified as undecided majors. This student body had a median age of 23. Sixty-nine percent (69%) attended on a part-time basis and just 31% attended on a full-time basis. Full-time students had a median age of 20 and part-time students a median age of 26. Fifty-nine percent (59%) of the student body were female, 36% black, and 59% white. Forty-two percent (42%) of the student body attended classes during the evenings.

During the past ten years, PGCC's predominant population has shifted from traditional students (non-working, young, white, full-time liberal arts) to non-traditional students (working, mature adult, female, increasing minority, part-time, career oriented). Virtually all of the College's growth in the last five years has come from female enrollments, 75% of whom are over the age of 21. Minority enrollments also have been growing steadily at the College over the past ten years to where they now constitute 41% of the enrollment. To complete this profile, nearly 80% of the adult, non-traditional students are employed full or part time. But their jobs are far removed from their ideals of secure, satisfying, suitable careers. Nearly 65% of these students cite a career-related purpose as their primary reason for attending college.

A total of 954 students graduated from PGCC in 1981 with AA degrees and 34 completed certificate programs. Women accounted for 58% of the 1981 graduates and Blacks made up 27% of the total. There were twice as many career graduates as transfer graduates. The General Studies curriculum had the most graduates (168) accounting for 18% of the AA degrees awarded. Business Management was the most popular career curriculum with 156 graduates. Other programs with significant numbers of graduates were Nursing (108), Computer Technology (91), Business Administration (72), Accounting (70), Law Enforcement (63), and Electronic Technology (19).

Student Trends Reflect the Job Market

How much does job market conditions affect community college student trends? What impact does the current recession have at Prince George's Community College? In addressing these questions it is important to know that the job market for PGCC's students is the Washington D.C. Metropolitan Area which has long been considered to be recession proof. The primary employer for the College's service area has always been the government. Traditionally, a very sizeable portion of PGCC's graduates have been employed by the Federal Government. With the freeze in federal hiring and now RIF, PGCC's students must look to the private sector for employment.

It is generally assumed that when jobs are hard to come by, college enrollments increase and then decrease when jobs become plentiful. PGCC's enrollments have, in fact, undergone significant increases over the past year after undergoing a plateauing effect in the late 1970's. Fall Semester 1981 headcount enrollments were up about 10% and credit hour enrollments up by 7% over the 1980 Fall Semester. The 1982 Spring registration, currently underway, also shows about a 10% headcount and 7% credit hour increase over the previous Spring. Additionally, the College experienced a 2 to 3% increase in enrollment by last year's high school graduates. Another indication of the times is that the number of students requesting financial aid increased significantly in FY 81 and again in FY 82.

If the recession is adversely affecting PGCC's students, we could expect to find that graduates would experience difficulty both in finding jobs and in getting jobs associated with their degrees. Follow-up surveys conducted with graduates, in fact, do indicate that recent graduates had a somewhat more difficult time in locating satisfying jobs than their recent predecessors.

In comparing the employment success of 1980 graduates with the 1979 graduates, the earlier graduates have a decided advantage. In 1979, 90% of the graduates in the career and technical programs were employed one year after completing their degree in contrast to 84% of the 1980 graduates. The same type of employment trend shows up in the graduates of transfer programs where 70% of the 1979 class was employed one year later in comparison to 66% of the 1980 class. It should be noted that 34% of the 1980 career graduates and 66% of the transfer graduates were continuing their education.

The 1979 graduates also reported better success in finding jobs related to their degree than did the 1980 graduates. As the following table shows, 1980 graduates in six out of nine career programs had less success in finding jobs related to their fields of study than did the graduates of 1979.

	Percent Employed in Related Field	
Program Type	Class of '79	Class of '80
Nursing	96%	96%
Computer Technology	90%	75% (decrease)
Allied Health	84%	71% (decrease)
Accounting	75%	69% (decrease)
Public Services	64%	69%
Engineering Technology	71%	66% (decrease)
Marketing/Real Estate	60%	64%
Secretarial	83%	63% (decrease)
Business Management	67%	62% (decrease)

Source: Prince George's Community College, Office of Institutional Research, Report No. 81-28.

In attempting to understand what these trends mean we must be leery about attributing the increased student enrollments and decreased graduate employment record solely to a reduction in available jobs. At least two other variables need to be taken into consideration. The first is economic and the second is change. During the past few years the cost of attending the community college has become considerably less, comparitively,

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than that of the rapidly escalating costs of senior colleges and universities. This cost differential makes the community college a far more attractive investment today than ever before. Another factor, no doubt responsible for increased enrollments, is that more and more people are becoming aware of the fact that we have entered a high technology era and recognize that the key to employability has become the possession of high technology skills. Hence PGCC's enrollments in the career and technical fields such as health, business, engineering, and computers have mushroomed during the past few years.

The fact that graduates had less success in getting jobs in 1980 than in 1979 may be more indicative of a demise of available government jobs than of an actual reduction in demand for college graduates. Finding degree related jobs in the private sector takes more skill and awareness than obtaining jobs in the Federal Government. Graduates with a disposition to seeking government positions will need to break themselves of this habit and learn how to effectively find jobs in the private sector. This assumption is supported by the advice of a PGCC student one year after earning his degree who said, "Require each student to take an assertiveness class so they can find their own jobs instead of having someone else do it for them." He was attesting to the need for today's college graduates to know how to find good jobs and effectively market themselves. Outside of the Federal Government, we have experienced no signs of reduced interest from employers seeking to recruit the graduates of our career and technical curriculums. In fact, there seems to be a stronger interest than ever in graduates of the medical and engineering technology curriculums.

The Challenge to the College

Perhaps one of the greatest challenges to Prince George's Community College and its students is how to cope with change rather than how to cope with recession. Dynamic new forces have been set into play by the decline in the manufacturing industry and the rise of high technology jobs. The recession, in fact, may be only clouding the dramatic changes that would be occurring irregardless of whether there were a recession. We must prepare students with the kinds of high technology skills required to meet the needs of local area employers. We must find ways of making the internal adaptations to the external reality--that there are fewer jobs available today for our social sciences graduates and more available for those possessing high technology skills. We must find ways to provide both the quantity and the quality of instructors to meet the high technology demands of the 1980's job market. We may also need to revise our curriculums to provide more computer skills and technological knowhow for students in our liberal arts programs.

Prince George's Community College has recognized these challenges and is adapting in several different ways. New equipment has been purchased to meet the increasing demand for computer science courses and word processing skills. Certificate programs have been implemented to expedite the skill attainment of individuals desiring to learn new skills immediately or to enhance their prospects for promotion in current jobs. The difficult task of redressing the imbalance between the large number of full-time faculty positions that were established in the traditional "bread and butter" transfer programs and the far fewer positions available in the rapidly growing career and technology programs has been undertaken. A task force has been established to study what the general education requirements should consist of today. A career decision-making course has been added to the curriculum and vastly expanded career development services have been implemented. The cooperative education program and job locator services have been expanded to provide more opportunity for students to acquire program-related work experience. The developmental education program is being expanded to accommodate the need for increasing numbers of students to learn math, reading, and study skills. An ongoing marketing program has been implemented to study the needs of local area employers and today's students and to assess what must be done to meet these needs.

The Challenge to the Students

One of the major problems facing our community college students today, and in the future, may well be the inclination to enroll in college and to seek jobs without realistic career planning. Realistic career planning begins with clarifying one's unique talents and interests and then identifying suitable career alternatives that offer good employment prospects and career opportunity. While there does appear to be an emergent awareness of the need for career planning among some student populations, returning women particularly, far too many students take courses and prepare for careers unrealistically. While this can be a hindrance under normal circumstances, it becomes a critical problem during a recession.

Even when the economy is stable, most employers look for evidence of realistic career planning in students they interview for available positions. And in a recession, employers are quick to screen out those who are merely "looking for a job." And why shouldn't they? One of the major factors affecting our economic situation today is low productivity. Employers know that workers are far more likely to be productive and motivated when they have the skills and the type of interests suited to particular jobs. Many of the larger firms across the Nation are establishing career development programs. It's simply good business to have employees serving in work functions that they both enjoy doing and which they do well.

The consequence of ineffective career planning is a problem for individuals, for educational institutions, and for the Nation. College students without career goals produce high college failure and drop-out rates. They are also likely to become easily discouraged in college and end up either failing or quitting out of disinterest. Students who obtain degrees unrelated to well-thought-out career goals have difficulty finding jobs, and those who do find jobs are unlikely to experience job satisfaction.

At Prince George's Community College, increasing numbers of students have been taking advantage of the newly available Career Development services over the past few years. A career planning course was implemented three years ago and currently enrolls six hundred students per year. Several thousand students use the College Career Development services for assistance in developing realistic career goals and to become familiar with occupational opportunities and the local area job market.

Discussion

There is clear evidence to suggest that jobs today are hard to come by. But, it is equally apparent that the demand in many occupations is far greater than the supply. At PGCC, for example, we have numerous requests from employers to recruit graduates from our health, electronic, computer science, and secretarial curriculums. The demand for graduates with business management, accounting, and sales skills continues to be quite strong. The situation we are facing appears to be a shift in the areas of demand rather than an actual reduction in number of jobs. There is actually an increase in the requests for graduates of many of PGCC's technology areas.

We have entered an era of job market change unparalleled since the industrial revolution. The traditional approaches and the traditional solutions no longer work today. Prince George's Community College is now in the process of shifting gears in order to deliver the kinds of educational products increasingly in demand by the job market of the 1980's. Students need to engage in effective career planning in order to survive and thrive in an era of job market change and uncertainty. It is no longer feasible to haphazardly choose and implement a career. The following comments from graduates of 1980 suggest what is needed: "Have more meaningful planning at the beginning of the freshman year." "Students need more information about career opportunities and options before beginning the educational program." "Expand the cooperative education program. On-the-job experience while still in college is the best way to prepare for the business world."

Students' suggestions such as these clearly point to the need for including effective career planning, work experience, and job-hunting skills among our educational offerings. Students who fail to take advantage of available career development opportunities may find jobs hard to come by and are likely to find themselves underemployed, if not unemployed. However, individuals wishing to obtain maximum benefit from their community college education will take full advantage of these opportunities. To do so facilitates the process of obtaining good jobs and attaining job satisfaction.

NOTE: Student profile and enrollment statistics were provided by the Prince George's Community College Office of Institutional Research.

Senator SARBANES. Mr. Bachhuber, please proceed.

STATEMENT OF THOMAS D. BACHHUBER, DIRECTOR, CAREER DEVELOPMENT CENTER, UNIVERSITY OF MARYLAND, COLLEGE PARK, MD., ACCOMPANIED BY MARTHA PATTON

Mr. BACHHUBER. My name is Tom Bachhuber. I'm director of the Career Development Center, University of Maryland, College Park.

Thank you for this opportunity to present my views on this important issue of job placement for college graduates. I think it's valuable to understand this is a partial prospective coming from a single office whose major goal is to help students learn about the world of work early and throughout their college years to make effective careers decisions and to find satisfying jobs when they graduate. Other important views for their consideration include those of the faculty, those of employers, students, college and university staff, particularly people like Martha Patton, who is also with me this morning. Martha is assistant director for employer relations at the University of Maryland and is also coordinator for our on-campus recruiting program. And she has contact with about 500 employers over the year.

Senator SARBANES. Miss Patton, we're pleased to have you here with us this morning.

Mr. BACHHUBER. I'd like to start off with making a few comments about college students in general and how they deal with career planning. The premise that college students are generally ignorant to the work world and thus struggle with making informed career decisions is both backed by research, as well as countless opinions of faculty, counselors, and parents. Most students feel that informed career choices, as well as securing jobs following graduation for that matter, simply materialize from being in college. Unfortunately, this is not the case. Both personal growth, as well as academic development, often occur for students in college with very few connections made to the work world, as well as future career possibilities, and for many the expectation that the placement office will make the connection for the student 2 weeks before graduation is very rarely met.

Planning for a student's future, as well as job hunting, is both hard work, as well as very anxiety-provoking for most students. The majority of students do not actually seek the regular help of a career development center and thus usually are either floundering or rather disorganized in their career and job decisions. Planning for a career requires the same thoughtfulness and commitment to learning as in any academic subject matter, yet generally it is estimated that a typical career planning and placement office has program contact with only about one-half of the student population.

That data in tables 2, 3, 4, and 5 ot my prepared statement provide some insight to the employment status of University of Maryland, College Park graduates, as well as some of their views as they look back on their college education retrospectively.

Senator SARBANES. Those tables are very helpful, and your prepared statement will be printed in the hearing record.

Mr. BACHHUBER. Regarding employment opportunities for college graduates, each year approximately 450 individual employers schedule between 650 and 700 recruiting trips to the University of Maryland, College Park, in order to conduct in excess of 11,000 individual interviews with students. The oncampus recruiting program at Maryland reflects supply and demand in the marketplace. Consequently, employers interested in technical graduates like engineers, physical sciences, and computer sciences, outnumber the employers interested in nontechnical graduates like in business, social science, and liberal arts, by a 2-to-1 figure.

Two-thirds of the career opportunities being interviewed for through the oncampus recruiting program are located in the Washington, D.C.-metropolitan Maryland area. By including those opportunities also located in the middle Atlantic area, this figure is increased to 85 percent. The student population at the University of Maryland, College Park, reflects a similar pattern. Eighty-five percent are Maryland residents and do desire to remain in this metropolitan or the State of Maryland residents and do desire to remain in this metropolitan or the State of Maryland, once they enter their beginning career responsibilities.

The largest group of employers who recruit at the University of Maryland from this geographical area represents the information services industry, including software development. Public accounting is second, with manufacturing concerns and the Federal Government third and fourth. Relating these rankings to academic backgrounds, there is still a two-thirds to one-third ratio of technical opportunities to nontechnical.

Some data from the oncampus recruiting program can be found in the tables 6, 7, 8, and 9 of my prepared statement which might also be interesting.

Some other items discussed in this report include the need for greater involvement by the faculty, as well as through the curriculums to aid students in career planning, increased articulation between the high schools, community colleges, and 4-year colleges and universities to help students make better decisions about post-high school graduation plans, job development programs within university and college settings, which can help students understand the hidden job market and effective use of labor market statistics in helping students make career decisions, all of which can hopefully be considered at a later time.

Thank you.

[The prepared statement of Mr. Bachhuber follows:]

Prepared Statement of Thomas D. Bachhuber

Thank you for this opportunity to present my perspective on the important issue of job placement of college graduates. I think it is valuable to understand that it is a partial perspective - one from a Director of a Career Development Center which assists students in learning about the work world early and throughout their college years, make effective career decisions and find satisfying jobs when they graduate. Other important points of view for your consideration inorder to gain a more complete perspective include those of faculty, employers, college and university administrators and the students themselves.

THE MISSION OF A COLLEGE CAREER/PLACEMENT OFFICE

College and university Career Placement Offices are in the business of assisting students to make satisfying decisions and transitions. We teach students a thoughtful process of weighing their interests, skills and values against the demands, challenges and forecasts of varying careers; informatively choosing a course of study and often related career directions; and eventually, securing a job as a satisfying "next step" after graduation. Our counseling services, publications, workshops, speaking engagements, on-campus interviews and training of other college staff all promote students' involvement in this process and propose to build career search skills for students. Researching careers, clarifying personal qualities, drawing relationships between self and career possibilities, decision-making, preparation and rehearsal for job hunting students and increasing confidence all are part of this skill building process. These skills help a student while in college as well as in the future career transitions which characterize our society. The blue attachment describes the general ways the Career Development Center assists students in building these skills.

PROBLEMS OF COLLEGE STUDENTS

The premise that college students are generally ignorant of how the work world functions and thus struggle with making informed and intelligent career decisions is both backed by research and countless opinions of faculty, counselors and parents. Students feel that informed career choices...and jobs following graduation for that matter...will simply materialize by being in college. Unfortunately, this is not the case. Personal growth and academic development often occur for students in college with precious too few connections made to the work world and future career possibilities. And, for many, the expectation that the "Placement Office" will make the connection for the student two weeks before graduation remains unmet.

Career planning and job hunting is both hard work and anxiety provoking for students. The majority of students do not actively seek the regular assistance of a Career Development Center - or they simply stop by with the intention to return for more serious work - and largely flounder in their career direction by making choices based on hunches, misinformed friends, and biases of parents. The data in Table 1 on Career Development Center contacts with students can be misleading as the same student can fall into several categories and one or two contacts does not always result in an informed and confident career decision or transition. Career planning requires the same thoughtfulness and commitment as learning any academic subject matter. Generally, it is estimated that a typical Career Planning and Placement Office has program contact with about ½ of the student population.

ON-CAMPUS RECRUITING AT UMCP

Each year, approximately 450 individual employers schedule between 650-700 recruiting trips to the University of Maryland-College park inorder to conduct 11,000+ individual interviews. The on-campus recruiting program reflects supply and demand in the marketplace. Consequently, employers interested in technical graduates (engineers, physical scientists, computer scientists) out number employers interested in non-technical graduates (business, social scientists, liberal arts) by two to one.

Two thirds of the career opportunities through On-Campus Recruiting are in the Maryland, Washington, D.C., Northern Virginia area. By including openings located in the Mid-Atlantic area, this figure is increased to 85%. The student population at UMCP reflects a similar pattern; 85% are Maryland residents and desire to remain in the Maryland-Virginia or Mid-Atlantic area.

The largest group of employers who recruit at UMCP from this area is information handling services including software development. Public accounting is second with Manufacturing and the Federal Government 3rd & 4th.Relating these ranki to academic backgrounds, there is still a two thirds to one third ratio of technical opportunities to non-technical.

Some data from the On-Campus Recruiting Program at UMCP can be found in Tables 6, 7, 8 and 9.

SURVEY DATA ON UMCP GRADUATES

Two campus-wide surveys of graduates have been conducted through cooperation between the UMCP Career Development Center and the Counseling Center - one of December, 1978 graduates and the other of May, 1979 graduates. Study samples and rates of return were 682 students (83% return rate) and 542 students (79% return rate) respectively. The surveys were conducted to gain a campus-wide picture of where graduates go when they graduate - their careers, career satisfaction and how they view their college education retrospectively. Data from these studies are in Tables 2,3,4 and 5.

SOME PROPOSALS FOR SOLUTIONS

- Career Planning in the Curricula

  Student motivation as well as available time to do career planning is limited particularly at a commuter university like the University of Maryland-College Park. Systematic, organized and effective career planning can best take place through the established curricula - either as a separate career planning course which all students take (both early in their college education and before graduatior or as individual study units as part of regular required courses e.g. a beginning English course or mid-level Economic course. Career issues are often integral to academic subject matter (English - resume writing and interview communication, sociology - the organization and role of work) and could be personalized to the student through a variety of teaching formats. This would insure that all students be exposed to career planning as an integral part of their college education.
- Job Development

  Personal knowledge of and contacts in the work world are keys to making a successful transition from college to work. The want ads, interviewers who recruit on campus and the job vacancies sent to the Career Development Center reflect only a small part of the job market. There is a need for resources and staff to develop communication with a wide variety of employers including small businesses, agencies, research centers, organizations in the arts and humanities, professional associations, etc. so as to open up a greater array of opportunities for students.

- Information Through Campus Media

  Most college students have little time or interest in career planning as a separate activity from college life. One of the Career Development Center goals is to integrate career planning and information with the regular campus communication channels e.g. the student newspaper and campus media center. Increased funding is needed to both provide students with campus-wide video tape media and computer terminal access and to develop quality materials which students can use at their convenience and motivation.

- Assist Students Before College

  Many students attend college for the wrong reasons or for no specific reason. Pre-college students, on the whole, have very unclear expectations for the personal, academic and career growth which will occur for them - and often fail in college because of this shortcoming. High schools and colleges need to do a better job of helping students make college decisions. Potential personal, academic and career outcomes need to be realized by the student before matriculation and in an organized and programatic fashion, made a key part of his/her college decision-making. Presently, this doesn't happen for most students. I believe colleges for the most part do not clearly articulate their goals to students and high schools do not assist students, on a large scale, in making thoughtful choices on post-high school options.

- Career and Labor Market Information in Helping Students

  Students and parents often echo the questions - "Where are the jobs?"..."What's opening up?" "What are the forecasts for the future?" - as key concerns in career planning and without equal consideration for the interests, skills and values of the individual(s) doing the planning. One does not have to look far to find bundles of information which point to computers,information services, technology, in general, engineering, leisure/recreation services, sales/marketing and the health care industry among others as needing trained and qualified people for the future. This kind of forecasting is relatively useless for the average student unless he/she is able to assess his interests, skills and values with respect to various career considerations. Additionally, when viewing more specific industry forecasts, it is unclear as to how the forecasts were developed and often because of inaccurate estimates of needs by employers as well as varying statistical methods, conclusions vary and can present a confusing picture for the information users.

Even in a perfect world where the student has carefully assessed him/herself, is familiar with multiple work world possibilities and is presented with accurate information on supply/demand trends for the future, he/she is still left with the $64,000 question of "How good am I and how competitive can I be in breaking into this job market?" The key answer to this question can be influenced by variables in college - self confidence, luck, building experience and special skills into college, preparation in job hunting and getting to know people to name a few.

In general, if college students are to make effective career choices and eventually secure satisfying jobs in those fields, they need: 1) a concrete understanding of a variety of career opportunites; 2) an opportunity to "picture themselves in work/ career tasks through quality written and media materials; 3) opportunities to try out career experiences; 4) programs to process their concerns and decisions with a counselor, adviser or helper and 5) Support and assistance in making job hunting an integral part of their senior year. A Career Development Center has ways for this to happen but on a campus like the University of Maryland-College Park, it happens for too few students.

Table 1
Career Development Center Student Contact (from 80-81 Annual Report)

INDICES OF DIRECT STUDENT CONTACT

	1980-81	1979-80
• Professional Staff Individual Counseling Sessions......	1,403	1,460
• Peer/Para Professional Advising Contacts..............	3,777	3,260
• Group Workshops..	3,497	1,816
• EDCP 108D Career Planning Course......................	157	295
• Students Taking On-Campus Interviews..................	1,641	1,366
• Students Establishing Credentials.....................	1,006	1,111
• Student Visits to Career Library......................	12,381	8,895
• Students in Classroom Presentations...................	2,460	1,129
• Students in Club, Association, Social Group Presentations....................................	741	1,258
• Students Attending Career Week, Orientation and Major Campus Programs..................................	3,801	4,517
TOTAL STUDENT CONTACTS	30,864	25,107

EXAMPLES OF INDIRECT ASSISTANCE
1980-81

- Training UNDERGRADUATE CAREER ASSISTANTS who influence and assist other students in career planning--both in the Career Development Center and in other campus settings

- Mailing of self help career planning guides and publicity to Resident Life Offices, Greek houses, Student Union, etc. which students can use in college/career decisions and job hunting

- Publishing 4 Diamondback Career Supplements which are included with periodic editions of the Diamondback

- Filing video tapes of CAREER WORKSHOPS in the Hornbake Library Non-Print Media Center for student use on weekends and evenings and making available telephone call-in audio tapes on resume writing, interviewing preparation, credentials preparation and Career Development Center services

- Working with and training staff and student leaders in campus organizations who in turn can positively influence students' career planning

- Cooperating with and developing materials for classroom instructors who implement career planning activities.

Table 2

Percentage of May, 1979, Graduates Employed
Full-time by Occupational Group

Type of Occupation	% Males	% Females	% Total
Architecture, Engineering or Surveying	28%	5%	15%
Administrative specializations	15%	14%	15%
Clerical	3%	18%	11%
Education	4%	16%	10%
Managers and Officials	13%	6%	10%
Sales	5%	7%	6%
Writing	3%	8%	6%
Miscellaneous non-professional, technical, and managerial	7%	4%	5%
Mathematics and Physical Sciences	9%	2%	5%
Art	2%	5%	4%
Medical and Health	0%	6%	3%
Service occupations	3%	4%	3%
Life Sciences	1%	4%	3%
Miscellaneous professional, managerial, and technical	3%	2%	2%
Protective Services	2%	1%	1%
Total of all graduates reporting (N=336)	100%	100%	100%

Table 3

Attitudes Toward College Preparations*

Items	% Positive Responses	% Negative Responses
1. "My undergraduate academic program helped me prepare for my present situation."	62	27
2. "My personal life in college helped me prepare for my present situation."	55	32
3. "My extracurricular life in college helped me prepare for my present situation."	42	39
4. "I am satisfied with my present situation."	50	37
5. "If I had it to do over again, I would take the same or a similar major."	67	21
6. "I wish I had had more practical job preparation at UMCP."	60	28
7. "I wish I had taken a more practical, job oriented major."	25	61
8. "I wish I had taken a greater variety of courses in addition to my major."	36	49
9. "I feel that UMCP should provide career planning services for recent alumni."	83	02

* Percentages required to add to 100% for each item were neutral responses.

Table 4

Responses by Division* to the Statement: "I am satisfied with my present situation."

	Agriculture & Life Sciences	Arts & Humanities	Behavioral & Social Sciences	Human and Community Resources	Mathematics, Physical Sciences & Engineering	Undergraduate Studies	Allied Health
trongly Agree	26%	16%	23%	15%	32%	8%	0
gree	24%	16%	30%	29%	44%	23%	0
ndecided	5%	22%	7%	19%	8%	19%	0
isagree	21%	28%	20%	21%	10%	27%	0
trongly Disagree	24%	18%	20%	16%	6%	23%	100%
	100%	100%	100%	100%	100%	100%	100%

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Table 5

Employment Status of Sample by Division

	Agriculture & Life Sciences	Arts & Humanities	Behavioral & Social Sciences	Human and Community Resources	Mathematics, Physical Sciences & Engineering	Undergraduate Studies	Allied Health
Not in Labor Force	6%	12%	6%	7%	1%	15%	0
Unemployed, but seeking	10%	15%	14%	12%	7%	15%	0
Military	2%	0	0	0	1%	0	0
Employed - part-time	19%	21%	17%	27%	6%	35%	100%
Employed - full time	63%	52%	63%	53%	84%	35%	0
	100%	100%	100%	99%	99%	100%	100%

Percentages adding to more or less than 100% are due to rounding

Table 6

Employers Who Interviewed at UMCP 1980-81
Academic Year by Function and Location of Position

	No. of Employers	Metropolitan D.C. areas (Md., D.C., No. Va)	Other Location
Accounting (public)	37	37	
Banking	5	5	
Insurance (sales, administration and loss prevention)	26	26	3
Consulting			
Engineering	34	26	13
Research and Development	10	8	3
Information handling (Including software)	46	43	4
Management	3	2	1
Building Construction	11	7	5
Manufacturing	85	36	56
Processing (Petroleums,chemical/drugs)	29	4	26
Retailing	20	18	4
Public Utility (includes transportion)	20	7	15
Marketing			
Technical products/services	2	2	
Non-Technical products/services	27	21	6
State and Local Governments	8	4	4
Federal Government	57	35	22
Agriculture business	9	3	6
Other	11	9	2
Total	440	293	166

Table 7

Employers Who Interviewed at UMCP
1980-81 Academic Year by
Geographic Location, Opportunities
for Technical and Non-Technical Graduates

Location of Position		Type of Work	
State of Maryland	171	Federal Government	
District of Columbia	48	Technical	48
Virginia	75	Non-Technical	11
Middle Atlantic	85	Non-Government	
North East	29	Manufacturing	115
South/Southwest	25	*Services(T)	130
Mid-West	19	**Services(NT)	142
West	14	Other	11
	466		457

* Consulting engineering, software, R & D firms

** Retailing, banking, public accountin marketing

Table 8

Follow-up Study of Teacher Candidates

Total Registrants	Teaching Job in Maryland or Metropolitan Area	Out of State Teaching Job	Other Employment or Graduate School
Bachelor degrees - 596	290	21	285
Advanced degree - 186	22	23	141

Table 9

Summary, On-Campus Recruiting Program, Fall, 1981

	Student Registration									No. of Employers Requesting Discipline
		Bachelor's			Master's					
DIVISION/DEPT.	Alum	D/81	M/82	S/82	D/81	M/82	SS/82	Ph.D.	TOTAL	
HUMAN & COMMUNITY DEVELOPMENT										
Education										1
Industrial Arts			1						1	
Industrial Tech.		7	5	1					13	6
Fam. & Com. Dev.	1	1	1						3	1
Food, Nut. IA	1								1	
Housing & Ap. D.		1	1						2	
Tx & Com. E.		3	4			1			8	3
Tex. Science										2
Recreation		1							1	
Individual Studies		2							2	
General Studies			1						1	
MATH, PHYSICAL SCIENCE & ENGINERING										
College of Engineering										
Aerospace		6	10	1					17	14
Agriculture			2						2	1
Chemical		6	39	4	5	7		1	62	47
Civil	2	27	13	3	1	1			47	23
Fire Protec. E.		6	1						7	5
Electrical	2	48	34	2	2	1			89	131
Mechanical		30	46	4		1			81	109
Nuclear		2	4						6	12
General Engr.										31
Computer Science		40	27	2	2	2	1		72	99
General Physical Sci.										13
Geology										1
Math	1	4	3						8	45
Meterology										2
Physics		2	1						3	13
Total	26	410	407	33	21	24	5	2	928	*

*Total No. individual employers recruiting: 327

SUMMARY
ON-CAMPUS RECRUITING PROGRAM, FALL 1981

DIVISION/DEPT.	Alum	Bachelor's D/81	Bachelor's M/82	Bachelor's SS/82	Master's D/81	Master's M/82	Master's SS/82	Ph.D.	TOTAL	No. of Employers Requesting Discipline
BEHAVORIAL & SOCIAL SCIENCES										
College of Bus. & Mgmt.										
Accounting	4	64	102	10					180	52
Finance		30	17		3	5	2		57	12
Gen. Business	5	11	8	2					27	48 (+ 6 f/M)
Mgmt Sci. & Stat.										2
Marketing		31	37	1	3	5			77	13
Personnel & Lab. Rel.		5	5						10	
Transportation	2	5	9	1	3				20	4
Crim. Justice		3	1						4	
Government & Politics		3	4		1				8	
Psychology		3							3	
Urban Studies		1							1	
Economics	3	25	9				1		38	9
Information Sys. Mgmt		13	12	1			1		27	15
AGRICULTURAL & LIFE SCIENCES										
Ag. Sciences	2	8		1					11	3
An Science		1							1	
Ag. Res. Econ.		2	1						3	
Bio Chem	1								1	
Chemistry	1	7	3		1			2	14	15
Gen. Bio. Science		1	2						3	5
Zoology	1	1							2	
Microbiology										2
Horticulture			1						1	
ARTS & HUMANITIES										
English		2							2	3
History		2				1			3	
Foreign Language		2	1						3	3
Speech		1							1	
Radio & TV		1							1	
Architecture										1
Open/Any major										16
Journalism		2	2						4	

Senator SARBANES. Thank you. Did you want to add anything, Ms. Patton?

Ms. PATTON. No, I think the reports or remarks pretty well speak for themselves.

Senator SARBANES. It's a very comprehensive statement, and we appreciate the work that went into it.

Mr. Meade, please proceed.

STATEMENT OF J. MICHAEL MEADE, DEAN OF STUDENTS, MONTGOMERY COLLEGE-GERMANTOWN CAMPUS, GERMANTOWN, MD.

Mr. MEADE. Thank you. My name is Michael Meade, and I'm representing Montgomery Community College, which serves the people of Montgomery County in the State of Maryland. My position is that of dean of students at the Germantown Campus, which is one of three campuses of Montgomery College. I thank Senator Sarbanes for inviting Montgomery College and other Maryland State institutions of higher education to this hearing.

The focus of this statement is on the student services of advising and counseling at Montgomery College in this time of depression. In consulting the Montgomery County Office of Economic Development, it appears that unemployment in Montgomery County is currently at 3.8 percent of a labor force of approximately 300.000 people. At this time, approximately 23 percent of the total Montgomery County work force is employed by the Federal Government, but in 1970, 28 percent of the Montgomery County labor force was employed by the Federal Government. Montgomery County is becoming less dependent upon the Federal Government to employ its people. It is possible to conclude, therefore, that in the next few years people in the labor force in Montgomery County will be looking for lateral and vertical transfers in employment; some will be seeking new employment from the awkward position of having no job, but the majority will be looking for new employment while possessing a current job.

This information has direct impact on the advising and counseling programs at Montgomery College. Anticipating a mild recession in Montgomery County in the next months, it appears that the trend in student body characteristics already noted will crystalize even further. Because of the variables of inflation, the women's movement, recognition by men of the symptoms of mid-life crisis, recognition of the phenomenon of "burnout," the high divorce rate, as well as the current recession, the student body of Montgomery College over the past 6 years has changed markedly. The mean age of the student body has changed from 23 in 1971 to nearly 27 in 1980. In 1971, women accounted for 45 percent of the student population; in 1980 they accounted for 57 percent. In this same period, the student population grew from 10.645 in 1972 to 17.715 in 1980.

There is also a distinct trend toward attendance at Montgomery College on a part-time basis, that is, a course load of 11 credit hours or fewer. In 1972, 45 percent of the students were part time, and in 1980, 65 percent of the students were part time. These student body characteristics reflect the needs of the people of Montgomery County. Some are presently employed, preparing themselves for lateral and vertical employment opportunities, and some are preparing themselves to enter the job market.

With all the above as background, it has evolved that Montgomery College's advising and counseling program has tended to emphasize career planning and job placement services. Students coming to Montgomery College in 1981, in the main, want help with career choices and job-hunting techniques. To meet this need, each campus of Montgomery College has a Career Planning and Placement Center which provides information and counseling services. Information on careers, employment trends, specific employers in Montgomery County, is assembled and is available to students in the form of books, pamphlets, microfiche, video tapes, and hopefully in the future, through a computer-assisted format. The counseling service is provided by professional counselors who have the training to assist a person to go through the decisionmaking process of career choice from self-understanding, transfer or personal skills to the job market, selection of a specific career, to field survey to interview people on the job, to development of a network resulting in employment.

To demonstrate that people are in need of the career planning service, the Germantown Campus of Montgomery College advertised to the people in the upper county area that the Career Planning and Placement Center would offer free, 2-hour orientations on the purpose and value of career planning. This was advertised to students—to people who were not students of the college but people in the community. In the fall semester of 1980, 223 people came for the orientation, and of these, 173 registered for a 1-credit-hour course on career planning. Many of these same people now want to take the 1-credit-hour course in job-hunting techniques. There is every reason to believe that, due to the economy and increased personal awareness, students will continue to seek help in career planning and the emphasis of the advising and counseling programs will continue to be career development.

With regard to the job placement service, there is a two-pronged program. It is the policy of student services that it is essential to teach students how to get jobs, also that the college must have a systematic way to list jobs received and obtained through the community. The college wants to teach the student "how to fish," how to find a job, rather than "give him/her a job." In the fall of 1981, the placement office across the college had approximately 700 employers listing job opportunities for the Montgomery College student body. This number is a light increase over the number of employers who listed in the fall of 1980. The majority of these jobs are part time.

It is imperative that something be said here about the importance of recession or the policies of the President of the United States of America on student employment opportunities through the college work study program. As a part of a student's financial aid package, a student may earn a certain amount of money working at the college. This money is 80 percent from the Federal Government and 20 percent from the college. In the past 2 years, Montgomery College has not been able to increase the overall college work study program, not because of student need, but because of Federal appropriations. Two years ago, Montgomery College had 150 students working off-campus in the community supporting themselves so they could stay in school.

Currently, Montgomery College has no off-campus college work study program. If money were provided by the Federal Government, the college work study program could reinstitute this kind of work experience for students.

In summary, it is anticipated that the recession will be mild in Montgomery County. However, this recession will be one more variable among those previously listed. That is, inflation, need for double incomes, women's movement, and increase in numbers of divorces, the perceived need for vertical and horizontal job change, which will have impact on the characteristics of the student body at Montgomery College. The typical student will be female, age 25 and over, attending part time and seeking help with career planning and job placement.

The student services program of advising and counseling have changed to meet the needs of these students and will be required to continue to be flexible as student needs vary because of forces both external and internal to the student. It is hoped that these observations will contribute to your collection of information to understand the import of the recession on Montgomery College student services programs.

Senator SARBANES. I appreciate it. I want to thank all of the panel. There has been some very helpful testimony.

Let me ask you this question. How reliable for predicting what's necessary do you regard the economic information that's available to you. Where does that come from, to begin with? The Department of Labor?

Ms. JOHNSON. Yes. We get a lot of information from the Department of Labor, and we get the handbook that is used in counseling the students and to keep abreast in what's going on in unemployment.

Senator SARBANES. How reliable do you regard that information provided to you? Or do you discover that when you get there is doesn't really apply?

Ms. JOHNSON. In some instances, I don't think it does. I don't think it's entirely reliable sometimes, because you'll find that it appears different. They may have unemployment listed at 7 percent. But to hear people talk about it and to watch the news and read it, articles and things, it appears that it's actually more than that.

Mr. BACHHUBER. I think it's very hard to talk about the reliability of that kind of data. But I think even more important than that is the way the data is presented to the information users is also rather confusing.

I think most college students, as well as us, people here on this panel, find it very difficult to try to use the data in assisting students who are trying to make decisions. We view that kind of data as only a piece in the puzzle.

And we try to help students understand that they first have to really know who they are as individuals. They need to have an understanding of their own interests and abilities and values, and then somehow try to integrate the information from the Bureau of Labor Statistics in making an informed choice. And that's a very complicated process, and it's one that I think we all struggle with.

Mr. BORCHARD. I would just want to add to that, we see our job very much the same. The problem with the Department of Labor Statistics is that they are national averages. They don't tell you what it's going to be like in Washington, D.C. And, of course, the Washington, D.C., job market is not the same as the Nation in general, so that that definitely needs to be taken into consideration.

The other thing that we try to alert our students to is the fact that we're in such an era of change. Whether or not we're in a time of recession, we're in such a change now that the only secure thing they have is a real insight on their talents, what they have to contribute and how and where those are marketable. They need to learn job-hunting skills, because they are going to be doing that through the course of their lifetime. So it's a skill they need to acquire. This whole thing, the career planning, needs to be an ongoing process that I think we all need to master.

Mr. MEADE. I would just like to add that most of the students—when we do research on the graduates from Montgomery College, most of them live and work right here in Montgomery County. Only about 10 percent leave the area. So it's really important for us not to be totally dependent upon the Bureau of Labor Statistics, but to use our accounting office of economic development, which provides a tremendous amount of information, and then to actually go out and talk to the employers, up and down the I–270 corridor. They're very helpful and well organized, and they will tell us what they predict they're going to be hiring.

Now, the problem is that they can predict, you know, only so well, also. So we have to start with the students, say "What are your interests? What are your values? And what are your skills?"

Now, just remember that any company is going to have a 4-percent turnover because of death, retirement, getting fired, et cetera. You're going to have to hit the pavement, too. You're going to have to hit the streets and start interviewing and develop a network.

But we've really become more dependent upon our own county offices to tell us what the trends are and then to actually go out and talk to the employers, because the information coming from the Federal Government is of a broad nature. And, of course, it should be.

Senator SARBANES. Are your students getting any career counseling that you can notice at the high school level or is that pretty much a bygone thing?

Mr. MEADE. Recently, due to—the State department of vocational education, gave me some money about 3 years ago; we developed an articulation booklet, with the area of five high schools in the upper part of Montgomery County. And the really—probably positive thing of developing an articulation booklet, which will show a student if you have certain interest, if you have certain values, if you have certain skills, that you may be interested in these kinds of college majors and these kinds of college majors relate to certain kinds of jobs.

I think what I learned most from that is the interaction with the counselors at the high school level. Yes, they're trying very hard to be involved in career development, and they all, in this county anyway, seem to be very interested in Holland Topography, which is the same way we view career development, so we've been able to do some articulation.

I think what I hear some counselors saying is they really like that professional development but they're still strapped with a lot of paperwork in the high schools. But I find them to be very professional. I find they really can help students. But I also find they have not a career center like we're able to do in the community college and perhaps like in a 4-year college. They can't specialize like that—they're dependent upon each individual person as a generalist to develop these specialized skills at a high school level.

Mr. BACHHUBER. I think some of the high schools probably face some of the problems we face. I've been in touch with a couple of high schools in Montgomery County, and they have very well-functioning career centers. But the problems they face are just like us, we lack staff, we're kind of stretched. And if you take a campus like the University of Maryland, College Park, you're talking about 37,000 students. You're talking about a career development center that has about nine professional staff in the office.

Career development has to be more than just the responsibility of a single office on the campus, just like career development for high school students has to be more than just the responsibility as a guidance and counseling office.

I think David mentioned earlier that the key to some of these dilemmas I think is to try to integrate career planning into the mainstream of the institution, and that includes curricula kinds of innovations, it includes getting the faculty involved, really making career development one of the goals of the institution. And I think in most cases we find that's not really happening today.

Mr. BORCHARD. I think that's my assessment of the situation in Prince Georges County. There is not anywhere near the kinds of career counseling going on in the high school setting that there needs to be. And I think it's because, for one thing, the concept of career planning is relatively new. The idea that you can plan a career is a relatively new thing.

And I think most of the high school counselors—their preparation and training and their time commitment to assisting students who are going on to college and looking at what are the requirements to get into college, and those kinds of nuts and bolts things.

Not many of the counselors have the kinds of preparation and training that it takes—and the understanding of what's really involved in career planning. I see them as almost kind of desperate, realizing they need to do it but not knowing how. And I think that using some of the theories that are available without really understanding them can be a problem.

Holland Topography research shows pretty much that a person's interest patterns don't crystallize till about age 18, and they need some work experience for that. If you try to use the kind of test used in a college and high school setting, it could be providing more misinformation than help.

I see those kinds of things are going on, so you really need emphasis on career planning and really professional understanding of what can you do, what makes sense to do with the student in the way career planning when they're in the elementary school and the middle years and the senior years and what needs to be done after high school.

Senator SARBANES. Thank you very much. It's been a very helpful panel. We appreciate the testimony and the prepared statements.

If we could have the housing panel, Bill Middleton, Robert Snider, and Martin Poretsky.

Senator SARBANES. Gentlemen, we appreciate your patience in staying with us.

Mr. Snider, why don't you go ahead. You're in the middle.

STATEMENT OF ROBERT W. SNIDER, SNIDER BROS., KENSINGTON, MD., AND DIRECTOR AND TREASURER, MONTGOMERY BOARD OF REALTORS, INC.

Mr. SNIDER. Senator Sarbanes, I am Robert W. Snider, director and treasurer of the Montgomery County Board of Realtors. The board's offices are in Kensington, Md., and it has an approximate membership of 4,700 members.

I wish to thank you for providing us the opportunity to present to you information and facts in relation to the effect of high interest rates and the current recession upon the real estate industry and the people of Montgomery County. I am providing the subcommittee a prepared statement together with charts which have been prepared for this occasion.

As you may recall from previous testimony presented to your subcommittee, the Montgomery County Board of Realtors is the largest association in the State of Maryland. It's the 12th largest board of realtors in the country, from among 600,000 to 700,000 members.

I mention this because the adverse effects that we have felt during this recessionary period have been felt multifold by many, many others of our industry throughout the country in addition to having an in-depth impact upon other industries closely alined with real estate and construction.

While our industry has suffered severely in the loss of employment and the loss of income earned and job opportunities, in the end the biggest loser of all, of course, is the community at large. In fact, while there appears to be an excess supply of housing, actually there is a severe shortage of affordable shelter in this community as well as throughout the country.

We are confident that the only solution to the dilemma in which we find ourselves is to obtain a speedy reduction in high interest rates by assuring an adequate supply of money for mortgage purposes. I do not want to dwell excessively on the adverse effects which the real estate industry is experiencing because the public, home owners, sellers of houses and buyers of houses have particularly suffered from these adverse economic conditions. Sellers have incurred substantial delays in the sale of their properties and been forced to use their own equity for financing purposes in order to consummate sales. Buyers frequently have paid higher prices even though there is a larger supply of total housing available.

This is the result of the cost of subsidizing or buying down the interest rate by the seller in order to enable the purchaser to buy at all. The general result is less and less affordable housing.

We have prepared a series of charts which I think will give you a clearer picture of the adverse effects of the recession and high interest rates on our community. Graph A shows the steady decline in the sale of houses since 1978 from 9,994 units to 5,763 in 1981, a drop of 42.3 percent. All of this data is based upon the Multiple Listing Service statistics of the Montgomery County Board of Realtors.

Graph B shows the drop in volume of sales in an amount of $181 million from 1978 to 1981. The effect on the transfer tax in Montgomery County alone is $1.8 million less in 1981 versus 1978.

Graph C shows the dramatic change in the character of mortgage loans to finance the purchase of housing. In 1978, approximately 65 percent of all loans were conventional. In 1981 this has dropped to 26 percent. Also note the tremendous increase in assumptions, from 6.3 to 32.6 percent, and owner take-backs from 2 to 15 percent. It is only these creative and innovative financing methods which have made possible any sort of resale housing market at all.

Those homeowners without assumable loans were not in a financial position to hold an owner take-back loan; have little chance of selling in today's market unless they are prepared dearly to subsidize or to buy down the loan.

Graph D indicates the average price of housing in Montgomery County has increased from $79,300 in 1978 to the average price in 1981, was $106,100. You will note in graph E that there was a steady increase in the inventory of housing available from 2,717 units at the end of 1978 to 4,235 units on December 31, 1981.

This increase in supply has had little effect on the price of housing. Sellers will generally endeavor to recover part of the substantial cost to them of providing financing to buyers by maintaining high prices. When you take the current inventory of available homes and divide that by the average monthly sale, it indicates there is currently an 8.8-month supply compared to a 3.3-month supply in 1978.

Graph F indicates that of the 4,235 houses available at the end of 1981, about 70 percent were in excess of $80,000. As a result, this removes the ability to buy a home at the current high interest rates out of the hands of the greater portion of the population. Note that whereas the average price of houses sold was $106,100, the average price of houses and inventory is much higher; namely, $138,000.

Turning momentarily to the impact of the current economic depression on the real estate industry, it might be interesting to note that there was a 23.5 percent loss of membership. Over 1,200 members dropped out of the board of realtors during 1981. Part of this was made up by new members entering the field.

In addition to the loss of members, 39 firms went out of business representing 40 different real estate offices throughout the county. The loss in earnings to the members in the business by the drop in sales in 1981 represented something on the order of $7–$8 million.

What happened to the ability to buy? There is no doubt that high interest rates were the primary reasons for the drop in business. If you compare the average household income, average price house, and the income required to buy an average price house between 1978 and 1981 you will observe whereas the former increased 38 and 33 percent respectively, the income required to buy increased 93.5 percent. High interest rates are the culprit.

The income required to buy the average priced house in Montgomery County is currently $60,000. Graph I, which was prepared by the Montgomery County Planning Board, graphically shows the disproportionate part of household income required to buy today's housing and why the housing market has been put into total chaos.

If you'll note, this graph shows——

Senator SARBANES. Could I go back to the previous graph while you have it here? That's what's happened to the ability to buy. As I understand it, in 1978 the average household income was $29,500. In 1981 it was $40,700. So that's an increase of 38 percent in household income.

The average priced home increased from $79,000 to $106,000. That was an increase of, let's say, 34 percent. So the household income actually increased more than the average price of the home increased, but the income required to buy that average priced home doubled, in effect. It went from $31,000 to $60,000. That would be almost entirely attributable to the interest rates.

Mr. SNIDER. Entirely.

Senator SARBANES. OK.

Mr. SNIDER. Graph I indicates that to buy the average priced single family house in Montgomery County, detached house, would take in 1981 between 40 and 45 percent of the average income based upon whether there was the 10 percent or 25 percent down payment. You can see the increase in a single family detached house from the 25 percent range in 1975 to the 40 to 45 percent range in 1981.

Let me conclude my remarks by saying, it is essential for Congress to act now to save the housing and construction industry and avoid total economic disaster. We believe that inflation can be curbed without the need of destroying the housing industry. This can be done by assuring an adequate supply of mortgage money which in itself will have a deflationary effect on interest rates and fight inflation.

When such a policy is accompanied with restraint in Government spending, we can win the fight against inflation and restore the country to a state of prosperity.

Thank you.

Senator SARBANES. Thank you very much for your excellent graphs and very good testimony. We appreciate it.

[The prepared statement of Mr. Snider, together with the graphs referred to, follows:]

PREPARED STATEMENT OF ROBERT W. SNIDER

Senator Sarbanes, I am Robert W. Snider, a Director and Treasurer of the Montgomery County Board of REALTORS, Inc. The Board's offices are at 3809 Farragut Avenue, Kensington, Maryland, and has an approximate membership of over 4,700 members.

I wish to thank you for providing us the opportunity to present to you information and facts in relation to the effect of high interest rates and the current recession upon the real estate industry and the people of Montgomery County. I am providing the committee a written copy of the general character of my comments and charts which have been prepared for this occasion.

As you may recall from previous testimony presented to your committee, the Montgomery County Board of REALTORS, Inc. is the largest association in the State of Maryland and the twelfth largest Board of REALTORS in the country from among some 600,000 to 700,000 members. I mention this because the adverse effect that we have felt during this recessionary period has been felt multifold by many, many others of our industry throughout the country in addition to having an in depth impact upon other industries closely aligned to real estate and construction. While our industry has suffered severely in the loss of employment, in the loss of income earned, and job opportunities, in the end, the biggest loser of all, of course, is the community at large. In fact, while there appears to be an excess supply of housing, actually there is a shortage of affordable shelter in our community as well as throughout America. We are confident that the only solution to the dilemma in which we find ourselves is to obtain a speedy reduction in high interest rates by assuring an adequate supply of money for mortgage purposes. It is only by assuring an adequate supply of mortgage money that the competitive factor will again enter the real estate industry and stop the steady growth in unemployment we are experiencing.

I do not want to dwell excessively on the adverse effects which the real estate industry has experienced because the public--home owners, sellers of houses, and buyers of houses--has particularly suffered from the adverse economic factors.

Sellers have incurred substantial delays in the sale of their properties and been force to use their own equities for f ancing purposes in order to consummate sales.

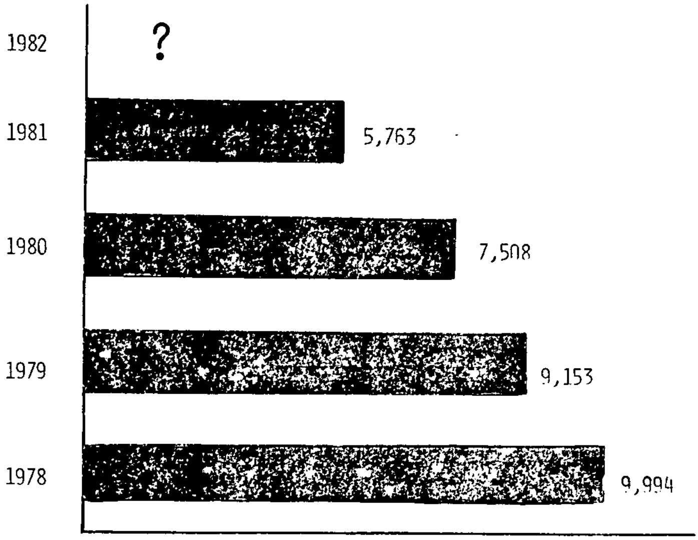
Buyers frequently have paid higher prices even though there is a larger supply of total housing available. This is the result of the cost of buying down the interest rate by the seller in order to enable the purchaser to buy at all. The general result is less and less affordable housing in terms of ability to qualify for purchases on the basis of the potential purchaser's income.

We have prepared a series of charts which I think will give you a clearer picture of some of the points I have tried to make. I would like to present them to you at this time.

GRAPH
A

HOUSE SALES DROP

MONTGOMERY COUNTY

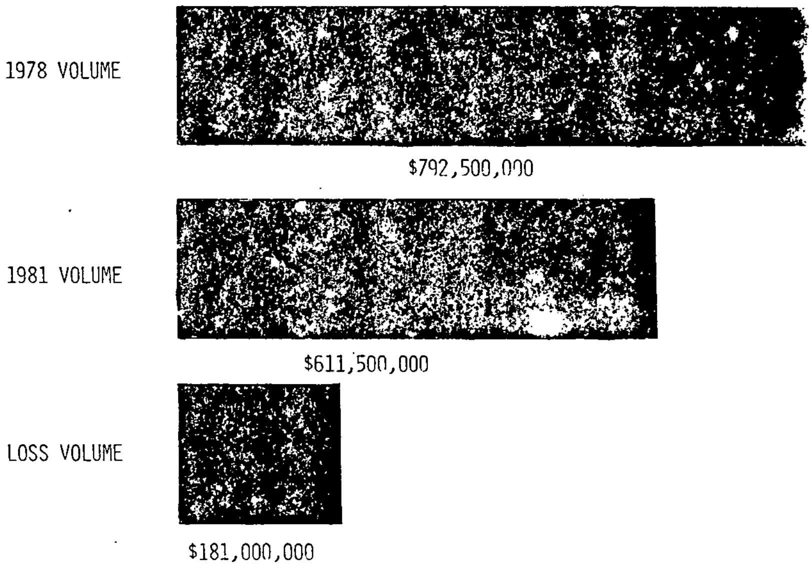


SOURCE: MCBR MLS DATA

GRAPH
B

SALES VOLUME DECREASES

MONTGOMERY COUNTY



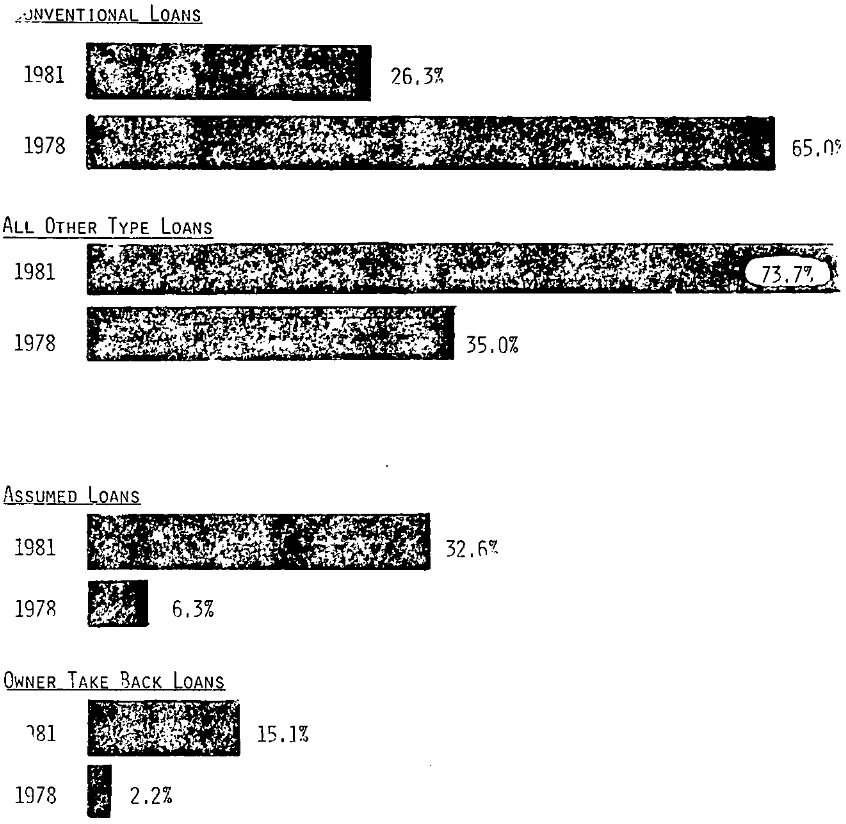
REVENUE LOSS TO MONTGOMERY COUNTY IN TRANSFER TAXES: $1,810,000

SOURCE: MCBR MLS DATA

GRAPH
C

TYPE OF LOAN CHANGE

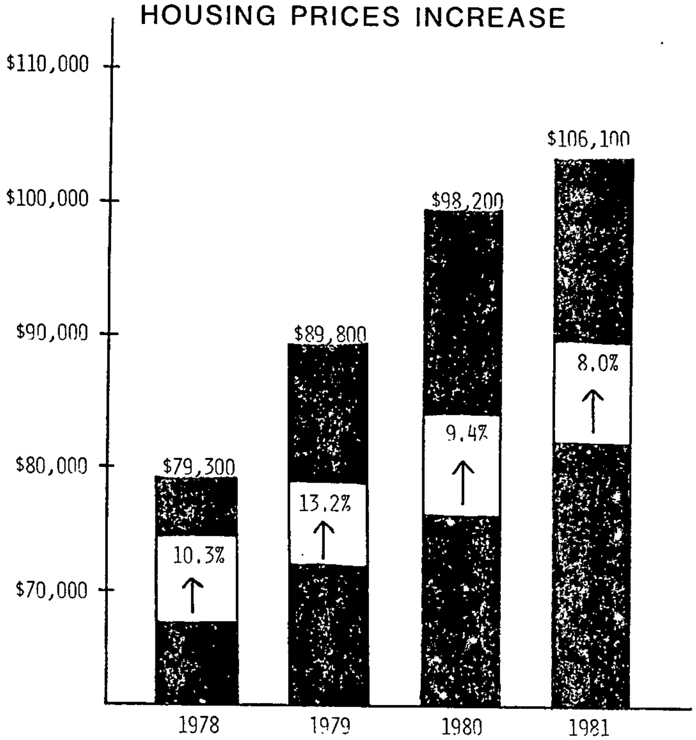
MONTGOMERY COUNTY



SOURCE: MCBR MLS DATA

GRAPH
D

MONTGOMERY COUNTY
Annual Average Sale Price



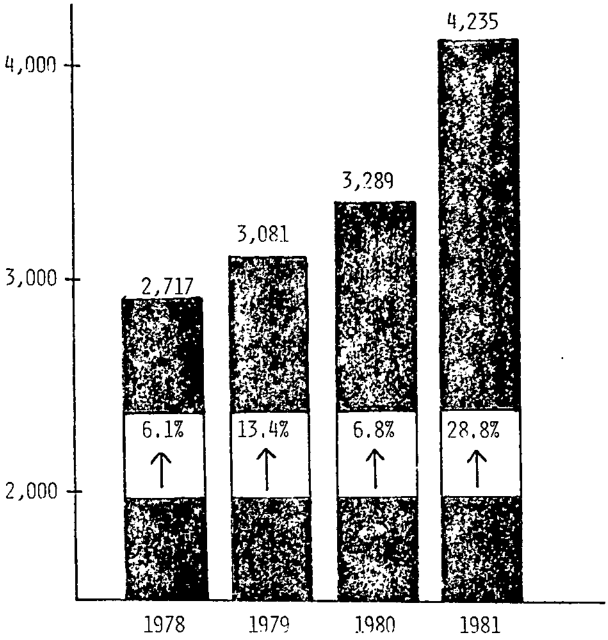
SOURCE: 1981 MCBR MLS DATA

GRAPH E

HOUSING SUPPLY INCREASE

MONTGOMERY COUNTY

PROPERTIES AVAILABLE AT END OF YEAR



MONTH'S SUPPLY	3.3	+267%	8.8
LISTINGS EOY	2,717	+55.8%	4,235
SALES	9,994	-42.3%	5,763

SOURCE: 1981 MCBR MLS DATA

GRAPH F

PRICE RANGE OF HOUSING AVAILABLE

MONTGOMERY COUNTY

PERCENT	# UNITS	PRICE RANGE
5%	193	UNDER $40,000
25%	1104	$40,000 - $80,000
35%	1468	$80,000 - $130,000
35%	1470	OVER $130,000

MEDIAN PRICE: $105,000

AVERAGE PRICE: $138,000

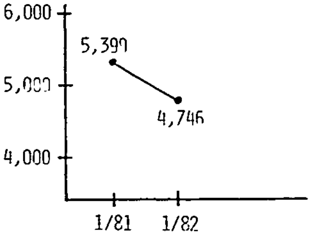
SOURCE: 1981 MCBR MLS DATA

GRAPH G

DECREASES IN INDUSTRY ACTIVITY

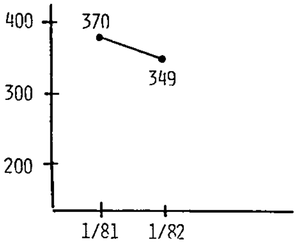
MONTGOMERY COUNTY

Board Membership



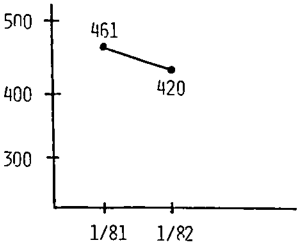
Loss of Members:	1,266
% Decrease:	23.5%
Net Loss of Members:	653
% Decrease	12.1%

Real Estate Firms



Net Loss of Firms:	21
Out of Business:	39
% Decrease:	10.1%

Real Estate Offices



Offices Closed:	41
% Decrease	10.6%

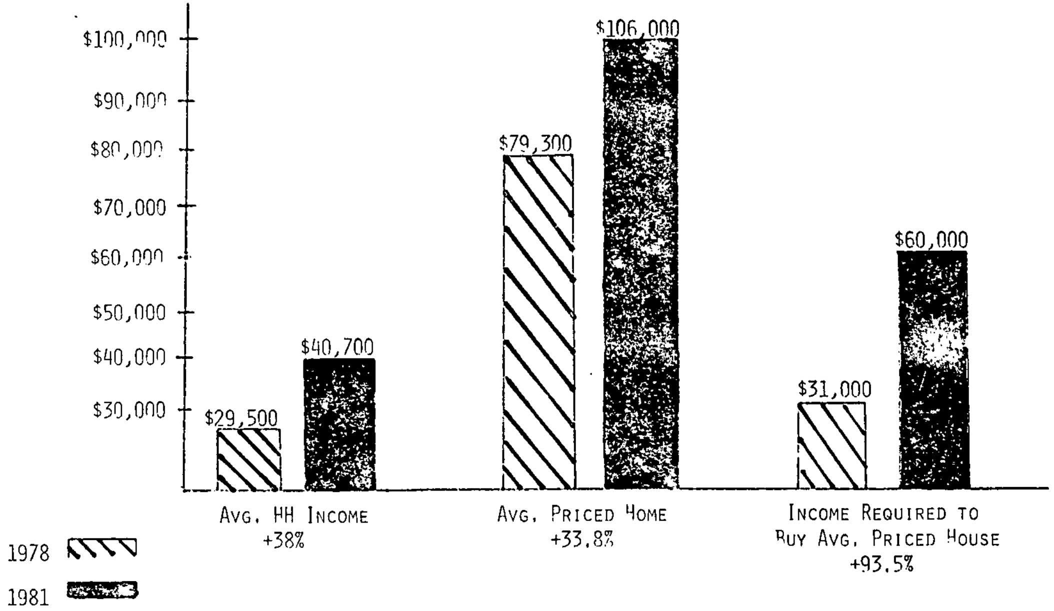
Represents a Loss in Earnings Between $7 and $8 million for 1981

SOURCE: 1981 MCBR MLS DATA

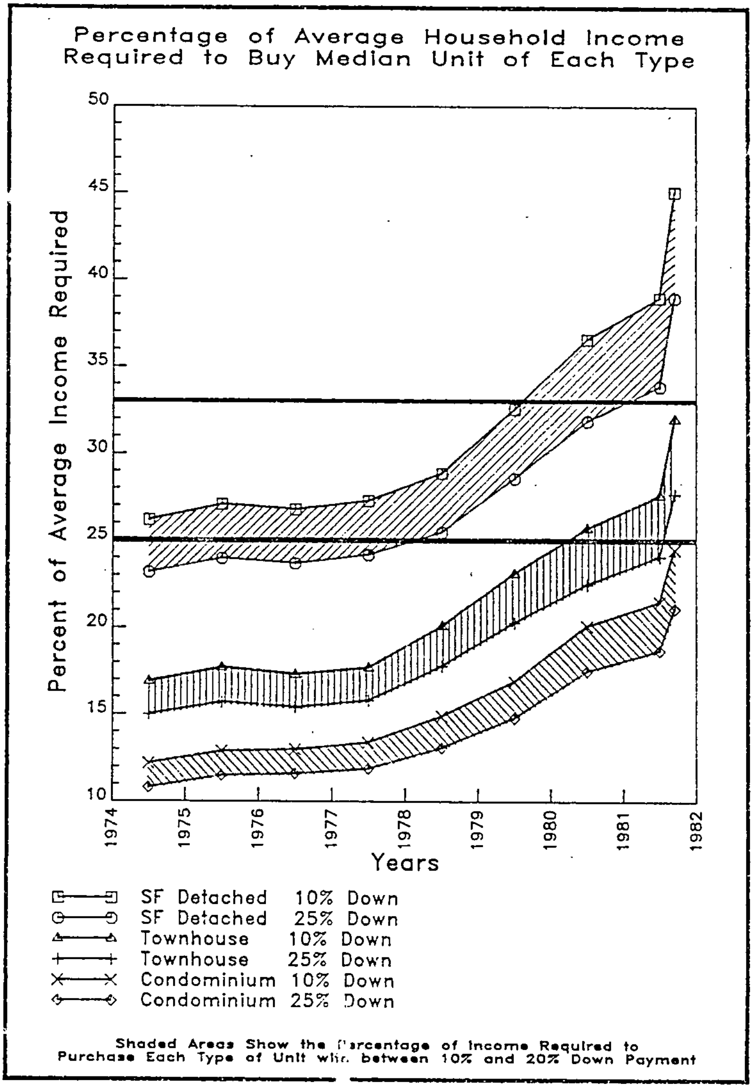
GRAPH
H

WHAT'S HAPPENED TO THE ABILITY TO BUY

MONTGOMERY COUNTY



GRAPH I


Percentage of Average Household Income
Required to Buy Median Unit of Each Type
Percent of Average Income Required
50
45
40
35
30
25
20
15
10
1974
1975
1976
1977
1978
1979
1980
1981
1982
Years
SF Detached 10% Down
SF Detached 25% Down
Townhouse 10% Down
Townhouse 25% Down
Condominium 10% Down
Condominium 25% Down
Shaded Areas Show the Percentage of Income Required to
Purchase Each Type of Unit with between 10% and 20% Down Payment

GRAPH A - HOUSE SALES DROP

This graph shows the steady decline in the sale of houses since 1978 from 9,994 in that year to 5,763 in 1981 or a drop of 42.3%.

GRAPH B - SALES VOLUME DECREASES

This chart shows the drop in the volume of sales in an amount of $181 Million Dollars for 1981 alone in comparison to 1978 sales. The total loss for the three-year period (1979 - 1981) is, of course, substantial.

The county, as a result of this drop, lost approximately $1,810,000 in transfer tax revenues.

GRAPH C - TYPE OF LOAN CHANGE

The dramatic change in the character of mortgage loans to finance the purchase of housing is shown in this graph. In 1978, about 65% of all loans were conventional loans. In 1981, this had dropped to about 26.3%. Also, note the tremendous increase in assumptions from 6.3% to 32.6% and "Owner Take Back Loans" from 2.2% to 15.1%. It is only these creative and innovative financing methods which have made possible any sort of resale housing market at all. This graph really emphasises the importance of assuring a continued supply of money for mortgage purposes if Americans are to be able to acquire adequate shelter.

GRAPH D - HOUSING PRICES INCREASE

The average price of housing in Montgomery County increased from $79,300 in 1978 to about $106,100 in 1981, although in some areas it was substantially higher. Note prices increased 10.3% in 1978, 13.2% in 1979, 9.4% in 1980 and 8.0% in 1981.

GRAPH E - HOUSING SUPPLY INCREASE

You will note that there was a steady increase in the inventory of housing available. This increase in supply has had little effect on the price of housing, partially by the necessity to buy down loans in order to make financing sufficiently attractive to buyers. Consequently, sellers endeavor to recover part of the buy down cost by maintaining higher prices.

The inventory of housing today stands at about an 8.8 month's supply compared to 3.3 months in 1978, based upon sales activities for the respective periods.

GRAPH F - PRICE RANGE OF HOUSING AVAILABLE

Of the 4,235 houses available at the end of 1981, about 70% were in excess of $80,000. As a result, this removes the ability to buy a home at the current high interest rates out of the hands of the greater portion of the population. Note that, whereas the average price of houses sold was $106,100, the average price of houses in inventory is much higher, namely $138,000.

GRAPH G - DECREASES IN INDUSTRY ACTIVITY

Turning momentarily to the impact of the current economic depression on the real estate industry, it might be interes' ; to note that the membership of the Montgomery County Board of REALTORS declined from 5,399 at the beginning of the year to 4,746 at the end of 1981, representing a net loss of 653 or 12.1%. Actually, the loss in membership was 1,266 because of new members who entered the business. This is a substantial loss in the job market.

In addition to the loss in members, note that 39 firms went out of business and 41 offices were closed in the county.

The loss in earnings to members in the business by the drop in sales represents something like $7 to $8 Million for the year.

GRAPH H - WHAT HAPPENED TO ABILITY TO BUY

There is no doubt that high interest rates were the primary reason for the drop in business. If you compare the average household income, average priced house and the income required to buy an average priced house for 1978 and 1981, you will observe that, whereas the former increased 38% and 33.8% respectively, the income required to buy increased a whopping 93.5%. High interest rates are the culprit.

GRAPH I - PERCENTAGE OF AVERAGE HOUSEHOLD INCOME REQUIRED TO BUY MEDIAN UNIT OF SOME TYPES OF HOUSING

This chart graphically shows the disproportionate part of the household inco required to buy today's housing and why the housing market has been put into total chaos.

HIGH INTEREST RATES AND INFLATION ARE RESPONSIBLE FOR:

Drop in Home Sales.	over 7,500
Increase in Home Prices	over 33%
Increase in Housing Supply.	over 55%
Higher Average Price of Housing Supply. . . .	over $138,000
Drop in Conventional Loans.	over 59%
Drop in Dollar Sales.	over $181,000,000
Loss in County Transfer Tax Revenues.	over $1,810,000
Decrease in Real Estate Firms	over 20
Loss in Jobs.	over 1,200
Loss in Income.	over $7,000,000
Increase in Time Required to Sell A House.	over 200%
Increase in Income Required to Buy Average Priced House.	over 90%
Portion of Income Required for Single Family Housing	over 40%

Let me conclude my remarks by saying that it is essential for Congress to act now to restore the housing and construction industry to a prosperous posture if we are to avoid total economic disaster. We believe that inflation can be curbed without the need of destroying the housing industry. This can be done by assuring an adequate supply of mortgage money, which in itself will have a deflationary effect on interest rates and fight inflation. When such a policy is accompanied with restraint in government spending, we can win the fight against inflation and restore the country to a state of prosperity.

Senator SARBANES. Mr. Middleton, please proceed.

STATEMENT OF WILLIAM A. MIDDLETON, VICE PRESIDENT, WEAVER BROTHERS MORTGAGE BANKING, GAITHERSBURG, MD.

Mr. MIDDLETON. Senator, my name is Bill Middleton. I'm a vice president of the Weaver Brothers Mortgage Banking firm here in Montgomery County.

Not to reiterate some of the statistics that Mr. Snider has covered, I will just cover some things in a brief overview. Most economists feel that we are nearing the end of the current recession which has brought us extremely high unemployment, fewer housing starts in the field of new homes, roughly 900,000 instead of the usual 1,500,000 or 1,600,000 per year.

We are also having a delinquency rate in Maryland now of 1.14 percent, of 1 to 4 unit residential loans, which is a 19-percent increase. Now, this is based on third quarter statistics. We do not have the current statistics. And I personally believe that the delinquency rate will actually increase, especially in the next 90 days. It will be a critical period.

New loans issued nationally are off approximately 27 percent. I would say in Montgomery County that we're off somewhere in the 60 percent range for new loans.

Hopefully in the next 90 days, the mortgage industry is looking for things to improve. With the new incentives to save the IRA, the Keogh plans, the tax investment credits, and hopefully a downward trend in the interest rates plus the pent-up demand for housing, all should push real estate sales upward.

Continued improvement on the inflation front will give consumers hopefully more confidence and will facilitate the acceptance of the new mortgage alternative instruments. The greatest concern of all is the Federal deficit for 1983, which just recently has been projected at $109 billion. In that the Federal Government competes with the private sector for needed funds, this could cause interest rates to climb back to the excessive levels of last year and even higher.

How the deficit in the overall budget is handled by President Reagan and Congress may be the key to returning of lower interest rates and increased activity in the building industry.

To go one step further, in the chart that you have, Senator Sarbanes, if we take an average couple buying a home in Maryland with a mortgage of $60,000, their payment is going to run somewhere in the neighborhood of $830 to $850 per month. That's principal, interest, and tax payment. At 16 percent, which we are not even at now—when I originally drew this up we were heading in that direction—we're actually in the conventional rate of about 17¾ percent, it would push the payment to over $1,000 a month.

In terms of buyers, this eliminates probably about 40 percent of the buying range of the young person, the time buyer. So, in summary, interest rates, we feel, are the key to the success of the building industry in the next year.

Senator SARBANES. Thank you.

Mr. Poretsky, please proceed.

STATEMENT OF MARTIN PORETSKY, PORETSKY & STARR, INC., BETHESDA, MD., AND MARYLAND REPRESENTATIVE, NATIONAL ASSOCIATION OF HOMEBUILDERS

Mr. PORETSKY. Thank you, Senator.

For the record, my name is Martin Poretsky. I am the Maryland representative for the National Association of Homebuilders.

I deliberately did not prepare anything beforehand. You have heard testimony, I know, from Pat McCuan in Baltimore, who is president this year of the State of Maryland Association, and so forth.

Bob Snider's remarks and charts really say it all for the entire housing picture. Certainly there is an 8- to 12-month inventory already in housing. And for that reason, the unemployment in our industry is well above the 7.9 percent that the State is presently experiencing.

Unfortunately, too—and the last pages of your remarks indicate that the rates have gone down slightly—but unfortunately, in the last few weeks it has not been the case. They have been increasing weekly in the last few weeks. I can't tell you why, but that's a problem.

I want to touch on two other things very quickly. I guess to reiterate that the next 60 days, unfortunately really will tell the tale for the entire year, between leadtime and other factors that are involved. For the housing industry, this winter period—usually January historically is a good time for us. December is not. And the early winter. And then again in the summer, May, June months are prime, among the prime selling seasons.

And if we can't have buyer confidence that people return right now in January and February, then we can't start anything in the spring. And that leads to the third quarter of the year.

So really, if the Government and others are looking to recovery in the second and third quarter of the year, we need something now. Everything we talked about last fall has happened, as far as the negative aspects. Nothing very positive has taken place.

And just through nothing happening at all, it is making the situation worse. Whereas this past fall we did not see a problem with bank foreclosures, now banks, whether they want to or not, find themselves thinking—Bill can bear this out—being put in a different posture, and I think foreclosures will start to be occurring. And nobody wants them.

We had talked before—I mentioned that efforts were beginning in the State of Maryland in working with Annapolis in trying to get some pension funds released. Both Bob and I serve on the current task force. We have not yet gotten anything concrete established. A lot of discussions are taking place.

But, if something were to happen—let's say it happened in the next 45 days—the biggest stumbling block in the State, like everybody else, wants to maximize its yield on its portfolio. So we have not gotten beyond the threshold of talking strictly market rate interest with Mr. France and others in the State pension fund.

We have also heard off the record, that not all members of the State pension fund—whether it is other aspects of it for that matter are even inclined by their own philosophical leanings, to see these funds in any way, shape or form go to mortgages. They would like to have them in overnight security or something liquid.

And I think that's a shame. I say it's a shame because I think the yield last year in Maryland was just below 8 percent on the entire portfolio.

We are not looking for a handout, but some coupons and tax incentives, perhaps the rate that could be available to the home buyer could and should under those circumstances be less than the present market.

Senator SARBANES. Let me ask you this: How have delinquencies on the mortgage payments risen?

Mr. MIDDLETON. Senator, as I covered it they are running about 19 percent. There is a 19-percent increase.

Senator SARBANES. Is this statewide?

Mr. MIDDLETON. This is Maryland. It is actually higher nationally. Maryland for the third quarter of 1980 versus 1981 was about 3.49 percent. Versus 1981, it's running 4.14 percent. That's a 19-percent increase.

As I say, when you put together statistical data, it usually runs behind the current time. I think that this rate is going to substantially increase in the next 90 days.

Senator SARBANES. Of course, you know that unemployment now is cut to 26 weeks. So if you get any long-term unemployment, those people are just going to fall off.

Mr. MIDDLETON. The foreclosure rate will increase drastically.

Senator SARBANES. Can I talk to you about the administration's proposed phaseout of GNMA? Well, this is kind of a loaded question.

Do you see any argument for what they were proposing to do? As you know, I joined with Senator Bentsen and others quickly, in opposing it strongly. I fail to see any argument whatever for what they are proposing to do. The GNMA program more than pays its own way, to begin with.

Mr. PORETSKY. I think it is strictly a numbers game. There is no drain in GNMA, it's a question of simply insuring program. But from a public standpoint, they can say, "Hey, we just cut out an umpteen billion dollar program. And this is all going to go to the bottom line." Although as you see, none of it really would.

What that does is add that much more confusion to the marketplace. Cause that much more concern.

Mr. MIDDLETON. No question that the GNMA program—in other words money, if you deal on a national basis you have got the insurance through GNMA, investors such as the pension fund, whoever we sell the loans, they feel very comfortable, very secure in that you have the Federal Government behind your portfolio, your pool of loans.

I think without this you are going to raise great concern. And especially like now as Martin is saying, we are trying to tap the Maryland pension fund. Without the type of insurance of this nature, you are going to have a very difficult time.

Senator SARBANES. It is my perception that this administration does not regard housing and a commitment to it as an important national priority. Since the housing programs coming out of the Great Depression, we have always tried to give housing—I don't know whether you want to call it a preferred position—at least a first-crack position at available credit.

The ripple effect of the falloff in housing is incredible, because it just runs right back through the entire economy. But also, I think, because of the important social objectives that we attach to homeownership.

It seems to me if you just throw housing into the money pool, people are either going to have to make more money out of housing than has been traditional, or they are going to move their money into more speculative ventures where they figure on getting a much higher return much more quickly.

Housing has meant tying up money over an extended period of time if we are going to make it available to fairly young families. That's the only way it can be done. We have built a system to respond to that reality, and it has given us a far higher percentage of homeownership in this country than in most other societies—I think to our advantage.

I see all of that now being undercut.

Mr. SNIDER. I think it is an understatement to say that they don't have a proper housing policy. It appears that there is a concerted effort to—not only which has been classical—sacrifice housing and real estate and construction industry to attempt to get us out of inflationary period, but now that we are in a recession, have been in a recession, they have not taken the classical steps to attempt to let housing lead us out of the recession.

Senator SARBANES. The more I hear this testimony, the more convinced I am becoming that you really are being made the whipping boys in a lot of respects.

I think the "boom-and-bust" cycle is a contributor to the high cost of housing people keep harking on. Pat McCuan talked about that at some length in Baltimore—about his reduced ability to operate efficiently—as a consequence of having to bust up the skilled work force that he had managed to assemble. The whole problem of putting the team back together again every time the company comes around means that he has a higher priced product as a consequence of what's happened to his labor force because of the ups and downs.

Mr. MIDDLETON. It runs into related industries. My office used to employ six people, seven people, excuse me, plus one part-time person. I have two now, myself and a girl.

I had a very efficient team. When the brokers brought us loans, we could close them very efficiently, very effectively. Our cycle of time is very important into getting the loan approved for the transaction, and now that is delayed. If we start back up there will be a significant delay because of lack of trained personnel.

Senator SARBANES. What rate would you need to be able to just move things? I'm not talking about opening the floodgates, but permitting economic activity to start working in some seminormal fashion?

Mr. MIDDLETON. I think we have to really cover two areas; not only the rate or a given rate, but a given orderly position that the consumer has the confidence that that rate is where we are at and what we can work with, and tomorrow morning they are not going to sign a contract on a house at 14 or 13.5 percent and possibly go to settlement with the rate at 16 or 17 percent. That's the most important thing, I think, that we face.

I think it should probably be addressed more by Martin from the standpoint, to get someone qualified as I gave you the statistics here, in other words of between 13 and 16 percent on a $60,000 mortgage, you are talking $150 a month difference.

Somewhere in the 13.5 percent range would probably move the housing market.

Mr. PORETSKY. What we would still do then is the builders would somehow find a way to buy that down further. But where I get stymied, where Bob picks up, is if I can buy down to where you can buy the unit, the fellow still can't sell his house that he needed to do to buy my house, then I have a problem, too.

Now my firm has tried in the last decade, to stay into the first—predominately the first home buying area. So I am very concerned with the costs.

And let me sidetrack there just a second, your question back on GNMA. In terms of Maryland, if we get into a House Commission Report, which I think will come out, it will favor some form of the present program, section 8 or whatever, as continuing.

I could be wrong, but especially in this particular area of Maryland, where those brokers were affected in the past, because of either land costs or whatever, that the levels were never really high enough to be that much of a factor. Assisted housing of that nature was never that large a percentage of the building. Especially Montgomery County.

We thought that the rates were going to go down. I think most people thought they were dropping a little bit. My concern 3 or 4 weeks ago wasn't the fact that my rates have increased; it was a hope that as people saw rates starting to come down, as Bill was mentioning, that they wouldn't wait for them to come down further, but that they would start buying again.

Because we have that psychological problem as well.

You were asking a question on basic affordability. But I am trying to relate it to time, how crucial it is and how long it takes for things to react to each other.

I think the housing costs as that chart shows, has stabilized. And as you say, it is strictly the affordability of this interest rate.

Another thing that is happening and will have to happen in the psychological area, is that people for this period of time in the mid-seventies when the cost of housing was rising so high and people were on buying, things were going up so well. At that time, housing looked like a great investment.

We are returning now, sadly, returning—fortunately returning—to the fact that homeownership, sheltering people is our primary concern. That is, people realize that. But sadly, are finding out they can't meet that objective. And the idea of still trying to maximize the few dollars you have is what is keeping that money from coming into housing. It is going into the short-term rates.

Senator SARBANES. What's happened to your own activities in terms of your work force and starts?

Mr. PORETSKY. I have had to let a middle level of my group go, my customer service and retained all my superintendents. And we are going to evaluate things again further in the next coming weeks. It is something we have to do.

We delievered less than 100 houses last year, which is the first time I've done that in many years.

Senator SARBANES. I think that ideology is getting in the way of practicality on a lot of these calls. The GNMA proposal fits in with that ideology even though the practical effects of it don't make sense. It not only does not contribute to the problems you are trying to solve, it actually worsens them, in my judgment.

As you know, I have consistently felt that the Fed could move interest rates down not only without giving an impetus to the inflation, but actually helping us to deal with the problem. The Fed has helped to precipitate us into a recession, and every point on the unemployment rate, every 1 percent, costs us $25 billion on the deficit between the lost taxes and the income support payments.

We just get ourselves deeper into that box of the large deficit, which gives us problems for the future. We have got to try to shake them out of this attitude. Eventually there is not going to be anything left.

One person who testified, and was skeptical that things would, in fact, turn back up to any significant degree, asked "What is the contingency plan?"

And I don't see one being projected.

Well, thank you gentlemen, you have been a very helpful panel, and I appreciate the work that went into your presentations.

That table shows that people are knocked out of the market solely on the basis of interest rates. The argument that they use or try to use is that the cost of housing has gone up at a disproportion rate and this is an effort somehow to bring it back down and get it into focus. That's obviously not what has happened.

Mr. PORETSKY. Senator, as a matter of fact what we did last fall was, I sent a letter to all my subcontractors extending their contracts for a full year, and had no resistance in getting their return.

In fact, many of my contemporaries are going a step further. They have simply sent out notices saying to renew the contract, they would work out some reduction. And in many cases this is developing. So I don't see the price increasing, it is strictly the increase in interest rate.

You are 100 percent correct.

Senator SARBANES. Thank you very much.

The subcommittee is adjourned.

[Whereupon, at 12:45 p.m., the subcommittee adjourned, subject to the call of the Chair.]

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