THE 1973 ECONOMIC REPORT OF THE PRESIDENT

598

HEARINGS

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-THIRD CONGRESS

FIRST SESSION

PART 3

INVITED COMMENTS

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THE 1973 ECONOMIC REPORT OF THE PRESIDENT

The letter appearing below was sent to the following organizations: Ad Hoc Coalition on Housing, American Bankers Association, American Farm Bureau Federation, AFL-CIO, American Life Insurance Association, Chamber of Commerce of the United States, Committee for Economic Development, Common Cause, Communications Workers of America, Community Council of Greater New York, Conference on Economic Progress, Conference of Mayors, Conservation Foundation, Consumer Federation of America, Consumers Union of the U.S., Inc., Cooperative League of the U.S.A., Corporate Accountability Research Group, Council on Economic Priorities, CUNA International Inc., Federal Statistics Users' Conference, Financial Executives Institute, Friends of the Earth, Independent Bankers Association, Investment Bankers Association, Investment Company Institute, League of Cities, League of Women Voters, Machinery and Allied Products Institute, National Association of Counties, National Association of Manufacturers, National Association of Mutual Savings Banks, National Association of Security Dealers, National Farmers Union, National Federation of Independent Business, Inc., National Federation of Independent Unions, The National Grange, National League of Insured Savings Association, National Organization for Women, New Jersey Tenants Organization, New Populist Action, New York Chamber of Commerce, Sierra Club, Taxation With Representation, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW), United Mine Workers of America, United States Savings and Loan League, and the Urban Coalition. These organizations were invited to submit their views or comments on the text and recommendations contained in the 1973 Economic Report of the President. Twenty-two organizations submitted statements and their views were considered by the Joint Economic Committee in the preparation of its report on the President's Economic Report.

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C., February —, 1973.

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

We therefore invite your comments on the economic issues which concern the Nation and your own organization. Under separate cover we are sending you a copy of the 1973 Economic Report of the President, filed January 31.

We would like to distribute copies of your statement to the members of the committee and the staff, and would therefore appreciate your sending 30 copies by Friday, March 16, 1973, to Mr. John R. Stark, executive director, room G-133, New Senate Office Building, Washington, D.C.

Sincerely,

WRIGHT PATMAN, *Chairman.*

AMERICAN BANKERS ASSOCIATION

By Eugene H. Adams, *President*

We were pleased to note that the 1973 Economic Report of the President suggests that a range of goals rather than a single value is desirable at the present time as a guide to governmental economic policies. To adopt a "range of values" recognizes both the practical difficulties of "fine tuning" and the fact that in the economic environment of the 1970's it may at times be necessary to accept a lower level of achievement in one area while striving for a higher level in another.

We believe the Administration will continue its efforts to curb inflation. The danger is still very great that unacceptable inflationary pressures will reappear as the result of budgetary deficits, excessive wage settlements, the rising prices of imported goods (especially raw materials not available in the U.S.) and, finally, the belated effect of past expansionary monetary policies. Any relaxation in the government's anti-inflationary posture is certain to rekindle an inflationary psychology that will be much more difficult to deal with as the economy approaches full employment.

We wish also to emphasize the special importance of implementing a sound fiscal policy. We strongly urge the Congress and the Administration to work together to control Federal spending within the limits suggested in the Report. Monetary policy of course can make a contribution toward curbing inflation, but it cannot shoulder the burden alone.

In summary, we believe inflation still remains the most important problem confronting our nation, and we wish to emphasize again the importance of adopting and adhering to anti-inflationary policies. The spending policies outlined in the Economic Report, in our judgment, provide an appropriate guide for governmental expenditures for the present and for the 1973–1974 fiscal year.

AMERICAN FARM BUREAU FEDERATION

We appreciate the opportunity to submit Farm Bureau's comments on the 1973 Economic Report of the President.

The American Farm Bureau Federation is a general farm organization with more than 2.1 million member families who belong to more than 2,800 county units in 49 States and Puerto Rico.

We will confine our remarks to the portions of the President's Report that relate to inflation and food prices.

INFLATION

We agree with the President's statement that "*Only by holding the line on Federal spending will we be able to reduce the inflation rate further in 1973.*" We disagree with his recommendation that the Economic Stabilization Act be extended for 1 year.

The official voting delegates of the member State Farm Bureaus at our 54th annual meeting in Los Angeles in December 1972, established a policy on inflation, and price and wage controls which reads as follows:

> The most pressing need for the future economic stability of America is a balanced federal budget. We must be willing either to reduce expenditures or to pay additional taxes. We prefer reducing expenditures. The Congress, as well as the Executive, must accept major responsibility in this area.
>
> Deficit spending by the federal government and programs and policies which increase the supply of money and credit faster than production are basic causes of inflation.
>
> Wage and price controls, while possibly effective as a temporary expedient to meet an emergency, can cripple the private enterprise system, which has made America strong, if they are enforced over an extended period.
>
> We oppose extension of legislative authority for price and wage controls.

In contrast to the inflationary situation that has existed in recent years, the seven years from 1958 to 1965 were a period of relative price stability.

In the seven-year period from 1958 to 1965 government spending on a unified budget basis increased at an average rate of $5.1 billion per year; the Federal debt increased by an average of $5.4 billion per year; the money supply (currency plus demand deposits) grew at the rate of $3.8 billion per year; and the Consumer Price Index increased at the rate of 1.3 percent per year.

In the seven-year period from 1965 to 1972 government spending increased at an average rate of $16.2 billion per year; the Federal debt increased $18.3 billion per year; the money supply grew at the rate of $11.3 billion per year; and the Consumer Price Index increased at the rate of 4.7 percent per year.

These developments are highlighted in the following table:

FEDERAL SPENDING, PUBLIC DEBT, MONEY SUPPLY AND CONSUMER PRICES IN SELECTED YEARS

	Federal spending, unified budget, fiscal years (millions) [1]	Public debt, end of year (billions) [2]	M[1] (currency plus demand deposits), end of year (billions) [3]	Consumer Price Index (1967=100) (percent) [4]
1958	$82,575	$282.9	$141.1	86.6
1965	118,430	320.9	168.0	94.5
1972	231,876	449.3	246.9	125.3
Average annual change:				
1958 to 1965	5,100	5.4	3.8	1.3
1965 to 1972	16,200	18.3	11.3	4.7
PERCENT				
Percentage change:				
1958 to 1965	43.4	13.4	19.1	9.1
1965 to 1972	95.8	40.0	47.0	32.0

[1] Table C-63, "Economic Report of the President," January 1973.
[2] Table C-68.
[3] Table C-52.
[4] Table C-44.

The relationship between rising government spending, an increasing national debt, a rapidly growing money supply and rising prices should be obvious by now.

Wage and price controls treat the symptoms, rather than the basic cause of inflation. We recommend that Congress abandon the "crutch" of wage and price controls and face the real problem head on through effective action to bring Federal spending into balance with Federal revenues. Detailed recommendations designed to accomplish this objective have been developed by Farm Bureau and will be submitted to the appropriate committees of Congress in the coming weeks.

Food Prices

The President's message on the Economic Report indicates that food prices are a matter of particular concern to the Administration.

Food prices reflect the inflationary condition of our economy plus special circumstances which have temporarily caused the demand for some farm products to run ahead of production. Domestic demand has been increased by rising employment, higher wages, increased Social Security payments and expansion of the Food Stamp Program. Foreign demand has been increased by the opening of new markets in Russia and China plus the expansion of opportunities in markets previously served as a result of unfavorable crop conditions in other countries and a dynamic expanding economy world-wide. The supply of some farm products, such as hogs and eggs, has been temporarily reduced by production adjustments made by farmers in response to previously unfavorable prices.

It is, however, necessary to take a longer view to put food prices into a proper perspective. Unlike wages and many nonfood prices, which generally move in only one direction, food prices tend to rise and fall with changing conditions. While it is true that food prices are the highest they have been in 20 years, it is also true that food prices have risen less than most other commodities over the last 20 years.

For example, on a wholesale basis prices of farm products and processed food and feeds rose 19.2 percent between 1952 and 1972 in comparison with increases of 40.2 percent for industrial commodities and 34.4 percent for all commodities (table 1).

TABLE 1.—20-YEAR COMPARISON OF WHOLESALE PRICES

	(Index numbers, 1967=100) 1952	1972	Percentage increase from 1952 to 1972
All commodities	88.6	119.1	34.4
Farm products and processed foods and feeds	102.7	122.4	19.2
Farm products	117.2	125.0	6.7
Processed foods and feeds	91.6	120.8	31.9
Industrial commodities	84.1	117.9	40.2
Textile products and apparel	103.4	113.6	9.9
Hides, skins, leather and related products	80.1	131.3	63.9
Fuels and related products, and power	90.1	118.6	31.6
Chemicals and allied products	96.5	104.2	8.0
Rubber and plastic products	95.5	109.3	14.5
Lumber and wood products	94.4	144.3	52.9
Pulp, paper and allied products	85.7	113.4	32.3
Metals and metal products	73.9	123.5	67.1
Machinery and equipment	70.6	117.9	67.0
Furniture and household durables	90.1	111.4	23.6
Nonmetallic mineral products	80.1	126.1	57.4
Transportation equipment: Motor vehicles and equipment	84.0	118.0	40.5
Miscellaneous products	83.4	114.6	37.4

Source: Table C-48, "Economic Report of the President," January 1973.

The increase in hourly earnings in all manufacturing industries during this 20-year period was 130 percent.

The food price component of the Consumer Price Index rose 46.5 percent between 1952 and 1972, but the medical care component rose 123.4 percent, housing costs increased 64.2 percent and the overall index rose 57.6 percent (table 2).

TABLE 2.—20-YEAR COMPARISON OF CONSUMER PRICES

	(Index numbers, 1967=100) 1952	1972	Percentage increase from 1952 to 1972
All items	79.5	125.3	57.6
Food	84.3	123.5	46.5
Housing:			
Total	78.7	129.2	64.2
Rent	76.2	119.2	56.4
Apparel and upkeep	85.3	122.3	43.4
Transportation	77.3	119.9	55.1
Medical care	59.3	132.5	123.4
Personal care	75.6	119.8	58.5
Reading and recreation	76.9	122.8	59.7
Other goods and services	76.6	125.5	63.8

Source: Table C-44, "Economic Report of the President," January 1973.

Much of the increase in food and feed costs between 1952 and 1972 reflects increased processing and marketing costs. Wholesale prices of farm products rose only 6.7 percent in comparison with an increase of 31.9 percent in prices of processed foods and feed (table 1). According to the United States Department of Agriculture, the retail cost of a market basket of farm-produced foods increased 33.1 percent between 1952 and 1972 while the farm value went up only 12.5 percent, and the farm-to-retail spread went up 51.3 percent.

Farm prices are still only 82 percent of parity.

More food is on the way. Farm production is highly responsive to favorable prices, but it takes time to increase food production.

The Administration has taken a number of steps to increase food and feed supplies both immediately and in the future. Export subsidy payments have been discontinued. Import quotas on beef have been suspended. The import quota for nonfat dry milk was increased to meet a temporary situation. Government-owned stocks of most farm commodities have been sharply reduced, and the liquidation is continuing. Government loans on grains have been called at their maturity date without the usual reseal privileges. The set-aside of surplus acres has been eliminated for cotton, virtually eliminated for wheat and greatly reduced for feed grains.

As a matter of fact, we are concerned that the Administration may have overreacted to the present food price situation, and that we may be heading for a period of over-production.

It would be a serious mistake to apply direct controls to food prices. Experience during World War II and the Korean period clearly shows that controls on food commodities don't work. This is especially true in the livestock and meat industry.

The inevitable effect of attempting to control meat prices would be less production, black markets, and distorted distribution patterns. Price controls would thwart the increases in production which can normally be expected to correct, in a very short time, a temporary shortage of meat or other farm products. The ease with which unscrupulous operators can go into the meat packing business is well-known. Such action leads to black markets, which distort distribution and deprive consumers of the protection provided by Federal and State inspection.

Summary

In summary, we recommend that Congress abandon wage and price controls and attack the cause of inflation by bringing Federal spending into line with Federal revenue. Current food prices reflect inflation and some special circumstances; however, the present level of food prices is not out of line with other prices and costs. Food production is being increased. Price controls would disrupt the production and distribution of food and lead to chaotic conditions.

AMERICAN LIFE INSURANCE ASSOCIATION

This statement is submitted on behalf of the American Life Insurance Association, a national trade association with a membership of 349 life insurance companies which account for over 90 percent of the legal reserve life insurance in force in the United States. The total assets of the life insurance business presently aggregate close to $240 billion. We appreciate the invitation of the Joint Economic Committee to present the views of our business on the economic issues that affect our policyholders and confront the nation. In approaching the question of appropriate economic policies for 1973, the most critical issue in our view is the need to control inflation and to protect the purchasing power of the billions of dollars of savings entrusted to us by millions of policyholders.

THE ECONOMIC OUTLOOK FOR 1973

The *Economic Report of the President* and the *Annual Report* of the Council of Economic Advisers for 1973 offers a forecast that Gross National Product this year will rise to a total of $1,267 billion, an increase of $115 billion or 10 percent over 1972. A critical assumption of this official estimate is that the GNP inflation rate this year will decline to 3 percent, tapering off to a 2.5 percent annual rate by the closing months of 1973. The Council anticipates that real growth in GNP will increase to 6¾ percent this year, slightly above the 6½ percent rate of 1972.

In reviewing these official estimates for the current year, we are concerned that the Council's expectations regarding inflation are unduly optimistic. A more likely prospect in our view is for a GNP inflation rate close to 3½ percent for the full year, with price advances during some quarters of the year reaching an annual rate of 4 percent or higher. Moreover, growth in real output seems likely to slow down from the 6½ percent rate last year to approximately 6¼ percent for 1973 as the economy approaches full utilization of resources by the latter part of this year. In brief, while we would agree with the Council's forecast of about $1,267 billion for this year's GNP in current dollars, we believe that their forecast for real growth is too high, while their expectations about a declining rate of inflation will prove difficult to realize.

If our economy is to achieve the lower rate of inflation envisioned in the *Economic Report of the President*, it is essential that we exercise restraint on the growth of federal spending, devise improved techniques of budgetary control, move promptly toward more restrictive monetary policies, and retain a firm approach toward permitted advances in wages and prices under Phase III. Each of these essential policy measures is examined in greater detail in the following sections.

Federal Budget for Fiscal 1974

The annual *Budget Message* presented to the Congress in late January calls for total federal outlays of $250 billion for the current fiscal year, reflecting a decisive cutback from the "unconstrained" total of $261 billion that had been authorized by previous legislation. In percentage terms, the Administration's recommendations for fiscal 1973 outlays would represent an 8 percent increase over fiscal 1972, as against a 12½ percent increase that would occur under the $261 billion of spending authorized by the last Congress. If spending can be trimmed to $250 billion, and with expected receipts of $225 billion for fiscal 1973, the presently projected federal deficit would be held to $25 billion.

In the budget requests for fiscal 1974, total federal outlays of $269 billion would represent a further 8 percent increase in federal spending, thus maintaining the slower pace of growth in budgetary outlays. With the projected rise in federal receipts to $256 billion, the unified federal deficit would be narrowed to less than $13 billion and the borrowing needs of the Treasury would be reduced commensurately.

The life insurance business commends the purpose of the Administration to bring federal spending under better control and to reduce the growth of budget outlays to more manageable proportions. With the private economy expanding at a rapid pace and approaching full employment levels of activity, there can be no valid justification for a massive fiscal stimulus from the government sector. Instead, we should be working toward a reduced growth rate in government spending to avoid the inflationary consequences of an overheated economy. Such fiscal restraint can be achieved only if spending programs are reviewed with a critical eye as to their current necessity and functional effectiveness. We recognize the continuing desirability of socially needed programs but it must be realized that one of the causes underlying our present budgetary problems has been the inertia that has permitted extension of programs which have outlived their usefulness or have expanded beyond reasonable bounds.

In recent months, efforts to achieve more appropriate budgetary policies have reawakened an awareness within the Congress of the need for improving budgetary procedures and developing an overall fiscal strategy within the legislative branch. For example, the proposal to enact a federal spending ceiling for fiscal 1973, when considered by the Congress last fall, led to the establishment of a Joint Study Committee on Budget Control which is currently developing specific recommendations on ways of coordinating Congressional appropriations and determining priorities for program funding within an overall budget strategy. We commend the efforts being made by the Congress in the direction of improving the budgetary procedures of the legislative branch. Most observers would agree that the procedures of the past have contributed to an undue rise in the trend of federal spending, with consequent inflationary pressures which have plagued our national economy so severely in recent years. Whatever progress can be made toward establishing a coordinated system of priorities among the wide variety of demands on our budgetary resources will have a beneficial effect upon our ability to hold back inflationary forces, as well as to permit a more orderly impact on the economy, not only during the current legislative session but for many years to come.

Monetary and Credit Policy

Overexpansion of bank credit and the money supply can also increase inflationary pressures to the detriment of economic stability. Last year, commercial bank loans and investments increased by 14 percent while Federal Reserve policies allowed the money supply to expand by 8.3 percent. During the twelve months ended February 1973, bank credit advanced by 15 percent, while the expansion of the money supply during the same period was 7.4 percent.

If these trends continue unabated, there is a very real danger that the abundance of money and credit will lead to excessive demands as we approach full employment, with a resulting renewal of demand-pull inflation. There have been indications that monetary policy has become somewhat more restrictive in recent weeks, and the Federal Reserve discount rate was boosted to 5½ percent in late February. We would urge that the monetary authorities gradually increase their restraint on the growth of bank credit and the money supply as the year progresses. In our view, such a policy of gradual restraint would be far preferable to an abrupt tightening of monetary policy at some later date, and would be less disruptive of the nation's financial markets. Moreover, it would be more effective in holding back inflationary pressures that an overly rapid expansion could produce. Certainly, under the buoyant economic conditions that are developing in 1973, a smaller growth in bank credit is needed than the 14 percent increase registered last year, when there was further room for economic expansion.

Moreover, we believe that Federal Reserve policy should be focused upon the growth of money and credit rather than on the control of interest rates at a particular level. While a policy of gradual tightening in Federal Reserve policy may lead to upward rate pressures in the short run, the failure to restrain monetary expansion could, in our view, lead to much larger increases in interest rates over the longer run. The experience of the past 2 years—indeed, the entire Vietnam war period—has demonstrated the responsiveness of financial markets to shifts in inflation psychology and to concerns over the ultimate purchasing power of funds that are borrowed or invested. The life insurance business, with invested assets of approximately $240 billion, is not an advocate of higher interest rates as such, for we realize fully that high rates can seriously disrupt the investment operations of our companies through the "disintermediation" process which affects us through substantial policy loan drains. Nevertheless, we believe that efforts to hold down rates artificially through direct controls or moral suasion are likely to be self-defeating, leading to even higher rates and many economic dislocations in the longer run. The way to avoid higher rates is to hold back inflationary forces. Freely moving market rates can play an important role in achieving that goal.

Phase III Wage and Price Controls

On January 11, 1973 the President announced Phase III of the Economic Stabilization Program with the goal of reducing inflation to 2½ percent or below by the end of 1973. In place of the mandatory controls of Phase II, the new program is based on voluntary cooperation of business and labor, essentially on a self-administered basis.

The President has called upon the private sector for "reasonable observance" of wage-price standards, while retaining the power to reimpose mandatory controls to halt actions inconsistent with the Administration's anti-inflation goals.

Since the inception of Phase I, it has been the view of our business that any system of direct controls over wages and prices should be on a temporary basis and that every effort should be made to avoid the economic distortions and inequities that a prolonged system of controls would entail. Under present circumstances, we believe that the powers granted to the President under the Economic Stabilization Act should be extended in essentially the present form for 1 year beyond the present expiration date of April 30, 1973. This continued authority is necessitated not only by recent price developments, but also in view of the large number of major wage contracts that will come under negotiation during the next several months. We are hopeful that the Cost of Living Council will be diligent in its willingness to correct abuses that may arise within the more flexible approach of the Phase III voluntary system. However, we feel that the objective of the Administration should be to dismantle wage and price controls by the closing months of 1973 in order to avoid the danger that government intervention over free market decisions will become a "way of life" for our nation's economy. In order to remove direct controls and restore free market decision-making by the end of 1973 it is imperative that we give prime attention to the fiscal discipline and the monetary restraint that are needed to counteract underlying inflationary pressures and thereby avoid a resurgence of excessive demand in a rapidly expanding economy.

All too often, we think of inflation as a domestic problem with adverse consequences upon the real purchasing power of the American workingman, the prudent saver, and those living on fixed incomes or pensions. Our policies to control inflation must now take account also of the international repercussions of foreign confidence in the dollar, our ability to compete in world markets, and our determination to exercise fiscal and monetary discipline. After two devaluations of the dollar within a period of 14 months we are forced to admit to ourselves that international considerations are closely linked to our domestic policies with respect to anti-inflationary measures.

In conclusion, we are confident that the underlying strength and resiliency of this nation and our ability to pursue proper policies through a democratic process will allow us to maintain a more sustainable rate of growth of our economy and achieve continued advances in our national well-being. Foremost among the many objectives of national policy must be a determination to bring inflation under control.

We appreciate the opportunity to present to the Joint Economic Committee our views on these important national issues.

CHAMBER OF COMMERCE OF THE UNITED STATES

By Carl H. Madden*

The Chamber of Commerce of the United States welcomes the opportunity to comment on the Economic Report of the President and the Annual Report of the Council of Economic Advisers, particularly at a juncture in our economic affairs when the most careful thought must be given to appropriate national policies affecting our economic relations at home and abroad.

In evaluating the current conditions of the economy and its prospects, there is always the danger of overemphasizing temporary developments and of ignoring more permanent underlying forces at work.

This is especially true in 1973 when major international events, both political and economic, have deeply affected our economy's performance and will continue to do so for sometime to come. Outstanding in this respect have been our military disengagement in Vietnam, the second official dollar devaluation within a 14-month period, continued speculative pressure on the dollar in foreign exchange markets, the rapidly growing importance of international business firms in the world economy, and the President's rapprochement with the Soviet Union and Communist China.

Our Balance-of-Payments Problems

From this viewpoint, it is encouraging to note that the Economic Report once again has devoted a full chapter to the world economy, but with the emphasis for the first time properly placed on the transition from the old system of fixed exchange rates to a regime of flexible exchange rates better suited to a world economy in which sudden massive movements of "hot money" from one country to another occur. But short-term capital shifts are only the manifestations of the underlying weakness of the dollar, brought about by the higher rate of inflation here than abroad in the last half of the 1960's. Fortunately last year this relationship was reversed in most other industrialized nations as their inflation proceeded at a faster pace than in the United States.

The result is that the effective dollar devaluation since 1971, which is estimated at 20 to 25 percent, strengthens the prospects that by this year's fourth quarter our exports will move closer to imports and by next year at this time we may see a small export surplus. Nevertheless, the big "overhang" of dollars in the Eurocurrency market will continue to threaten the new exchange-rate relationships, so long as our overall payments position is seriously out of balance.

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

Some means of immobilizing much, if not all, of this dollar overhang must be developed by international agreement, hopefully by the Committee of 20 set up at the International Monetary Fund meeting in Washington last September. Although immobilization of excess dollars is necessary, it is not a sufficient condition for international monetary stability. Even greater flexibility of exchange rates over a wider range of variation will also be required. One important lesson of the increased flexibility of exchange rates in the past year is that the world trade and investment have not been seriously hampered despite predictions to the contrary.

Unless these changes in the international monetary system are made within the next 12 months or so, the danger of further devaluation and a return to beggar-my-neighbor trade and capital flow restrictions will increase to the detriment of employment, incomes, and living levels in all the trading nations.

Alternative Incomes Policies

Turning to purely domestic economic considerations, our experience with Phrases I and II of national economic controls and the prospect of a faster rise in prices in the first half will keep income distribution at the forefront of this year's economic issues—particularly the distribution of income between labor and capital. Although union spokesmen have asserted that phase II controls depressed real wages, the evidence refutes this claim: Expressed in constant 1967 dollars, the average weekly earnings of private nonfarm workers rose from $93.75 in December 1971 to $97.04 in December 1972, a 3.5 percent gain. Per capita disposable income rose by $441 last year, a 10 percent gain compared to a 3.3 percent rise in consumer prices. Labor's share of national income stayed at 75 percent last year, while before-tax corporate profits also remained virtually unchanged as a percentage of national income 9.3 percent, compared to 9.2 percent in 1971.

The National Chamber supported Phase I of the New Economic Program in 1971 and Phase II early in the following year. Its Board of Directors late last month supported extension of the Economic Stabilization Act without change until April 30, 1974. It also urged that complete decontrol be effected as rapidly as possible, consistent with the achievement of national economic stability. In taking this action, the Board noted that there is no appropriate role to be played in an enterprise economy by permanent wage and price controls. Rather, the Board urged that Government bring under control the basic causes of inflation—excessive and inappropriate increases in government deficit spending, monetary growth in excess of real growth in the economy, and government-created imbalances of power in labor-management relations and government subsidies to strikers. The Board also urged that major structural changes be made in the economy to remove impediments to productivity improvement, including:

- Unnecessary restrictions of competition by government in crucial industries such as transportation.
- Government discouragement of investment in certain regulated industries, such as natural gas.
- Government distortion of wage-price decisions by laws such as the Walsh-Healey, Davis-Bacon and Fair Labor Standards acts.

Government policies in housing, local codes and the administration of the property tax that restrain productivity gains in housing and the mobility of labor.

Inadequacies in the structure of health care delivery and supply systems.

Artificial restrictions and restraints such as work rules and "featherbedding" that discourage adoption of improved productive methods.

Unrealistic regulations imposed on business in the name of consumerism, environmental protection, safety and health, as well as burdensome inspection and reporting requirements.

Artificial barriers to entry in important occupations.

Impediments to a freer world trade, such as import quotas and non-tariff trade barriers.

Contrary to those who favor a permanent incomes policy involving direct controls, the Chamber believes that the best approach to stable economic growth is a "market incomes policy" that relies on the highest degree of competition in both product and labor markets. Such a policy was followed in the first half of the 1960's with beneficial results. That was a period when consumer prices rose a nominal 1 to 2 percent annually and real GNP rose steadily. This steady growth was interrupted by federal overcommitment of resources through expanded Viet Nam spending piled on top of big increases in social-welfare spending. The subsequent demand-pull inflation gathered momentum in the last half of the decade and was transformed into cost-push inflation in 1969 and 1970. In turn, the cost-push inflation triggered direct controls in 1971.

The Prospects for Renewed Inflation

Some proponents of permanent wage-price controls conceive of such controls as a means of "repressing" inflation brought on in the first instance by excessively expansionary monetary and fiscal policies in a high employment economy. But the historical record in other countries does not support that hope. A recent study of this question spells out the necessary conditions for an incomes policy to be effective:[1]

1. The presence of slack in productive capacity, including less than "full" employment.
2. A high degree of competition from foreign producers.
3. Appropriate (noninflationary) monetary and fiscal policies.
4. Broad and sustained voluntary cooperation by both labor and management.

The first of these conditions undoubtedly helped decelerate wage and price increases last year, but the recent emergence of labor and material bottlenecks in some industries, such as machine tools, electrical equipment, transportation, and construction, and the unsustainable headlong momentum of the economy currently promises a disappearance of slack in this year's first half. In line with this prospect, Data Resources Inc. is projecting the GNP deflator to rise 3.5 percent this

[1] John Hein. *Aspects of Incomes Policies Abroad* (Conference Board Report No. 563, New York, N.Y., 1972) pp. 39–41.

year and the unemployment rate to average 4.9 percent. A recent study of the unemployment-inflation trade off indicates that:

Achievement of the Administration's 2.5 percent inflation target without controls requires that the unemployment rate be maintained forever at about 5.2 percent. If, however, the variable coefficients version of the model is closer to the "truth," then the policy implications are considerable more gloomy: Inflation eventually will accelerate at any unemployment rate below 4.8 percent.[2]

The second condition is much more likely to be realized in a smaller country, such as Canada, where imports constitute a large percentage of GNP, than in this country, where imports accounted for slightly less than 5 per cent of GNP last year.

The third condition speaks for itself: at best, wage-price controls can only moderate cost-push forces in the economy. They are not designed to prevent upward pressures on prices exerted by too rapid an expansion of the money supply. In the opinion of monetary economists, last year's over-8 per cent monetary growth was excessive and threatens to cause the price level to rise at a faster pace this year than last. In this regard, the Economic Report's goal of a 2.5 per cent consumer price rise by the end of this year seems too optimistic and unlikely to be achieved.

The fourth condition for an effective incomes policy—sustained voluntary cooperation by both labor and management—remains to be seen. If the rate of inflation accelerates, it is likely that organized labor will ask for annual wage and benefit increases of 7 to 8 per cent—close to double the expected productivity gain in the economy this year. If so, not only will cost-push inflation reappear, but the Administration's efforts to stimulate exports will receive a setback.

The Possibility of a Recession in Late 1973

The fast pace of economic expansion in the second half of last year caused business activity to outrun most forecasts. Business forecasters have now raised their sights for this year's economic growth to such an extent that the Economic Report's estimate of a 1973 GNP of $1267 billion is slightly below the new consensus figure, as is the Report's projected inflation rate, so that a higher real growth rate is anticipated by the Administration than by business economists in general. In fact, some forecasters fear a classic boom-bust pattern may emerge. Added to substantial growth in business plant and equipment spending, residential and commercial construction and consumer durable goods purchase, is a tardy inventory boom at a rate possibly four times as great by year's end as the $5 billion increase indicated in the spring of 1972.

Given the strong expansion of business activity in the private sector, it is likely that the Federal budget will prove to be excessively stimulative early this year. This can be seen by recasting the unified budget in quarterly terms. On this basis the deficit for the first quarter of calendar 1973 is estimated at $17.3 billion,[3] because of the sizeable personal

[2] Robert J. Gordon, "Wage-Price Controls and the Shifting Phillips Curve," in *Brookings Papers on Economic Activity*, No. 2, 1972, p. 417.

[3] By Henry Kaufman in his statement before the Joint Economic Committee on February 13, 1973.

income tax refunds resulting from last year's overwithholding. Thus, about three-quarters of the unified budget deficit of $22.4 billion will fall into the early part of this year with all that implies for renewed inflation.

These developments place greater pressure on the Federal Reserve to prevent a fresh outburst of inflation by slowing the growth rate of the money supply, a process already under way. If another credit crunch of 1969 proportions is to be averted, the Federal Reserve will need all of the assistance it can get from a more moderate fiscal policy later this year. As a minimum, and in the short run, Congress should observe the $268 billion spending ceiling sought by the President. In the long run Congress must overhaul its budgetary process in some such manner as is spelled out in Senator Brock's bill, S. 40, or in similar bills introduced by other members of Congress. Unless budgetary reform is achieved, and soon, the economy is likely to follow the boom-and-bust pattern of the past to the detriment of sustained economic progress and our competitive position in the world economy.

Summary

Fundamental forces of economic change are at work in the United States, thrusting the nation into keener competition with foreign economies. We must avoid a return to high protectionism and beggar-my-neighbor policies that are detrimental to economic efficiency and growth. Our national economic policies should promote more, rather than less competition domestically as well as internationally. Proper monetary and fiscal policies are essential to achieve this goal, whereas direct economic controls militate against long-term economic growth.

The economy will expand at a nominal 10 per cent rate this year, but because of a higher rate of inflation than in 1972, real growth will be slightly less—6.3 per cent compared to last year's 6.5 per cent. The unsustainable fast pace of expansion, especially in the first half of the year, threatens to bring on a typical boom-bust pattern later in the year or early next year. However, a recession is less likely to develop if fiscal policy is coordinated with monetary policy rather than working at cross-purposes as has been the case frequently in the past. To this end the National Chamber strongly supports budgetary reform of the kind specified in Senator Brock's S. 40 or similar bills introduced into the new session of the Congress.

Rather than depend on a system of direct wage and price controls when inflation threatens, the nation will be better off by maximizing competition based on comparative efficiency. We all stand to benefit from real economic growth based on productivity gains, but we all stand to lose if artificial impediments to competition of any kind are imposed by government at the behest of special interest groups, such as organized labor.

COMMITTEE FOR ECONOMIC DEVELOPMENT

By EMILIO G. COLLADO, *Chairman, Board of Trustees*

I am pleased to have this opportunity to comment on the Economic Report of the President and the Annual Report of the Council of Economic Advisers in the light of positions previously taken in policy statements issued by CED's Research and Policy Committee.

As you know, this Committee has been privileged to present testimony on the two reports ever since these annual reviews were established. It is a source of special satisfaction to us this year that the economic stabilization strategy outlined in the reports is closely in line with various of our earlier recommendations, including many of those set forth in our July 1972 policy statement on *High Employment Without Inflation: A Positive Program for Economic Stabilization.* At the same time, we believe that the task of assuring forceful implementation of these policies will pose a major challenge; that some of the proposals for changes in budgetary priorities need modification; and that consideration needs to be given to a number of other issues which are not covered in the two reports.

The comments which follow will examine four major topics: (a) the proposed overall fiscal and monetary policy strategy to attain high employment without inflation; (b) the role of supplementary policies for achieving this goal, including wage-price restraints and structural measures; (c) selected issues posed by the proposed changes in budget priorities; and (d) international economic policies.

FISCAL AND MONETARY POLICIES

The President's Report calls for a 10 percent increase in nominal GNP and a 6¾ percent growth in real GNP during 1973, leading to an unemployment rate of 4½ percent and an inflation rate of 2½ percent by year-end. These targets are, in our view, consistent with an orderly movement of the economy toward high employment without inflation.

However, we believe that there is a good chance that the inflation rate will prove to be higher than the Council's projections, particularly as a result of the recent dollar devaluation. Moreover, it is possible that the extra inflation will come at the expense of real growth. Nevertheless, we agree that fiscal policy in the two fiscal years ahead should aim at no less than balance in the full employment budget. Indeed, if overall demand pressures should prove to be significantly greater than now projected, it would be desirable to change this goal to a full employment budget surplus.

The President's economic messages deserve special commendations this year for presenting clear-cut fiscal proposals that cover not merely the coming fiscal year but provide a program-by-program breakdown for the subsequent fiscal year as well. This is a major innovation in national budget presentation. It should facilitate more rational choices among significant policy alternatives and allow for more effective planning. Indeed, as was suggested in our policy statement of last July, we hope that future budgets will extend this type of detailed budget projection for a five-year period ahead.

As I shall indicate later, we have a number of reservations about some of the budget's specific choices for allocating fiscal resources. But we strongly agree with two basic themes of the President's Report. First, every effort should be made to reach the overall fiscal targets and satisfy essential public needs without resort to a general tax increase; and, second, regardless of the particular fiscal plan chosen, it will be essential for the Congress to agree in advance on appropriate overall fiscal targets—including, particularly, a firm expenditure ceiling—and to develop effective procedures for assuring that these targets are met.

As the Council's Report indicates, the choice of full employment budget balance as an overall fiscal target is not likely to give rise to major disagreement this year, barring substantial changes in underlying economic trends. For the actual course of fiscal policy, the critical issue will be whether the Congress and the Executive can demonstrate the *will* to carry out the agreed-upon fiscal program and to hold total spending within proper bounds. In addition, there is a need for greater flexibility to permit prompt policy adjustments if changes in the underlying economic situation should make this desirable. On both counts, significant improvements in existing Congressional and Executive Branch procedures are clearly called for.

We have long stressed the vital need for basic reforms in Congressional procedures to assure an integrated approach to governmental spending, taxing and borrowing. Thus, our 1966 statement, *Budgeting for National Objectives*, called for adoption of annual revenue and expenditure targets determined jointly by the Appropriations and Ways and Means Committees of the House. Our 1970 statement on *Making Congress More Effective* reiterated this recommendation and also called for eventual consolidation of legislative jurisdiction over all revenue, expenditure, and related fiscal issues under a single finance committee of the House, with a parallel reorganization of the committee structure in the Senate. In addition, we recommended a series of other procedural improvements, including the establishment and observance by Congress of deadline dates for both authorizations and appropriations.

It is encouraging that the Congress is now giving active consideration to the introduction of basic procedural reforms to assure that fiscal matters will be approached in an integrated fashion and that actual Federal spending will be kept within agreed-upon limits. I cannot stress too strongly, however, that early assurance of action in this area is essential. Failure to move promptly and convincingly toward the adoption of the needed reforms could have highly adverse effects on public confidence, might lead to further massive speculative attacks on the dollar and other major currencies, and would seriously damage the prospects for a healthy economic advance.

In addition to improved procedures for exerting fiscal discipline, a need also exists for better overall control over the many federal and federally-assisted credit and guarantee programs. Toward this end, we endorse the proposed establishment of a Federal Financing Bank to coordinate such programs. We further recommend that the President be authorized to place limits on the total volume of loan guarantees and borrowing by federal and federally-sponsored agencies, subject to Congressional review.

As already noted, sound stabilization strategy also requires that adequate flexibility be available to cope with situations in which the actual course of the economy differs from its projected level. The traditional instrument for flexible policy adjustments, of course, is monetary policy. Our monetary authorities should not hesitate to make changes in monetary policy promptly and vigorously if this should become appropriate as the year progresses.

Monetary policy alone, however, will not always be sufficient to provide the flexibility needed to deal with unforeseen changes in overall demand. This is why our 1969 statement on *Fiscal and Monetary Policies for Steady Economic Growth* recommended that the President be given discretionary authority to raise or lower personal and corporate income taxes by limited amounts, subject to Congressional veto. It is encouraging that this year's Report of the Council calls for renewed consideration of suggestions of this type.

We realize that proposals for limited discretionary authority to vary income tax rates have in the past frequently been regarded as politically unfeasible. But similar objections have also been raised against various other proposals that have eventually been adopted because their time had come, such as reliance on the full employment budget concept in fiscal policy-making and the use of wage-price restraints as a supplement to demand management. We believe that the time for significant improvements in fiscal flexibility is now clearly at hand. It is precisely when total spending is increasing rapidly and the economy is approaching full employment that policy-makers have a special need to be able to apply the brakes quickly should this become necessary to prevent an overshooting of the mark. We, therefore, urge that early consideration of the particular means for achieving such flexibility be an important item on the Congressional agenda.

Flexible adjustments will also be required if the pace of the economic advance should fall short of desired targets. The temporary public service employment program has been a very useful instrument for making such adjustments. Expenditures under this program are by law geared to specified unemployment levels and must be phased out as high employment is approached. The Administration has called for complete elimination of the program by fiscal 1975, regardless of circumstances. In view of its usefulness as a flexible adjustment device, we believe that the basic authority for the program should be continued even though actual expenditures under the program would end should high employment in fact be attained.

Wage-Price Restraints and Structural Measures

In our July 1972 policy statement on *High Employment Without Inflation*, we urged that the system of compulsory wage-price controls be phased out as soon as conditions permit. In its place, we recommended reliance on voluntary wage-price restraints based on guidelines issued by a Presidentially-appointed board and backed up by continued standby authority for the use of compulsory controls. While we stressed the importance of reestablishing maximum reliance on free market forces wherever feasible, we envisaged that direct compulsory controls might for some time have to be retained for certain sectors of the economy in which cost-push pressures have been especially virulent, such as construction and medical care. We also suggested that the longer term wage-price restraints should be administered by a single board composed entirely of public members and that this board should be assisted by an advisory committee representing the major interest groups.

The new Phase III control mechanism introduced in January includes all of these features. Questions remain, of course, whether the shift to the new approach was undertaken at the right time and whether the new program will in fact prove workable under current circumstances. We believe that the program can work, but only if there is a strong resolve to make it work. No doubt must be left that the "club in the closet" will be used vigorously whenever appropriate and equitable and that the standby control powers will be continued as long as necessary. Moreover, tough structural measures will be needed to stem or reverse the recent abnormal rise in food prices. A persistent burgeoning in food prices would lead to increasing inequities and would seriously endanger the overall stabilization effort.

In terms of the continued acceptability of the new program, it is also highly important that it be based on clearly understood guidelines and procedures. This does not mean that the "voluntary" guidelines need to be very rigid. On the contrary, greater flexibility with respect to allowable wage and profit rate increases will often be desirable to strengthen productivity and investment incentives. But it must be clear that the program will be administered with proper regard to "due process." It would be desirable, for example, that sectors which remain subject to compulsory controls be able to petition for reduction or elimination of such controls if they can show that specified performance criteria have been met. By the same token, the imposition of penalties (including the reimposition of controls in particular instances) should be carried out in accordance with established procedures and standards of equity that would allow appropriate opportunities for hearings and review arrangements.

While the Council's Report discusses the new program of wage-price restraints at considerable length, it gives almost no explicit attention to the need for basic structural reforms to overcome inflationary biases in the economy and strengthen competitiveness as well as productivity. We recognize that the President's budget and other economic proposals incorporate important structural innovations, including provisions for ending various unnecessary subsidies. But the lack of emphasis on structural reforms in the Council's Report is regrettable. Together with sound fiscal and monetary policies, such reforms must be an essential feature of a proper strategy to reconcile high employment with relative price stability. Indeed, the country's ability to reduce its reliance on controls depends to a significant extent on how quickly and fully the needed structural reforms can be initiated and carried out.

Our specific recommendations for structural reforms were spelled out in considerable detail in our policy statement of last July. Among the reforms that, we believe, deserve priority attention are the following:

1. Substantially more forceful and better integrated procedures are required to minimize the inflationary potential of the

Federal government's own operations and regulations. The Federal Regulations and Purchasing Review Board has made helpful contributions in this connection, as has the recent ruling that administrative decisions by the Department of Agriculture which affect food supplies and prices will be subject to review by the Cost of Living Council. But activities in this area need to be greatly intensified, with responsibility for their coordination placed at a very high level of government.

2. In this connection, a central governmental unit should be required to estimate and make public the likely impact on the general price level of significant new legislative and other proposals for governmental action—including, among others, proposals for new spending programs, subsidies, and trade restrictions.

3. A wide range of efforts is needed to increase productivity and eliminate wasteful practices at all levels of government as well as in the private sector.

4. To strengthen competitive forces in product, service, and labor markets, a major and comprehensive review of existing statutes, regulations and practices should be undertaken to eliminate outmoded features that have an inflationary bias and work counter to efficiency and resource mobility.

5. Major reforms are required in existing labor laws and regulations. In our statement on *High Employment Without Inflation*, we particularly urged that improved procedures be adopted for dealing with national emergency strikes, notably in the transportation sector. The recent Penn Central strike has again demonstrated the severe drawbacks—for the national economy as well as the industry involved—of not having such a procedure in place.

6. Substantial further improvements are required in the design and administration of manpower programs and other activities to foster a more effective functioning of labor markets. These should include federalization of the United States Employment Service and a major strengthening of its activities.

7. Existing adjustment assistance programs should be consolidated and made part of a much more comprehensive and integrated national program to facilitate adjustment to rapid economic changes, including import competition.

Like the proposals for reforms in Congressional procedures, many of these recommendations have often tended to be dismissed as impractical. But it is becoming increasingly clear that the alternatives to energetic action in such areas can only be greater inflation or excessive reliance on controls. We are convinced that as this fact is more fully understood, significant progress toward structural reforms will in fact prove feasible.

Reordering Budget Priorities

The President's budget proposals this year are based on an exceptionally intensive evaluation of Federal program performance. We applaud the Administration's determination to eliminate programs of questionable value as well as those which have already served their purpose. This approach was recommended in our September 1971 policy statement, *Improving Federal Program Performance.* We also agree that all programs of value cannot be continued and that some programs of lesser value must be eliminated to make room for higher priority initiatives.

At the same time, we are concerned that some of the proposed cuts would lead to undesirable results in terms of broader social priorities as well as efficiency. We particularly question the termination of various programs that deal in some measure with insistent current problems before better alternatives have been put in place, as in the case of housing subsidies. In addition, questions must be raised about the lack of explicit financing provisions for activities that the Administration itself clearly plans to initiate, notably a program for postwar reconstruction in Vietnam.

My specific comments on the proposed allocation of budgetary resources will be limited to three areas to which our Research and Policy Committee has recently devoted considerable attention: welfare reform, health care, and housing. The conclusions of our study of welfare reform were published in our April 1970 policy statement, *Improving the Public Welfare System.* We plan to issue new policy statements on *Building a National Health Care System* and on *Financing the Nation's Housing Needs* within the next month or two.

In prior years, the Administration strongly emphasized that the present welfare system was in urgent need of reform. Our recommendations for such reform were broadly similar to the Administration's own proposals, though they differed in a number of specific respects. We recognize the great practical difficulties that have stood in the way of arriving at agreement on a program of this type. At the same time, however, we believe that the need for welfare reform remains as great as ever, and find it disappointing that the Administration provides no funds for this purpose in either the 1974 or the 1975 budget.

As regards health care, our Committee is apprehensive about the magnitude of the continued rise in projected federal outlays for health—from $17.1 billion in fiscal 1972 to an estimated $25.2 billion in fiscal 1975, or almost 50 percent in three years. Partly to help stem this rise, our new policy statement calls for a restructuring of the health care system along lines that should be consistent with the Administration's desire for significantly greater program effectiveness and lower costs. We are, therefore, concerned that while some of the new budgetary proposals in this area would contribute to increased efficiency, others are likely to have the opposite effect. We would put in the latter category reductions in projected outlays for improving the organization and delivery of health services, for training paramedical personnel, and for building ambulatory health facilities.

Our concern in this area, as it is in welfare reform, is not only for social needs. We are concerned that the absence of reform of delivery systems in areas where uncontrolled federal expenditures are growing very rapidly will, in the not very long run, turn out to be a false saving. Efforts to shift the costs of health care from the federal budget to individuals will not necessarily solve the problem. Indeed, a continuation of much of the present approach to health care may merely produce less care, at increasingly higher costs, no matter who pays for it.

Finally, let me comment on the Administration's decision to "freeze" subsidies for the building of new housing for low- and moderate-income families. While the existing subsidy programs have their faults and have been abused in various cases, they should by no means be regarded as complete or inherent failures. Where abuses have occurred, they should certainly be corrected. To the extent that alternative and more efficient means of providing such families with adequate housing can be developed, they should, by all means, be used.

In our view, a particularly promising approach would be a large-scale, national program providing housing allowances directly to low-income families. However, considerable further experimentation will be required to assess the likely impact of such a program and the most effective means of administering it. We, therefore question the equity and advisability of halting new commitments before the proposed new methods have been clearly agreed upon, let alone tested. It will mean undue hardships for the country's least affluent families as the growth in the housing stock falls significantly behind the growth in needs: suspension of new building will not halt growing demands associated with the rise in population nor the continued loss of existing stock through deterioration and abandonment.

As already indicated, we strongly hope that the overall fiscal goals can be achieved without a general tax increase. If this is to be accomplished but, as I have suggested, some budget cuts are restored and some additional funds are provided for new initiatives, the President and the Congress will need to make very intensive further efforts to develop acceptable savings in other programs that will generate the required funds.

International Economic Policies

The Council's Report presents a lucid discussion of the Administration's prescriptions for reforming the international monetary system, including its proposals for using reserves as presumptive indicators for balance-of-payments adjustment. We strongly welcome the constructive initiatives that the Administration has taken to secure acceptance of more effective and equitable international monetary arrangements. As the Council indicates, such arrangements should be market-oriented: must be multilateral in character and place responsibility for adjustment on surplus and deficit countries alike; should allow adequate scope for more frequent exchange rate adjustments by the United States as well as by other countries; and should lead to a shift from the present tendency toward successive crises to much greater stability in international financial and trade relationships.

Since the Council's report was published, the world has witnessed still further major monetary crises. These have dramatized the vulnerability of the present international monetary system to crises of confidence—a vulnerability that is heightened by the disappointingly slow rate of progress of negotiation for international monetary reform. To be sure, there were some grounds for reassurance in the handling of the crisis which led to the second dollar devaluation in less than two years. It is encouraging that the solutions which were worked out rely essentially on market-oriented adjustments through exchange rate changes rather than on increased restrictions. We particularly welcome the announcement by the Secretary of Treasury that existing controls on U.S. capital movements are to be terminated by the end of 1974.

Nevertheless, the renewal of turmoil in international monetary markets subsequent to the announcement of the second dollar devaluation has reemphasized the need for substantially more rapid progress in the negotiations for international monetary reform. Early agreement on reform is vitally important for the restoration of confidence in international currency markets. The agreement must, in particular, provide for more orderly and timely means of adjusting payments imbalances and for a clearer definition of the relative responsibilities of surplus and deficit countries in the adjustment process. We intend to comment further on the principal directions that such a reform should take after completion of our own current study of this subject, now scheduled for early summer.

As we stressed in our 1971 policy statement, *The United States and the European Community: Policies for a Changing World Economy*, efforts to achieve international monetary reform must be part of a wider negotiation concerned with all major aspects of international economic relations, including foreign trade and investment. In this connection, we welcome the Administration's announcement that it will shortly seek broad and flexible authority for new trade negotiations.

One element in these negotiations will concern possible means of cushioning the domestic impact of abrupt changes in trade patterns on particular industries. As our Program Committee indicated in a recent statement on *U.S. Foreign Economic Policy and the Domestic Economy*, we strongly oppose proposals to deal with this problem by drastic and unilateral use of import quotas and other devices that would severely curtail desirable international trade, impair domestic efficiency, and invite destructive foreign retaliation. We agree, however, that under some circumstances, temporary "safeguards" involving quantitative restraints on certain imports may be needed. As the Council indicates, such safeguards should only be used on the basis of internationally-agreed standards and supervision; must clearly be temporary; must provide for a definite phasing-out schedule; and must be accompanied by effective domestic adjustments in the allocation of resources.

Let me emphasize our strong conviction that if safeguards are to be used at all, they must be used very sparingly. The danger that such devices could become a disguised form of protectionism is very real. It is particularly important that the availability of such safeguards does not lead to a neglect of energetic efforts to bring about more fundamental adjustments in the affected industries, if possible without any reliance on restrictive measures. Indeed, the need for safeguards would be significantly reduced if, as suggested earlier, existing adjustments assistance programs were materially strengthened and made part of a more comprehensive national program for facilitating adjustments to rapid economic changes.

The Council's Report also contains a useful discussion of United States economic relations with the centrally planned economies. We welcome the steps that have recently been taken to liberalize trade relationships with these countries. Our September 1972 statement, *A New Trade Policy Toward Communist Countries*, recommended that "the United States remove all restrictions on exports to Communist countries, with the exception of military equipment and the kind of advanced technology that would be particularly useful in producing such equipment." This recommendation has now been implemented in large part, particularly in relation to the Soviet Union.

Further efforts toward strengthening our economic ties with the centrally-planned economies are desirable. In this connection, we favor the granting of most-favored-nation treatment in return for compensatory benefits from these countries; alignment of U.S. credit terms with those of other Western industrial nations; and formation of co-production arrangements in Communist countries. There is also a definite need for the development of more adequate international rules that will protect the economic interests of each Western country against any unfair governmental competitive practices that might be used by either Communist or non-Communist countries.

In concluding its international chapter, the Council states that "... an open exchange of goods, services, and capital based on market relationships can benefit all countries. Moreover, if all countries are to remain committed to freer trade and investment, the international rules must give everyone a chance to share in the benefits. . . ." We fully agree. This is why, in our view, vigorous efforts to secure substantially improved multilateral institutions and rules, based on non-discrimination and competition, should continue to be the central focus of U.S. international economic policy in the year ahead.

COMMUNICATION WORKERS OF AMERICA

By Joseph A. Beirne, *President*

As President of the Communications Workers of America representing over 550,000 working people throughout this country, I welcome this opportunity to express the concern of thousands of our members over the economic issues currently facing the nation.

Introduction: Growth, Unemployment, and Inflation

The controlled economy of 1972 saw substantial economic growth, a continuing high rate of unemployment and continuing upward pressure on the price level.

The Gross National Product climbed by $101.4 billion to a new level of $1.152 trillion. This is an increase of 9.7% compared to the 1971 increase of only 7.6%. In real terms, the 1972 increase was 6.4%; and even though personal income rose by only $2.5 billion in January of 1973 as compared to $6.7 billion in December, the economy is obviously recovering from the stagnation of 1971. The 9.7% increase in the GNP exceeded the Administration's forecast of 9.5%, and constituted the largest increase since the Korean War.

The rate of unemployment stood at 5.1% (seasonally adjusted) by the end of 1972. The rate is currently at the unacceptable level of 5.1%. In addition, unemployment for the 31 million female members of the labor force is now at 6.8% and for minority group workers the rate is almost 13%, so the unemployment problem is certainly far from solved.

In the vital area of inflation, the record is not impressive. In an economy in which prices are presumably under "strict" controls, one must certainly wonder why the February, 1973 CPI was 3.9% above the February, 1972 Index. It is a sad commentary on price "controls" when all current indicators suggest that higher prices will continue to plague the economy throughout 1973. The CPI for the six month period ending in February, 1973 was climbing at a seasonally adjusted annual rate of 5.2%.

The Question of Rising Food Prices

The food component of the CPI increased 6.9% from January, 1972 to January, 1973. Since Phase III began on January 11 of this year, the Administration has been completely powerless to stop soaring food prices. The recently released figures for February constitute nothing short of an outrage. The President's Economic Report forecasts a rise in food costs of approximately 6% for the *entire year* of 1973; in actuality, however, the food index of the CPI increased 2.2% from January to February, 1973—an annual rate of over 20%!

The Administration has not yet admitted the severity of the situation. Secretary Butz blames the increase on the rising food component in the Wholesale Price Index (which implies even greater CPI increases in the future), and he has cited the need for reasonable profits in the agricultural sector: "If we don't get income to farmers, we'll have food problems in this country." When working people find it almost impossible to juggle their weekly food budgets so that their families can be fed adequately, a "problem" certainly does exist.

The Administration apparently intends to deal fwith the problem by increasing the supply of foodstuffs, both through imports and through increased domestic production. This approach to the problem is far from satisfactory especially since imports are now more expensive following devaluation, and increased agricultural imports may aggravate our balanceo f payments problems. Increased domestic production, if it can be accomplished to the desired degree, will have little impact on food prices in the short run.

A more direct and positive solution needs to be offered now, before the situation gets any worse. Basic changes in federal agricultural policies need to be effected immediately and must include temporary controls on the prices of raw agricultural products.

The severity of the problem stems from a lack of any system that would stabilize food prices from the initial stage of production to the retail stores. Temporary controls applied to raw agricultural products are necessary in the short run to stabilize rising food prices. It is interesting to note that while wages were being so rigidly controlled during Phase I and II, farm product prices were not subject to controls: this had the effect of allocating the majority of the increase in food prices directly into higher farm income. We certainly agree that farmers should receive a reasonable and fair profit, but we can't agree that all food consumers must pay soaring prices in order to accomplish this goal.

These temporary control measures are being suggested for the short run only. As should be the case for any system of controls, they should be abolished as soon as economically feasible.

The Economic Stabilization Program

The inordinate rise in food prices has occurred since Phase III was announced on January 11. It has been hoped that the Stabilization Program would accomplish its objectives, but now the outlook appears more dismal than ever. Under Phase III any semblance of price control has been effectively removed while the Cost-of-Living Council has promised to hold the line on all wage increases.

The outlook for 1973 is for a continuation of the gross inequities that have characterized the Stabilization Program from its inception. Organized Labor is willing to cooperate in a Stabilization Program that is equitably administered in the national interest. However, the Administration's program appears to be less than fair and less than equitable in view of the recent facts.

The facts identify a situation in which wages due the workers are being channeled into the coffers of Big Business. For example, corporate profits after taxes increased 15.7% in 1972 and fourth quarter, 1972 after tax corporate profits were 19% above their level in the final quarter of 1971. The absolute level of after tax corporate profits stood at a record high of $53.1 billion for 1972. Moreover, dividends increased $1 billion during 1972.

One of the more revealing indicators of the economy's profile is the comparison between the increases in productivity and real wages. Output per manhour for nonfinancial corporations in the private sector rose 4.7% in 1972. During the same period, compensation per manhour rose 6.2%. Since prices rose 3.4%, the increase in real wages was only 2.8%. In other words, productivity increases (4.7%) outstripped the increase in the real wage (2.8%). The result was that unit labor costs increased only 1.4% during 1972 sending a redistribution of income to corporate security holders and away from wage earners. The ascending corporate profit level is an obvious result of this inequity.

Such inequities and miscalculations have pervaded Phase II of the Administration's Stabilization Program, and the outlook for Phase III is even worse unless substantive structural changes in economic policy are made.

The Stabilization Program has failed to stabilize much of anything, with the exception of workers' wages. The entire program must be assessed as a failure. The Administration is fully aware of its failure, but continues to shuffle the economy through a series of "Phases." There is no justification to the Administration's request that the Economic Stabilization Act be extended beyond its April 30, 1973 expiration date, if such an extension would merely continue Phase III in its present form.

Unless we implement structural changes in policy directives soon, we could be flirting with recession in the latter part of this year or in early 1974. Present economic signs indicate this to be a real possibility.

In the product market, if workers' real wages fail to increase in step with productivity increases, then consumers will be unable to purchase the economy's expanding output. Excess supply will outstrip effective demand and the result will be economic stagnation.

In the labor market, the current rate of unemployment is unacceptably high. The rate must be reduced to a full employment level, especially for female and minority group members of the labor force.

In the money market, there has been considerable upward pressure on interest rates. Over the last few months, interest rates have gone up more than 1% due primarily to the unfavorable liquidity position of the large money market banks as well as a much tighter Federal Reserve policy. If rates continue to climb, a financial crunch may be a real possibility.

We feel that it is important to impress upon the Administration and the Congress that the problems our economy is facing at present are extremely serious. The Economic Stabilization Program, in general, and Phase III, in particular, have not been effective in providing solutions to these problems, and a structural change in policy is needed to provide economic improvement.

The form that these changes in policy should take is open to debate. The only non-debatable fact is that change is necessary. Perhaps we can return to the concept of controls—only this time provide controls that are truly fair and equitable to all factions within our economy.

The controls should be made more *effective*, especially with respect to consumer prices, corporate profits, and interest rates. These variables should in fact *be* controlled as effectively as wages have been controlled, rather than left to flounder in their respective markets. We could stop playing games with our discretionary policies and return to a substantive utilization of such policies by adhering to the efficacy of our fiscal and monetary tools. It is time to face up to the inadequacies of and the inequities in our present system, and to implement structural policy changes to provide a brighter state for tomorrow's economy.

THE FEDERAL BUDGET FOR FISCAL 1974

Fiscal policy must be more than a central instrument of economic policy. It needs to serve as an important weapon for social policy as well. There are numerous social-economic problems that demand immediate attention.

The President's proposed fiscal year 1974 budget must be assessed as one of the worst budgets in modern history by advocates of social reform. The overall budget cannot be considered an anti-inflationary instrument since its size of $269 billion represents a 7.6% increase over the 1973 budget. Moreover, if the President wanted to fight inflation through discretionary fiscal policy, a surplus budget would have been in order rather than one that is characterized by a $12.7 billion deficit. There is little about the 1974 budget that is anti-inflationary. Yet in the assigning of budget *priorities*, the President "justifies" his cutting of social welfare programs as necessary in the fight against inflation.

The President says his "search for waste" has led him "into every nook and cranny of the bureaucracy." But it hasn't led him to the Pentagon, where the documented waste runs into the billions or into his own White House staff which has expanded dramatically. While the Administration insists on carrying a defense budget in excess of $80 billion (30% of the total budget), it has cut back on education and manpower programs, veterans' benefits, medical research, civil rights enforcement, urban development, child welfare and day care centers, health programs such as Medicare, anti-poverty programs, pollution control programs, and federal support for low and moderate income housing.

On numerous occasions the President has given his full support to these social welfare programs. In his inaugural address of January 20, 1973 he gave his support to low and moderate income housing projects, to anti-poverty programs, and to pollution abatement. In his budget message of 1972, the President felt that:

> Welfare reform, with training and work incentives, with a new fairness toward the working poor and a minimum income for every dependent family, is a good idea whose time has come . . . It is ripe for action now.

Any further delay in enactment, he felt, would be both "unwise" and "cruel." Such a program remains ripe for action today and no mention of it has been made in the 1974 budget. A man must be judged by his deeds and not his words, and we are becoming more distrustful of the President's public pronouncements.

Since it is questionable whether or not the Administration has any budget priorities other than "political priorities," it remains to the Congress to provide the necessary correctives. All illusions about the possibilities of amelioration of social priorities through revenue sharing must be discarded. The defense budget can and must be cut, and allocations to social-economic welfare programs must be restored and expanded.

Tax Reform

The Administration proudly claims that, because of the drastic cutbacks in domestic welfare programs, it has avoided the necessity for a tax increase. However, the promise of no tax increase can hardly be considered a substitute for tax justice and tax equity. If the total tax burden could be more equitably distributed among all economic classes, there would be additional revenues sufficient to restore and expand a great many of our needed welfare programs.

Currently, the total tax burden is not equitably shared, and our tax laws are in need of substantive reform. Present tax law includes approximately 54 exemptions, many of which need to be modified or eliminated. Larger corporations and individuals in the higher income brackets know the tax "loop-holes" well enough to effectively utilize exemptions in their favor. Smaller organizations and individuals in the average and lower income brackets either do not have knowledge of the "loopholes" or find that the majority of the exemptions do not apply to them. The result of this inequity is that the progressive corporate and personal income taxes are not really progressive.

The average workingman can find only a few exemptions that are tax deductible—as Senator McGovern said during the 1972 campaign, it is impossible for the workingman to "deduct the price of a bologna sandwich." Working people typically end up paying their "fair share" of income taxes and high income executives attempt to beat the system and line their well-tailored pockets at the expense of the laboring classes by searching for every conceivable tax break and "loophole." Unfortunately for the rest of us who must bear their tax burden too, they usually succeed.

This inequitable system must be reformed. As a first step, the Mills-Mansfield Bill must be supported and passed. This Bill would require Congress to examine each of the 54 tax exemptions now in the law over a period of three years, and to determine whether or not each exemption should be (1) re-enacted, (2) terminated, or (3) modified.

There are several exemptions that appear so blatantly inequitable as to require immediate termination:

1. *Investment Tax Credit.*—This tax credit is in effect a 7% reduction for businesses that invest in new equipment under the pretense that it generates jobs for unemployed workers. It has more than outlived its propensity for employment generation.
2. *Depletion Allowances.*—These allowances have historically been intended for oil and other mineral companies so that they could use the allowances to develop new resources. However, companies are currently using the allowances to avoid paying taxes on their entire income.

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3. Foreign Tax Credits.—These credits allow the giant multinational companies to deduct taxes paid to foreign countries from the tax bill they owe to the United States.

4. Capital Gains Credits.—These credits allow individuals to be taxed on only *half* of their profits accrued from the sale of stock or property after it has been held for more than six months.

5. Accelerated Depreciation Allowances.—These allowances permit businesses to speed their building and equipment depreciation deductions to unrealistic levels.

There are of course many other features of the tax law that are so inequitable as to require termination; the five discussed here are simply the most obvious.

Major tax reform is necessary. We should strive toward a system of tax laws in which *every* firm and *every* individual pays a fair and equitable tax, regardless of exemptions, shelters and loopholes.

U.S. Foreign Trade in 1972 and a Comment on Devaluation

Despite the Administration's efforts to correct international economic problems during Phase I (e.g., the import sur-charge), we began 1972 with a substantial deficit in our aggregate balance of payments. Such a situation, over a period of time, puts a strain on existing exchange rates. Foreign currencies were increasingly becoming undervalued in relation to the U.S. dollar. As a result, the U.S. faced a situation in which imports were increasing much faster than exports, and U.S. capital flows abroad were rising as well.

As the balance of payments deficit became more serious, rumors of another U.S. devaluation spread quickly. Since devaluation is always viewed as a measure of last resort, the Administration initially attempted to secure a decrease in imports through persuasion or international "jawboning." This was done by suspension of gold payments and implied threats of a major devaluation, with major disturbances to other currencies assumed as a likely result. In retrospect, it may have appeared that this tactic should have worked since trade constitutes a much larger percentage of total GNP for our trading partners than it does for us.

However, the nations of western Europe as well as Japan have now sufficiently extended trade relationships among themselves so that they are no longer dependent upon the U.S. dollar. So as we advanced further into 1972, we saw a sharp decline in the outflow of U.S. capital, but there was no relief from rising imports. In fact, the 1972 balance of payments reflected a deficit on *current account* for the first time since 1896 as a result of imports exceeding exports by approximately $4.5 billion.

As imports increased during the year, there were renewed demands from many economic interest groups for additional trade restrictions. The President's Economic Report cites a renewed confidence in the dollar at the end of 1972. The facts do not support this contention. What was observed in December, 1972 and January, 1973 was a renewed flight from the dollar and speculation approached the levels associated with potential devaluation. It was this activity that finally persuaded the President to undertake the 10% devaluation on February 12, 1973.

Given the time lags inherent in any devaluation, it is too early to assess its effectiveness. It does appear, however, to be the only rational solution to the problem. The accumulating deficit has been a reflection of unreasonable market conditions. In the trading world of today, it is doubtful that specific import restrictions could be established without rapidly reducing our exports as well. Such a development could perpetuate the deficit for a considerable period of time; markets would be further distorted and prices would be further increased.

The current devaluation should reduce the export of capital and ease the pressure on imports, thereby reducing or eliminating our balance of payments deficit. As long as we can reduce our foreign consumption relative to our export production and also maintain a satisfactory rate of economic growth, our deficit will be reduced and eventually eliminated.

If the devaluation does not accomplish its objective, then we will have to move to more formal import restrictions or pegged exchange rates. Much of our trade problem has been the result of sudden shifts in currencies, and if more effective control measures could be given to the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank) to prevent these sudden shifts, then our balance of payment problem could be ameliorated.

The Economic Role of Women

The inclusion of a separate chapter in the President's Economic Report on the Economic Role of Women recognizes the important contribution and the special problems of almost 40% of our total labor force.

Although the Economic Report recognizes the problems of women in the labor force, it does not provide clear policy objectives that would work towards solution of these problems.

The exposition dealing with the labor force participation rate of females can be misleading. While it is true that childbearing interrupts the work-life of most females for awhile, it does not prevent them from working. Of the more than 31 million female workers, 30% are mothers with children under six years old. A Public Health Survey of work-time lost due to illness or injury reveals that women average 5.6 days lost annually, compared to a 5.3 day average for men. Shorter job tenure for women is related to the fact that they are employed at lower levels of the occupational scale than men, and therefore have little prospect for advancement or job satisfaction. Few firms are willing to invest in executive training programs for their female employees.

The section of the Economic Report concerned with education and occupational distribution basically explains the occupation and career orientation of women as a function of the education and training they pursue. The fact overlooked is that the quality and extent of this education and training is seldom a matter of choice for many women. Women are often subjected to discriminatory quota systems and stringent academic standards (as compared to male applicants) in higher institutions. Women receive approximately $250–$300 less than men for the same types of scholastic awards and assistantships. Sex separation in vocational schools forces women to pursue "female careers." The influence of these factors in the occupational distribution of women is not addressed in the Economic Report.

The statistics used to justify an earnings differential between men and women workers based on differences in work experience and human captial investment are tenuous. Much of the earnings differential is also the result of discriminatory practices such as not promoting women, placing them in the low-paying jobs, offering lower starting salaries to females, and not allowing them to take part in training programs so that they would be qualified for advancement to higher paid positions. It is a serious mistake to avoid these factors when discussing the earnings gap between men and women workers.

For those females who must juggle home responsibilities and child care with work outside the home, more day care centers and more part-time employment opportunities must be provided by government and business. The entire economy suffers when the labor productivity of 53% of our population is unnecessarily misallocated and underutilized as a result of social and institutional factors and as a result of discriminatory practices.

Summary

The controlled economy of 1972 witnessed a 9.7% increase in GNP and a continuing high rate of unemployment. The Consumer Price Index increased 3.7% from January 1972 to January 1973 and is currently rising at a seasonally adjusted annual rate of 5.2%.

The food component of the CPI increased 6.9% from January 1972 to January 1973, and food prices rose 2.2% in February 1973 constituting the largest monthly rise in at least two decades. The Administration is attempting to solve this problem by increasing food production. But because of the long time lag involved and because of the seriousness of rising food prices to all consumers, this solution is not adequate. It is probable that controls on the prices of raw agricultural products are required at least for a short period.

The Economic Stabiliaztion Program in general and Phase III in particular are inequitable and inadequate to solve economic problems. Corporate profits after taxes increased 15.7% in 1972 and are expected to increase even more this year. Productivity (4.7% increased faster than real compensation per man hour (2.8%) in 1972, thus reducing the increase in unit labor costs to 1.4% and redistributing income away from wage earners and toward corporate security holders.

Fiscal policy is an important weapon for social policy as well as a central instrument of economic policy. Because of its overt size of $269 billion and its deficit of $12.7 billion, the President's federal budget for fiscal 1974 cannot be considered anti-inflationary, although he feels that the substantial cutbacks in social welfare programs help fight inflation. Despite the President's public pronouncements in favor of specific social welfare programs, his current budget priorities are seriously misdirected. The defense budget is in excess of $80 billion (30% of the total budget). This figure must be reduced, and allocations to social-economic welfare programs must be restored and expanded.

The President's promise of no immediate tax increase cannot be considered a substitute for tax justice and tax equity. Our total tax burden is not shared equally among all economic classes. Large corporations and individuals in the higher income brackets benefit more from tax exemptions and "loopholes" than smaller organizations and individuals in the average and lower income brackets. Tax reform must be implemented to assure that every firm and individual pays a fair and equitable tax, regardless of exemptions, shelters, and loopholes. As a first step toward reform, each of the 54 tax exemptions now in the law must be examined by the Congress to determine whether each exemption should be 1) re-enacted, 2) terminated, or 3) modified.

The U.S. began 1972 with a substantial deficit in its aggregate balance of payments. Because of the strain put on existing exchange rates, foreign currencies were increasingly becoming under-valued relative to the U.S. dollar. As a result, imports were increasing faster than exports, and U.S. capital flows abroad were rising.

As the balance of payments deficit became more serious, the Administration initially attempted to secure a decrease in imports through persuasion or international "jawboning." These jawboning tactics failed and imports exceeded exports for the first time since 1896. Along with the *current account* deficit came a renewed flight from the dollar and increased speculation. On February 12, 1973, the President undertook a 10% devaluation of the dollar.

Although it is too early to assess the effectiveness of the devaluation, it appears to be the only rational solution to the problem. If our trading partners cooperate with us in this measure, we should see a reduction in the export of capital and an easing of the pressure on imports, thereby reducing or eliminating our balance of payments deficit.

For the first time the President's Economic Report has included a chapter on the Economic Role of Women. Although the Report recognizes the problems of women in the labor force, it does not provide any solutions to these problems. The Report does not address itself honestly to the discriminatory practices that face women such as their exclusion from training programs that would afford them the opportunity to reduce the earnings differential between men and women. The inequities that women face as a result of social and institutional factors and as a result of discriminatory practices must be eliminated.

CONFERENCE ON ECONOMIC PROGRESS

By LEON H. KEYSERLING*

I. THE 1973 REPORTS OF THE PRESIDENT AND COUNCIL OF ECONOMIC ADVISERS SAY FAR TOO LITTLE AND MUCH THAT IS WRONG

The 1973 *Economic Report of the President* and the 1973 *Annual Report of the Council of Economic Advisers* seem to me appallingly deficient, both as to commission and omission. In my judgment, they give further evidence of the progressive deterioration, during recent years, in the contribution which these documents make to the high and essential purposes of the Employment Act of 1946.

The Basic Problems

I have stated repeatedly over the years, in my testimony and comments for the Joint Economic Committee, that three great purposes of the Employment Act of 1946—or certainly of our economic system—are (1) optimum economic growth in real terms, i.e., the rate of growth required for reasonably full ("maximum") use of our growing productive resources; (2) the allocation of a sufficient portion of our total output to the great priorities of our national needs; and (3) the fulfillment of the dictates of simple economic justice.

I have pointed out repeatedly that these three great objectives are really inseparable and mutually reinforcing; that their achievement depends primarily upon an allocation of resources and incomes conducive to economic equilibrium at reasonably full resource use; and that such equilibrium depends upon a sustainable relationship between the real growth rate in our ability to produce on the one hand, and the real growth rate in our ability to consume—the latter being a combination of private consumer spending and public outlays for foods and services at all levels.

And I have insisted that trends in prices—whether upward, sideways, or downward, cannot be evaluated as "good" or "bad," except through responsible analysis of their impact upon the allocation of resources and incomes.

To none of these basic problems does the President's *Economic Report* nor the CEA's *Annual Report* devote anything approximating adequate attention. What is set forth is not nearly enough, and much of what is set forth is positively in error.

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

Low Forecasts—And No Real Goals—For Production and Employment

With respect to real economic growth, both *Reports* evidence a state approximating euphoria about the real growth rate of 6.5 percent from 1971 to 1972. The President says (p. 4), as to 1973, that "the problem, as far as we can now foresee, will be to prevent this expansion from becoming an inflationary boom." The CEA (p. 82) forecasts a real growth rate of 6.75 percent from 1972 to 1973. In sharp contrast, in order to restore maximum production and employment somewhere in the neighborhood of the end of 1974, I estimate the need for a real average annual growth rate of 7.9 percent during 1972–1974, with need for an average annual real growth rate of 5.1 percent after such restoration to 1980. I shall explain these conclusions in detail, later on in my presentation.

Correspondingly, the President states (p. 3) that it was "gratifying" to get unemployment down to "a little over 5 percent" in 1972. The Council is also far too complacent with respect to employment and unemployment (see pp. 24–30). The Council (pp. 71–74) resorts to a lot of casuistic reasoning to urge abandonment of the early 1960's interim target of 4 percent unemployment (never really justified in my view), and imports by way of *forecast* a 4.5 percent rate of unemployment by the end of 1974. My reiterated position (and that of some others) is that 2.9 percent unemployment is compatible with "maximum" employment, and that this goal should be sought and achieved somewhere in the neighborhood of the end of 1974. The true level of unemployment (full-time, full-time equivalent of part-time, and through "non-participation") was 6.5 percent in February 1973; the proper rate is 4.1 percent.

Moreover, both *Reports* offer mere *forecasts*, rather than firm commitment to quantified goals, with respect to growth, employment, and unemployment during 1973. This, as I have said many times before, violates the mandate of the Employment Act of 1946, and is a sad abnegative of the definitive responsibility of national economic policy.

The Priority Problem Is Not Touched

With respect to the great priorities of our domestic needs, the satisfaction of which is imperative *per se* and inseparably connected with the appropriate allocation of resources and incomes toward equilibrium at optimum economic growth, the *Reports* are amazingly silent. In utter violation of these considerations, the President's *Report* (p. 4) puts "restraining Federal expenditures at the top of the list of economic policies for 1973." The Council views with equanimity or even approval a 6.0 real decline in Federal purchases of goods and services from 1970 to 1971, a real increase of only 1.3 percent from 1971 to 1972 (see Council Report pp. 19–44, especially Table on p. 20), and a projected real decrease from 1972 to 1973. The Council appears throughout to join in the President's belief that restraint upon Federal spending is the central purpose of national economic policy for the year ahead.

Economic Justice Entirely Overlooked

Without attention to priorities, there can be little or no attention to distributive justice. Accordingly this, too, receives practically no attention in the current *Reports*, although it is not only essential for its own sake, but also essential to the equilibrium required for restoration and maintenance of "maximum" employment, production, and purchasing power.

Equilibrium Analysis Is Absent

As I have already indicated, attainment of the key goals of growth, priorities, and justice depends upon economic equilibrium through the balanced allocation of resources and incomes. Amazingly, the Council's *Report* ignores completely any empirical examination of how equilibrium has been destroyed during recent years, and abjures any effort to define the conditions of equilibrium now and in future.

It has been demonstrated repeatedly during the past two decades, and again during the most recent year or two, that the major long-range disturbances to equilibrium occur when investment in the means of expanding our ability to produce rise much faster than expansion of ultimate demand in the form of private consumer spending plus public outlays for goods and services. Despite this, the CEA forecasts, with evident satisfaction, a faster rate of growth in business fixed investment than in ultimate demand; hails the fact that Federal purchases of goods and services are expected to move downward in real terms from 1972 to 1973; pleads for wage restraints, despite the acknowledged fact that real wage-rate gains have lagged behind productivity gains and the unobserved fact that total real wages and total consumer purchasing power have been expanding far too slowly; applauds a slow-down in fiscal and monetary policies; and gets extremely enthusiastic about the pace of housing starts, without recognizing that the rate of distribution of these starts in income terms presages a sharp decline, and that, in any event, even the rate of housing starts during the past three years has been very far short of fulfilling the role of housing in meeting housing needs and in contributing to maximum employment and production generally (see Council *Report* pp. 74–88).

Misjudgment of Causes and Care of Inflation

Inevitably, the foregoing poverty of analysis is accompanied by paucity and misdirection of policy and program. Repressive and regressive tax and monetary policies are left as they are, except that the latter promises to become worse. The Council's *Report* neglects any meaningful analysis of price trends or *desiderata*, in terms of resource and income allocation toward economic equilibrium, optimum growth, priorities, and social justice (see Council *Report*, pp. 51–70). Neither the Council nor the President has learned the lesson, demonstrated almost conclusively over two decades, that the so-called "trade-off" is upside down because, in fact, high unemployment and low economic growth have generated more inflation than lower unemployment and higher economic growth.

The President states (p. 4) that "curbing inflation and cutting back on defense spending involve a downturn in the economy and a rise in unemployment," and he attributes a slow down in inflation in part to "slowing down the rise in Federal spending." Viewing these statements (which are erroneous on causal grounds, as I shall later demonstrate), it is hard to understand how the President expects to reduce unemployment greatly in 1974 despite a negative rate of growth in Federal purchases of goods and services in real terms.

"Controls" in Confusion

Because of all the errors referred to above, the discussion of the system of "controls" by the President and by CEA is very superficial. Their discussion looks upon the controls as designed *exclusively* to slow down inflation, and ignores completely whether the respective trends in prices, wages, and profits are militating against or contributing to growth, priorities, and justice. The President's statement (p. 5) that the 1972 system of controls "is not the best system for 1973," and his statement (p. 6) that "now we can stop putting out fires and turn to building strong economic order," do not offer any real evaluation of the defects of the 1972 system for 1972, or why a new veritable non-system will work better in 1973.

Relative Overemphasis Upon International Economic Developments

The Council's *Report* devotes one fifth of its entirety to a discussion of "the international economic system in transition," or much more space than on any other single subject. This is a gross misplacement of emphasis because that situation, important though it is, is no where near as responsible for the troubles in our domestic economy as it has repeatedly been made out to be, and at great cost. I shall discuss this further as my analysis proceeds.

Having completed my evaluation of the *Report* of the President and the *Report* of the CEA, I will now turn to my own appraisal of the situation, and what should be done about it.

II. The Chronic Trouble in the U.S. Economy

The Current Inadequate Economic Performance

Despite the current economic upturn, the U.S. economy is still far from out of the woods. In February 1973, full-time unemployment was 5.1 percent, contrasted with the 2.9 percent which would be consistent with what I and some others regard as "maximum" employment under the Employment Act of 1946. The true level of unemployment was 6.5 percent, contrasted with the 4.1 percent which would be consistent with "maximum" employment.

In fourth quarter 1972, total national production, measured at an annual rate in 1970 dollars, was 196.5 billion dollars below, or 15.2 percent below, "maximum" employment. This deficiency is measured by comparing actual performance in fourth quarter 1972 with what it would have been if the economy had grown at an optimum rate (the rate needed to have sustained "maximum" production) from 1953 forward. However, the actual performance in fourth quarter 1972 was only about 75–100 billion short of the lift needed at that time for "maximum" production. This is because the deficient performance from 1953 forward meant far less production capability in fourth quarter 1972 than would have been available if the growth rate from 1953 forward had been optimum.

The Serious Long-Term Retreat From Optimum Performance

The inadequacy of the current economic performance, while serious, is far less serious than the chronic trouble revealed in the long-term record.

For about two decades to date, the average annual performance of the U.S. economy has fallen lamentably short of our potentials and needs. We have been experiencing what might be called a "roller-coaster" prosperity, with aborted periods of upturn being followed by periods of stagnation and recession, all in a consistent and fairly regular pattern. Moreover, each such successive period of upturn at its peak has tended to leave us with more unused manpower and plant than the peaks of previous upturns. This enduring trend might be called a long-term retreat from optimum real economic growth and reasonably full resource use of plant, manpower, and other production potentials.

The upturn from 1961 to around the middle of 1970 was claimed for a time to augur a significant break in the unsatisfactory pattern. It was hailed as "the longest peace-time advance on record." But by early 1966, it was commonly agreed that an absolute downturn was clearly in formation. This was postponed mainly by the vast and unexpected acceleration of spending for the Vietnam war. Even so, a pronounced slowdown in the rate of real economic growth took effect from 1966 forward, although most failed to notice it or to propose remedial measures until the absolute downturn commenced in 1970. The current economic upturn is vigorous in many respects. But it is not yet of sufficient pace to restore reasonably full resource use within the foreseeable future; and idle resources of plant and manpower remained very excessive in first quarter 1973.

During the period 1953–1972 as a whole, the average annual rate of real economic growth was only 3.5 percent. This compared with an estimated optimum rate of real economical growth, set by this sutdy, averaging annually in the neighborhood of 4.3 percent from 1953 to 1972. The realism, and indeed the conservative nature, of this optimum growth estimate is indicated by a real average annual growth rate of 4.7 percent during 1922–1929, 4.5 percent during 1947–1950, and 5.1 percent during 1950–1953. The reasonableness is also indicated by the ensuing analysis of productivity trends.

From 1966 through 1972, the average annual rate of real economic growth dropped to the very low level of 3.1 percent. From 1971 to 1972, it was 6.4 percent. From fourth quarter 1971 to fourth quarter 1972, the real growth rate is estimated at 7.6 percent. Even this was below the annual real growth rate of about 7.9 percent widely estimated to be required during 1972–1974 to restore reasonably full use of resources by somewhere around the end of 1974. Further, few competent observers are now confident that the growth rate during the years ahead will be sufficient to bring us close to reasonably full resource use by the time stated, and there are many weaknesses and uncertainties in the current performance. If the optimum rate of restorative real economic growth were averaged during 1972–1974, I estimate that an average rate of about 5.1 percent would be required during 1974–1980 to sustain reasonably full resource use. This imports an average annual rate of 5.8 percent during 1972–1980. The justification for these figures will be set forth shortly in the discussion of the productivity record.

The persistently inadequate rate of real economic growth has made itself manifest in excessive unemployment. The full-time unemployment rate, or unemployment as officially counted, was 2.9 percent in 1953. It rose to 3.7 percent in 1966, despite five years of upturn from 1961. It stood at 5.6 percent in 1972, and, as already indicated, was 5.1 percent in February 1973.

The true level of unemployment, taking into account the full-time equivalent of part-time unemployment and concealed unemployment (in the form of nonparticipation in the labor force due to scarcity of job opportunity) was 7.2 percent in 1972, and 6.5 percent in February 1973.

Still another form of concealed unemployment, or more properly underutilization of the civilian labor force, which is very difficult to measure accurately, takes the form of the sharply reduced productivity of employed workers, occurring during periods of excessive economic slack.

The deficient rate of real economic growth, manifesting itself in excesssive unemployment, has necessarily manifested itself also in grossly deficient total national production. This study estimates that, measured in 1970 dollars, the deficiency in total national production rose for 2.2 billion dollars in 1953 to 77.6 billion in 1966, and reached 202.0 billion in 1972 (when viewed in terms of projections from 1953).[1]

Long-Term Productivity Trends and Their Significance

The reasonableness, and even the conservative nature, of the above estimates is revealed by an examination of the long-term trends in productivity. The long-term trend has been for the productivity growth rate to *accelerate* under conditions of reasonably full resource use, although it has declined drastically during periods of severe economic slack because employment (fortunately, for other reasons) has not been reduced during these periods as much as the reduction in plant utilization. It is therefore highly erroneous to estimate the recent, current, or prospective growth rate in the productivity potential by failing to take account of the long-term acceleration process, or by averaging in the effects of economic stagnation and absolute downturns upon productivity growth.

Viewing the average annual productivity growth rates of 3.1 percent during 1940–1955, 3.8 percent during 1960–1966, and 3.9 percent during 1970–1972 (also 4.1 percent during 1947–1953), and adding the desirable average annual growth rate in the civilian labor force under conditions of reasonably full resource use (somewhere in the range of 1.0–1.5 percent), the 5.1 percent average annual real economic growth rate which I project for 1974–1980 (after allowing for a "catch-up," 1972–1974), appears to be on the conservative side.[2]

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[1] See chart 1.
[2] See chart 2.

The Staggering Costs of the Deficient Economic Performance

The costs of the long-term retreat from reasonably full resource use have been staggering. Measured in 1970 dollars, the forfeiture of total national production is estimated at 588.7 billion dollars during 1960–1966 inclusive, 931.4 billion during 1967–1972 inclusive, and, as earlier indicated, is estimated at an annual rate of 196.5 billion for fourth quarter 1972 (projections from 1953).

The man-years of employment opportunity forfeited are estimated at 21.1 million during 1960–1966 inclusive, 10.6 million during 1967–1972 inclusive, and 2.6 million in fourth quarter 1972, annual rate.

The wage and salary losses are estimated at 344.7 billion dollars during 1960–1966 inclusive, 459.7 billion during 1967–1972 inclusive, and 95.5 billion in fourth quarter 1972, annual rate.

The forfeitures of personal consumption expenditures, government outlays for necessary national priorities, and private business investment, as well as in some other aspects of the economy, are set forth on the same chart.[3]

For the longer period 1953–1972 inclusive, the forfeiture of total national production is estimated at 1.8 *trillion* dollars, measured in 1970 dollars, and the man-years of employment opportunity lost is estimated at about 45 million.

The Adverse Impact Upon Public Revenues at All Levels

The deficiencies in total economic performance have obviously had a huge adverse impact upon government revenues at all levels, even assuming existing tax rates. During 1953–1972 inclusive, measured in 1970 dollars, the revenue loss was more than 450 billion.

Available data indicate that the deficient economic performance during 1953–1971 inclusive (1972 data as to taxes not available) involved, at existing tax rates, a forfeiture of 260.3 billion dollars of Federal revenues, 161.0 billion of State and local revenues, and 421.3 billion for the two combined. During the shorter period 1967–1971 inclusive, the forfeiture was 139.6 billion of Federal revenues, 95.0 billion of State and local revenues, and 234.7 billion for the two combined. These measurements are in current dollars.[4] The loss in 1970 dollars has been much higher.

The clear import is: With adequate economic performance, we could have had much higher levels of public outlays to meet the neglected priorities of our domestic public needs, without higher tax rates or excessive financial strain, and certainly so if we had not engaged in so much reckless tax reduction during recent years. These higher levels of public outlays would have helped to redress the imbalances in the economy which explain the deficient total economic performance. Also, these increased public outlays, if properly allocated, are an essential factor in the adequate service of the great national priorities. Further still, the increased public revenues, which result automatically from an optimum rate of economic growth, would make it much easier to relieve the onerous burden of property taxes, and to remedy some other maldistribution of the tax burden which bear down so heavily upon the economy and the people.

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[3] See chart 3.
[4] See chart 4.

III. Basic Goals for the U.S. Economy

I have already pointed out that, in contrast with a real economic growth rate of only 6.4 percent from 1971 to 1972, only 7.6 percent from fourth quarter 1971 to fourth quarter 1972, and the CEA forecast of only 6.5 percent from 1972 to 1973, the need is for a 7.9 percent average annual rate during 1972–1974. I shall now set forth my findings as to some specific goals for 1973, fourth quarter 1973, and 1980. Among other things, these reflect my estimate of the requirements for an acceptable rate of progress toward full economic restoration somewhere around the end of 1974, and to reveal the gross inadequacy of the CEA forecasts for 1973.

Size of the Growth Tasks Ahead for the U.S Economy

The immense size of the task before us, in order to restore and maintain reasonably full use of plant and manpower at an optimum rate of economic growth, may now be depicted. Compared with 1972, civilian employment needs to be lifted 4.0 percent for 1973 as a whole, 5.0 percent for fourth quarter 1973, and 17.7 percent for 1980.[5] Total national production, measured in 1970 dollars, needs to be lifted from the 1972 level by 10.7 percent for 1973 as a whole, 14.9 percent for fourth quarter 1973, and 56.7 percent for 1980. Real wages and salaries need to be lifted from the 1972 level by 7.8 percent for 1973 as a whole, 11.3 percent for fourth quarter 1973, and 54.9 percent for 1980. Some other aspects of the required effort are shown on the same chart.[6]

The Dismal Prospects, 1972–1980, Under Current National Programs and Policies

Looking ahead, it is my view that, without very substantial changes in both private and public economic programs and policies, the average annual growth rate of the U.S. economy from 1972 through 1980 will fall slightly short of the average during 1953–1972. Although this conclusion may be challenged by some, I predicted with reasonable accuracy from 1953 forward the evolution of the deficient performance and its consequences. If the forecast just set forth is correct, we would forfeit, again measured in 1970 dollars, 1,677.9 billion dollars of total national production during 1973–1980 inclusive, and 323.9 billion during 1980 alone. Correspondingly, we would forfeit an estimated 16.5 million man-years of employment opportunity during 1973–1980 inclusive, and 2.6 million in 1980 alone. Various other component aspects of these deficiencies are set forth on the relevant chart.[7] Consistently, at existing tax rates, public revenues at all levels would be deficient by more than 400 billion dollars, measured in 1970 dollars.

The Specious Arguments Against Optimum Economic Growth

It has been argued in various quarters that our recent or current national output would be adequate in future, if income distribution were improved and allocations to the public sector were enlarged.

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[5] Unemployment needs to be down 40.9 percent, 46.2 percent, and 41.4 percent, respectively.
[6] See chart 5.
[7] See again chart 3. The employment forfeiture is relatively low, because of changes in productivity, structure of employment, and wages.

Granted the need for these changes, this argument remains frivolous. For the changes themselves are much easier to obtain, both economically and politically, when growth is high than when it is low. And while we may use unwisely much of what we produce, we cannot devote to wiser use what we do not produce, and our pressing needs both domestic and international extend even beyond our optimum growth capabilities in the foreseeable future. Most important, low growth means high unemployment, the evil of evils.

The "environmentalists" advance the further argument that economic growth brings in its wake a host of ills, including pollution of the air and waters. But the additional resources required to build factories and other facilities which do not pollute, and to build automobiles which do not emit noxious fumes, will be unavailable without optimum growth. Or they would be available, without such growth, only by creating an irreconcilable conflict between those who want to abolish pollution and those who want better schools, improved health services, the restoration of our deteriorating urban areas, etc.

IV. The Federal Budget: Are the Great National Priorities Being Talked to Death or Starved to Death?

In various portions of my analysis, I point out that an inadequate Federal budget has contributed mightily to the long-term retreat from maximum employment and production, and that the President's fiscal 1974 budget offers us more of the same. Moreover, the purpose of the Federal budget is only *secondarily* to help stabilize the economy and optimize its real growth rate. The *primary* purpose of the budget—and a sadly forgotten one—is to "do for the people what they need to have done and cannot do for themselves, or cannot do so well, in their separate and individual capacities" (A. Lincoln).

The Long Default in the Federal Budget

As I shall discuss it, the Federal budget is not a "partisan" issue. For many years under successive Presidents, the Federal budget has fallen far short of its proper role, in helping to serve the nation's pressing domestic priority needs, although the default has become far more serious during the most recent years, and especially as to fiscal 1974.

In 1949, the Congress enacted legislation promising "a decent home in a suitable living environment for every American family." But a quarter century later, one-fifth to one-sixth of all Americans, depending upon the standards applied, still live in unsatisfactory housing. The slums and other blighted areas contribute disproportionately to social aberration and civil discontent, to urban decay and the progressive nonmanageability of municipal finance. The underfinancing of public schools, in all save the really affluent districts, has long been a national disgrace. When confronted with serious and prolonged illness, more than a third of our people face financial distress, and many face financial ruin. An unconscionable portion of our senior citizens still live in poverty or at least deprivation (above poverty, but below the requirements for an acceptable American standard of living), and these conditions prevail also among scores of millions of our citizens lower down on the age-scale. The problems of obsolete and inadequate transportation facilities, and of pollution in all its forms, remain neglected.

The dominant responsibility for this default rests with the Federal Government, because of the towering importance of programs financed in whole or in part by Federal spending. In support of public spending, from 1950 to 1971, State and local tax receipts increased by 485.5 percent, while Federal tax receipts increased by only 184 percent, indicating the predisposition of the Federal Government to indulge repeatedly in excessive and misplaced tax cuts instead of making adequate revenue efforts. Yet, the Federal Government has much greater access to new revenues. And Federal taxation is preferable to State or local taxation, with respect to the equitable imposition of the burden.

The Shortfalls in the President's New Budget, Measured Against an Appropriate Budget

The long-term trend toward grossly inadequate Federal spending for the great domestic priorities has reached a critical stage in the President's new budget for fiscal 1974. New programs for housing and community development have been virtually stopped, and the Model Cities program has been dropped. The cost of Medicare to the old has been greatly increased. Types of educational aid have been slashed. Drastic cuts have been projected in job training and job creation; the Youth Corps is being ended. The Office of Economic Opportunity—emblem of variegated attacks upon poverty—is being dismantled. The President's earlier plan for "universal income supports" has been succeeded by drastic cuts in many welfare programs, notoriously those related to children.

Studies of our domestic priority needs and our capabilities to meet them have multiplied, at least since the launching of the first Sputnik in 1957. I have continuously made such studies (my findings are substantially similar to many others), and, in order to determine what we can afford, have set my studies in the perspective of a *U.S. Economic and Social Performance Budget* for the whole economy.

In the immediately following discussion, I shall first, for each program, state (1) the President's budget for fiscal 1974, (2) my own proposal of the proper amounts for the *earlier* calendar year 1973, and (3) my proposals for calendar 1980. Measured in estimated fiscal 1974 dollars (what the dollar is estimated to be able to buy in that year), the respective Federal budget figures (*President's 1974 actual, my 1973 and 1980 proposed*) for the three years stated are: housing and community development, $4.93 billion, $12.06 billion, and $11.39 billion; education, $6.85 billion, $8.03 billion, and $14.42 billion; health services and research, $21.73 billion, $19.95 billion, and $18.02 billion; manpower and welfare services, $17.24 billion, $26.52 billion, and $30.73 billion (in my estimates, this category allows for "universal income supports"); and agriculture and natural resources, $9.24 billion, $13.39 billion, and $19.91 billion. The totals, for these categories come to $59.99 billion (President, fiscal 1974), $79.95 billion (mine, calendar 1973), and $94.47 billion (mine, calendar 1980). My proposed increases are by far the most rapid for calendar 1973, due to the imperative urgency of the need.

I have not included the social insurance programs, for which the President takes improper credit in his claims of a progressive budget, because these programs are financed predominantly by their recipients, not by the Federal budget, and mostly through regressive payroll taxes.

The President's new fiscal 1974 budget, allowing for population growth, increased capabilities in a growing economy, and the accumulating consequences of two decades of neglect, is shockingly inadequate. For the five categories listed above, measured in fiscal 1974 dollars, the new budget proposes about $63 billion, and his revenue-sharing proposal lifts this to about $69 billion. This contrasts with my about $80 billion figure (see above) for the *earlier* calendar year 1973. I do not include revenue sharing in my proposals, because I prefer Federal aid for specified national priorities to the President's proposal for grants to the States and localities without strings.

In short, my proposals would, by 1980, come close to liquidating poverty in the U.S., and would provide a sufficiency of services and facilities across the whole range of our domestic priority needs. These needs, in addition to the ones I have listed, include, among others, transportation, the aspects of urban renewal not covered fully by housing and community development, and international economic programs under the heading of national defense, space technology, international economic, etc. In fact, my total proposed Federal budget deals with all items in the budget, in the perspective of what our economy can really afford to do and cannot afford to do without.

The import of the President's new budget is fraught with danger. It forbids adequate advance, and in important cases calls for retreat, on the domestic priority front. It offers the prospect of much further social neglect and civil discontent. Further, as will be shown, an inadequate Federal budget augurs ill for restoration and maintenance of satisfactory levels of employment and production, which are still woefully deficient.

What Size Federal Budget Can We Really Afford?

The central reason for the budget default is the persistent dogma that we "cannot afford" more. But what a nation can really afford is not based upon whether the Federal budget is in "surplus" or in "deficit." For it is entirely clear that what a nation can really afford to distribute and use in goods and services is based upon the real amount of goods and services it is able to produce without excessive strain upon manpower and other production resources. In February 1973, we suffered about 6.5 percent true unemployment, when we count all of the kinds of unemployment that we should count. Our plants are operating at 80–85 percent of capacity. Our total national production of goods and services is now running 75–100 billion dollars below [8] where it would be running if we restored reasonably full employment and production. And during the past 20 years, indeed, one reason why we have not been "able to afford" needed public services is that production and employment have averaged grievously short of the maximum employment and production which should be the first purpose of

[8] Not based upon projections from 1953, which result in a deficiency about twice as large. See earlier discussion.

national economic policy, and is indeed mandated by the Employment Act of 1946.

Now-Valid Aspects of Our World War II Experience

In 1944, at the peak of World War II, programs financed by the Federal budget were absorbing about 45 percent of our total national production, compared with a Federal budget now absorbing roughly half this proportion. But in 1944 we did not ask, "Is the budget able to stand the strain?" We asked, "What is our economy able to do?" We then used the Federal budget to help make full use of our manpower and machines, and to direct the output in accord with priority needs. And although we burned up more than 40 percent of our national production in the war effort itself, we had enough left over to *increase* average living standards at home, under the wartime conditions of full employment and full production, in contrast with vast idleness just before the war.

Today, we do not have nearly as much idle manpower and plant as just before World War II. But neither are we confronted by nearly as much by way of additional tasks as the war imposed. The real difference is that, today, we are not summoning up the economic intelligence and moral resolve to get rid of our unused productive resources and meet our social needs. It is the old story of finding no "moral equivalent for war."

When World War II came, we had to increase the Federal budget by several hundred percent, and run a staggering Federal deficit, to enable the Federal budget to perform its defense, economic, and social purposes. This was because, very quickly, we had to increase Federal spending about twice as fast as it was feasible to increase taxation. Yet, the war-time Federal deficit was tolerable, because the demands which it placed upon our ability to produce were tolerable. However, the situation today is very different. With immensely smaller increases in spending under the Federal budget than we incurred during the war, we could restore and maintain full employment and production; we would have enough goods and services to meet adequately the priorities of our great domestic needs; and we would have so much left over for all of our other purposes that almost everyone would be better off.

Moreover, this course would help us to balance the Federal budget itself, although this is a secondary consideration. The preponderance of the enormous budget deficit today is attributable, not to too much Federal spending nor to inadequate tax rates in general, but rather to the fact that the blood of adequate Federal revenues cannot be squeezed from the turnip of an economy long afflicted by high idleness of manpower and other productive resources. Experience by now makes it axiomatic that a short-sighted and stingy Federal budget is very much worse for the budget itself than a far-sighted and socially-minded budget.

To state this concretely: If we fully use our manpower and other productive resources, which means that the economy would grow at an optimum rate rather than a sluggish rate, the needed total Federal budget, as I formulate it, would come to only 21.60 percent of "maximum" total national production in calendar 1973, and only 20.95 percent in calendar 1980, compared with 20.51 percent estimated for fiscal 1974. This demonstrates that we *can* afford to serve our great priorities of public need without excessive economic or financial strain, because the proportion of total national production (and income) being preempted by the Federal budget would not increase perceptibly in a "maximum" economy.[9]

And if the economy were to remain afflicted by huge unused resources, it would be nonsense on economic grounds to say that this leaves us less able to meet our priority needs. We should put the idle resources to work. What, in that case, about the Federal deficit? As already indicated, meeting our social needs would bring us closer to a full economy, and therefore closer to a balanced budget.

V. Social Justice: Do We Really Seek It?

A perfect definition of justice is not available, but gross injustice is easy to define, and it is all around us. As late as 1971, and available data indicate that there has been further maldistribution since, 42 percent of the total money income flowing to all multiple-person families went to the highest income fifth, and 66 percent to the highest two-fifths, while only 6 percent went to the lowest fifth, and only 18 percent to the lowest two-fifths. Among unattached individuals or single-person families, 50 percent went to the highest fifth, and 74 percent to the highest two-fifths, while only 3 percent went to the lowest fifth, and only 11 percent to the lowest two-fifths. This is iniquitous in terms of social justice, and, for reasons soon to be disclosed, utterly incompatible with a satisfactory growth performance.[10]

VI. The Spurious Dichotomy Between "Economic" and "Social" Objectives

A former Chairman of the Council of Economic Advisers in a "liberal" Administration stated recently before the Joint Economic Committee that President Nixon's latest budget represents "an impeccable economic program, but an intolerable social program." This confusing statement is tragically typical of recent and current thought and action. For no one can gainsay the proposition that the dominant purpose of our "economic" endeavors is to serve the ultimate "social" needs and aspirations of our people, reflected in rising private incomes and enlarged public services, and improved distribution of benefits, through action both private and public. Even more surprising is the failure to recognize, on an empirical basis, that the very reason we have done so poorly in a narrow "economic" sense is that we have neglected adequate private and public allocations to what we loosely called "social needs. In a grossly underdeveloped society such as India, the hard necessity of choice may be temporarily to repress "social" advance, despite indescribably low living standards,in order to accumulate enough funds and resources for industrial development. But in the United States, we have never suffered, within the memory of living man, from inadequate accrual of resources for investment and production purposes, when ultimate demand in the form of both private and public consumption was sufficient to clear the market of the potential

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[9] See chart 6.
[10] See chart 7.

product. If I were to make a list on one sheet of paper of our purely "economic" needs, and on another sheet of paper a list of the range and scope of our "social" needs, the two lists would turn out to be virtually identical, or at least functionally inseparable in terms of practical action. Actually, as to many items, I would not know on which of the two lists to put them. Is investment in children or housing "economic" or "social"?

The *Reports* of the President and of the CEA hardly are guilty of this spurious dichotomy; they just short-change the social objectives.

VII. The Allocation of Resources and Incomes

Misapplication of Lord Keynes

Several decades ago, Lord Keynes observed that the maldistribution of income was generating too low a level of consumption, relative to the growing ability to produce. He found that an excessive share of total income accruing to those higher up in the income structure, who spend smaller portions of their incomes for immediate consumption than those lower down in the structure, generated more saving for private investment than could enduringly be absorbed. Hence, "overcapacity," and massive unemployment of manpower and plant. Keynes therefore proposed that public borrowing be used to tap off the excessive private saving and put it to work through investment in enlarged public goods and services, which he also deemed manifestly desirable *per se*. But this was not *all* of the thought of the great Englishman. He insisted that this "compensatory" program could not succeed, unless many other measures were adopted to improve the distribution of private income.

When the "New Economics," from 1961 forward, came to wrestle with the evil of inadequate economic growth, the diagnosis upon which Keynes focused was clearly applicable, although the situation was not nearly as acute as the one he confronted. In each period of upturn during the roller-coaster performance of 1953–1964, the rate of growth in the investment which adds to plant and equipment had far outrun the rate of growth in consumption, which on analytical grounds should include both private consumption and public demand for goods and services. Income maldistribution all along the line, abetted by public policies, contributed to these misallocations of resources and economic activity.

But the "New Economics" took the position that it made little difference *where* the effort to increase demand was injected into the economy. Ignoring the central concern of most of the great economists about allocation of resources and incomes, the new thinkers forgot that the injection of increased *power* to spend would not *pro tanto* increase *actual* spending or demand, if the injections were grossly misplaced. Thus, there was repeated resort to massive tax reductions, especially in 1964, which greatly augmented the availability of funds to those who were already "oversaving" and/or relatively overinvesting. Meanwhile, the composition of the tax reductions did not augment sufficiently the spending power of consumers. Simultaneously, the reckless tax reduction prevented the needed increases in allocations to public demand. In practical results, the "New Economics" gave the economy a very temporary "shot-in-the-arm," followed by all of the unfortunate developments since 1966, augmented to be sure by the mistakes of later public officials who said "we are all Keynesians now."

The prevalent policy of insufficient expansion of the money supply in the long run, accompanied by fantastic increases in interest rates, is subject to the same criticism. It was designed ("successfully") to reduce the real economic growth rate far below the optimum rate; and all of the inevitable consequences followed. The policy stimulated what needed restraint and repressed what needed expansion, thus feeding the fat and starving the lean. And the policy has been grossly inflationary, because rising interest costs are pyramided throughout the price structure, and because, as I shall show, economic stagnation is inflationary.

The policy of repressed public spending, in all its aspects, has had precisely the same misallocating effects.

Now for some supporting empirical observations bearing upon the misuse of national economic policies, in terms of their allocations function.

The Investment-Consumption Imbalances

The basic requirement for equilibrium or balance is that the real growth rate in our ability to produce, as affected basically by private investment and especially private investment in plant and equipment, grow neither more nor less rapidly than the increase in our ability to consume, as affected by private consumer spending and government outlays at all levels for good and services, viewed together. Although public outlays for goods and services are usually classified as "investment," they are only to a negligible degree investment in production facilities, and dominantly exert a demand against our ability to produce.

In each period of upturn during the "roller-coaster" prosperity 1953–1972, private investment, including investment in plant and equipment, has grown much more rapidly than ultimate demand in the form of private consumer spending and public outlays for goods and services. The inevitable result has been sharp cutbacks in this private investment; and this, combined with the more enduring deficiencies in ultimate demand, have brought on the periods of stagnation and then recession.

During the upturn period 1960–1966, the total increase in total national production, measured in constant dollars, was 34.9 percent, and the increases in private consumer spending and public outlays at all levels for goods and services were not very different. Meanwhile, private investment increased 48.1 percent, and private investment in plant and equipment increased 60.1 percent. Underlining these imbalances, corporate profits increased 46.0 percent, personal interest income 65.4 percent, and personal dividend income 41.3 percent, while wages and salaries increased only 33.0 percent, and labor income only 34.1 percent.

The same types of imbalances have occurred again during the upturn from fourth quarter 1970 to fourth quarter 1972. Total national production, measured in constant dollars, increased only 13.0 percent, private consumer spending only 12.9 percent, and public outlays at all levels for goods and services only 3.9 percent, with the combined figure for consumer spending and public outlays being 10.2 percent. Meanwhile, private business investment increased 25.9 percent, and private investment in plant and equipment increased 9.2 percent. Simultaneously, corporate profits increased 25.2 percent, while wages and salaries increased only 12.4 percent, and labor income only 12.7 percent.[11]

It is true that private investment, being more volatile, needs to increase relatively rapidly during upturn periods. Nonetheless, the failure of the upturn periods to bring idle plant and manpower down to acceptable levels indicates clearly the nature of the imbalances during these upturn periods.

The Special Case of Housing and Related Commercial Facilities

The immediately foregoing discussion makes it necessary to distinguish sharply between total private investment, and investment in nonindustrial construction, such as housing, and especially housing for lower middle and low-income families. The conclusion has been stated that total private business investment, and especially investment in plant and equipment, have periodically been in excess, relative to other parts of the economy. But this does not imply at all that these excesses have applied to housing, especially the types in greatest shortage. To the contrary, the performance of these components has been seriously deficient on economic and social grounds, as will be disclosed later. And this in itself has been highly contributory to the unsatisfactory total economic performance.

This distinction would become clearer if it were recognized that, from a fundamental analytical viewpoint, investment in housing and some other construction generally should be classified as a component in ultimate demand, rather than as a component in private investment as commonly viewed. For example, housing is not a producers' good as that term is usually understood; it is a consumer item. In this connection, the recurrent government policies to provide a relatively excessive stimulus to business investment, especially through changes in the tax structure, have not extended to housing and related commercial construction. Instead, these activities have been subject to extraordinary discrimination, as will be disclosed shortly.

The Misdirected Tax Cuts, 1964 to Date

The misdirected tax cuts within this decade are the best and most significant example of allocations contrary to growth, priorities, and justice.

During 1968 (later comprehensive data not available), if one looks at Federal income taxes only, the taxes paid as a percent of income ranged from 1.2 percent for those with incomes under $2,000 to 19.8 percent for those at $50,000 and over, and with the differentials generally "progressive" with respect to each intervening income group. But looking at the total tax burden of all kinds at all levels, the percent of total income paid in taxes by those at $50,000 and over was 45 percent, compared with 50 percent for those at $2,000 and under. And those with incomes ranging from $4,000 to $6,000 paid a higher percent in taxes than any of those ranging from $6,000 to $25,000.[12]

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[11] See chart 8.
[12] See chart 9.

Taking into account all of the Federal tax reduction of all kinds (including concessions by the Treasury), beginning with 1964 and estimated through 1973 in terms of the 1971 tax legislation as sent to the President, families with incomes of $50,000 and over will benefit, as of 1973, to the tune of a 6.1 percent increase in their annual income after taxes, compared with only 5.1 percent for those under $3,000, and 4.5 percent for those between $5,000 and $10,000.[13]

Viewing the same tax actions, those with incomes under $3,000 will have received only 7.9 percent of the total tax cuts during 1964–1973, although they comprise 16.1 percent of the tax returns, while those with incomes between $20,000 and $50,000 will have received 10.3 percent of the tax cuts, although they comprised only 4.7 percent of the tax returns.[14]

During 1973, under the 1971 tax legislation as sent to the President, 7.4 billion dollars of the tax cuts will be allocated to the investment function, and only 2.7 billion to the consumption function, and these disparities will persist in later years.[15]

If these kinds of tax policies persist, even the gains for consumption, wages and salaries, and wage rates set forth in my analysis will be inadequate to play their part in bringing total demand into line with needed growth, priorities, and justice. To establish the foundations for any workable and viable wage and price policies, we therefore need to reconstruct the tax as well as the spending size of the Federal budget.

The Misdirected Monetary Policy

The prevalent monetary policy, in effect with relatively mild variations since the end of the Korean war, has been nothing short of a national disgrace. It has succeeded in restraining private and public programs most closely related to the great domestic priorities, but has had very little effect upon the recurrent investment excesses, which are financed largely out of retained earnings, or out of the price structure. It has distributed hundreds of billions of dollars of income in entirely regressive directions. It has imposed intolerable burdens upon State and local governments, and an excessive interest burden upon the Federal Government now running at an annual rate of more than 9 billion dollars.

The arguments advanced from time to time by the Federal Reserve System for exorbitantly high interest rates have been inconsistent and contradictory to one another. These interest rates at times have been urged to stimulate investment and restrain consumption, and at times for the opposite purposes. They have been urged at times to restrain excessive economic activity, and at times to stimulate the economy. But for the most part, they have been founded upon the discredited "trade-off" idea, to the effect that increasing the idleness of plant and manpower is the first and foremost way to restrain inflation. And just because they have deliberately worked against economic growth, priorties, and justice, they have augmented inflation.

This monetary error is inseparably connected with many other national economic policies. The failure to attribute to the prevalent monetary policy its proper share of responsibility for rampant infla-

[13] See chart 10.
[14] See chart 11.
[15] See chart 12.

tion has augmented the spurious charge that wage-push has been the main cause of inflation. The toll imposed upon the average wage earner by excessive interest rates has necessitated many wage demands greater than would otherwise have been necessary. The huge public costs of the excessive interest rates have served as an excuse for not undertaking other essential public spending, which would have lessened the size of real wage rate gains required for legitimate advances in living standards. And even the real wage rate gains which I estimate to be needed will turn out to be inadequate in terms of economic restoration or wage-earner progress, unless the pressure of intolerably high interest rates is quickly and substantially reduced.

The adverse effects of excessively tight money and excessive interest rates upon economic performance and price stability are clear. During 1955–1972, the average annual growth in the nonfederally held money supply was only percent, identical to the miserably inadequate annual average real economic growth rate of only 3.5 percent. In the main, sharp contractions in the growth rate of the money supply have contributed to the various recessions, while belated and inadequate increases in its rate of growth have prevented full economic restoration. And for the very reasons that the distorted use of tax and monetary policies to restrain real economic growth and to aggravate the roller-coaster economic performance have augmented inflation, the same has been true with a vengeance of the prevalent monetary policy.[16]

From 1952 to 1971 (1972 not available to me in satisfactory form), the computed average interest rate on the total public and private debt rose 108.7 percent. This has imposed aggregate interest charges upon borrowers coming to 480.3 billion dollars *more* than they would have paid if interest rates had remained at 1952 levels. In 1971 alone, these excessive interest charges amounted to more than 70 billion dollars. Reductions in interest rates since have been a mere bagatelle, compared with the needed reduction, and they are now rising again.[17]

My next chart shows the rise in interest rates in specific sectors.[18]

It is very significant to compare the toll of rising interest rates in the Federal budget with the size of budget outlays for domestic priority programs designed to make war against poverty, improve living standards generally, and work against idleness of manpower and plant. For the calendar year 1972, the excess interest costs in the Federal budget (based upon comparisons with 1952 interest rates) were about 7 billion dollars. This was 2.2 percent more than the 6.852 billion outlays for education proposed by the President in the fiscal 1974 budget; 42 percent more than the 4.931 billion proposed outlays for housing and community development; and 114 percent more than the 3.258 billion proposed budget outlays for manpower programs. Comparisons for the period from 1964 to date reveal even more glaring distortions.[19]

The Misdirected "Controls" Policy

Beginning with the "freeze" and extending through Phase II and the largely unfathomable current Phase III, the "controls" program

[16] See chart 13.
[17] See chart 14.
[18] See chart 15.
[19] See chart 16.

has been directed almost entirely toward restraining inflation. It has paid virtually no attention to the requirements for equilibrium, optimum growth, "maximum" production and employment with corresponding reduction of unemployment, the great national priorities and justice.

The trends which I have already depicted reveal that the "controls" have worked counter to all of these great purposes. And this, as I shall now demonstrate, is inimical to a successful program against inflation.

VIII. The Erroneous Campaign Against Inflation

All that I have said thus far brings forth the point that a rising, stable, or falling price level is not "good" nor "bad" *per se.* It all depends upon the impact of price trends upon the three great end-purposes which I have stressed—a matter almost completely disregarded in the prevalent approaches.

Too many have overlooked that, during 1922–1929, aside from falling farm prices, we had a remarkably stable price level. (I refer here to consumer, wholesale, and industrial prices. Stock prices are not properly used to measure whether or not "inflation" is in process; also "favorable" stock trends at times indicate resource and income imbalances which bode ill for the future—again witness 1929.) The unusually stable price level during the 1920's, plus increasing productive gains, yielded a growth in business profits and investments which far outran the trends in real wages and farm income. And as Paul H. Douglas and Galbraith have pointed out, this was the fundamental cause of the Great Depression.

In addition, whether price increases are "good" or "bad" should be judged in terms of the causes and consequences of the particular type of inflation which we are experiencing. To illustrate: Let us assume for a moment that the same amount of price inflation as we have had since 1966 had been generated (a result which I challenge for reasons to be stated) by successful programs to maintain optimum economic growth and minimum unemployment; launch a more effective war against poverty; clear the slums and build the homes our people need; renovate our cities; modernize social security; and bring rural income and living standards up to some tolerable level of parity with those of others. The inflation thus generated would have been a wonderful bargain or "trade-off." In contrast, this same amount of actual inflation, accompanied and aggravated by contrived neglect of these crucial tasks through policies and programs avowedly designed to fight inflation, has been a cruel, stupid, and indefensible inflation.

Far more important as a guide to current policy, the immediately foregoing argument is "academic." This is because all empirical evidence since 1953 has made it increasingly plain, contrary to the "trade-off" theory, that *we have more inflation when idle resources increase, and less inflation when they are reduced.* Although this has been demonstrated many times with unvarying regularity, a few examples will suffice. During 1958–1966, when the average annual rate of real economic growth was 4.9 percent, and unemployment dropped from 6.8 percent to 3.8 percent, the average annual increase in consumer prices was only 1.5 percent. But during 1966–1972, when the average rate of real economic growth was only 3.1 percent, and when unemployment rose from 3.8 percent to 5.6 percent, the average annual rate of consumer price inflation was 4.3 percent. The performance record from 12 months prior to the "freeze" to date again illustrates clearly that substantial reduction in the rate of inflation commenced well before the "freeze," as the economy moved from recession to a much higher though inadequate rate of economic growth. Most recently, there have been disturbing signs of an intensification of the inflationary process, and I believe this to be due mainly to the still inadequate economic performance, and the vast uncertainties about the near future and about current national economic policies.[20]

The theoretical reasons in support of the overwhelming empirical evidence are clear. During periods of low or negative growth, those who "administer" their prices attempt to compensate for inadequate volume by lifting their prices faster;[21] reduced productivity gains increase *per unit* costs and lead to price increases; shortages of such public services as medical care and housing, aggravated by repressed public programs, add to inflationary pressures; exorbitant interest rates, undertaken to fight inflation, are inflationary *per se*. In addition, sharp changes in business expectations prompt immediate price changes, and usually upward no matter in which direction the economy is moving. It by now seems axiomatic that, in the long run, a stable and optimum rate of economic growth generates less *net* price inflation than the "roller-coaster" performance. And even were this more questionable than I deem it to be, the advantages of optimum economic performance immensely outweigh any marginal benefits in price results which anyone might claim (I believe mistakenly) to result from holding the economy back and starving social needs.

It is very important to note that the upward movement in prices in the U.S. has been less, in the main, than in other advanced industrial countries. This is no reason why we should be unconcerned about price trends in the U.S. But it is every reason why we should *not* become so obsessed about price trends in the U.S. that we ignore other even more important considerations. And it is every reason why, in efforts to improve our international economic position, we should not base these upon a substantially wrong diagnosis, thus doing much damage to our domestic performance, and in that very process worsening our international economic position.[22]

IX. The Confusion Between Means and Ends

The neglect of appropriate attention to the three great end-purposes of growth, priorities, and justice (depending basically upon the allocation of resources and incomes) imports necessarily that specific national policies and programs are not properly developed and applied. For all policies in such fields as taxation, money, social security, housing, agriculture, income supports and welfare, and international economics—to mention some of the most important—are merely *means* toward the three great end-purposes, and must fall short if these end-purposes are not constantly defined and reviewed in highly quantitative

[20] For a fuller review, and additional verification of my thesis, see chart 17.
[21] Gardiner C. Means has written much, and well, to this effect.
[22] See chart 18.

terms. Practically every policy which I define as a "means" affects the distribution of income and resources in one way or another; and how can these policies be satisfactory if we do not bear constantly in mind what allocations we need on "economic" and "social" grounds?

X. The Special Problem of Housing

The President's drastic curtailment of Federal aid to housing reveals in acute form the abject failure of national economic policy to recognize the vital role of this industry—and related commercial construction—in the performance of the U.S. economy at large.

The Deficient Long-Term Rate of Housing Starts

The long-term record of housing starts dispels the easy exuberance in many quarters, resulting from what is considered the "very high" record of starts in 1971 and 1972. In 1950, there were 1.952 million housing starts. During 1971, to be sure, there were 2.985 million, and in 1972 an estimated 2.415 million. Even if the figures during these two years are accepted without qualification, they come nowhere near to reflecting the population growth, income growth, and deficiencies in starts since 1950. But these figures do need to be qualified by taking a longer view. During 1968–1972 inclusive, the average number of housing starts was only 1.803 million, or 7.6 percent below the 1950 level, 25.3 percent below the estimated 1972 level, and 21.4 percent below the needed 1972–1980 level, averaging annually 2.295 million.

Contrasting the desirable composition of the housing starts, 1972–1980, with the actual composition during 1950–1972, as shown on the same chart, reveals the immense changes in composition which are essential, if we are to achieve adequate total volume or meet urgent needs.[23]

Moreover, it must be apparent from the long-term record that the 1971–1972 levels of housing starts were nonsustainable under existing policies and programs. These starts reflected the well-known tendency of the industry to "saturate" recurrently the housing market for the middle- and higher-income groups, while neglecting the mass market lower down in the income structure. A large downward trend in housing starts seems in prospect for the years immediately ahead, especially with the President's proposed curtailment of Federal aid.

In addition, since World War II (base year 1947) to date, the index of total new housing starts has lagged and been unusually erratic, compared with the trends in industrial production and total national product. In real terms, the index numbers for housing starts have been 100 in 1947, 113.4 in 1953, 100.3 in 1960, 94.3 in 1966, and 186.8 in 1972. For industrial production during the same years, the index numbers have been 100, 139.9, 168.8, 246.6, and 288.4, respectively. For total national production, they have been 100, 133.2, 157.4, 212.4, and 252.3, respectively.[24]

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[23] See chart 19.
[24] See chart 20.

Declining Role of Residential and Commercial Construction in the U.S Economy At Large

Another approach is to examine the declining relative role of housing and commercial construction in the total economic picture. Investment in new residential and commercial construction peaked at 6.41 percent of total national production in 1955, and averaged 5.46 percent during 1953–1965 inclusive. But the average ratio was only 4.57 percent during 1966–1967 inclusive, with a low of 3.94 percent in 1967. In 1972 alone, the 5.66 percent ratio appeared on the "high" side, though well below 1955. However, as indicated in the discussion of housing construction, the 1972 ratio was nonsustainable under current programs and policies, which need drastic revision.

In ratio to gross private domestic investment, investment in new residential and commercial construction peaked at 40.8 percent in 1954, and averaged 36.4 percent during 1953–1965 inclusive. But during 1966–1972 inclusive, the ratio averaged only 30.7 percent, with a low of 25.8 percent in 1966. Even the nonsustainable ratio of 36.7 percent in 1972 under current programs and policies was well below 1954.[25]

The Deficient Growth Rate for Residential and Commercial Construction

For the period 1953–1972 as a whole, total national production, measured in constant dollars, grew at an average annual rate of 3.5 percent, personal consumption expenditures at 4.0 percent, private domestic investment at 3.7 percent, investment in producers' durable equipment at 4.7 percent, and new plant and equipment expenditures at 3.2 percent. Meanwhile, the average annual real growth rate in investment was 3.1 percent for residential structures, 6.2 percent for commercial structures, and 3.5 percent for the two combined.

Superficially, these respective trends might seem to indicate that the growth rate in residential structures was not very far from adequate in that it was 3.1 percent, compared with 3.5 percent for the total economy. But any such conclusion would be faulty for several reasons. In the first place, the economic and social model for economic performance used in this study, combining purely economic and social considerations, indicates that investment in residential structures should have grown more rapidly than most of the other components contained in the analysis. This conclusion is based primarily upon observations related to the deficiencies in the housing supply and the extent of urban deterioration. In the second place, investment in residential structures should have grown much more rapidly in absolute terms (at an average annual rate of 4.9 percent) to fulfill its component role in the achievement of the optimum overall economic performance which we have so seriously failed to achieve. And in the third place, all major components, regardless of relative rates of growth, should have grown much more rapidly than they actually did during 1953–1972 as a whole—a period averaging seriously inadequate overall economic performance.[26]

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[25] See chart 21.
[26] See chart 22.

Adverse Impact Upon Employment

The deficient performance has made itself manifest in the extraordinary high rate of unemployment. The available data are for contract construction at large, but these data serve the purposes of my analysis sufficiently well. During 1948–1971 (later comprehensive data not available) the average unemployment rate in contract construction was 10.5 percent, contrasted with 4.7 percent in the total economy. During 1960–1965, the respective averages were 12.9 percent and 5.5 percent. During 1966–1971, they were 7.7 percent and 4.3 percent.[27]

Unusually high unemployment has been accompanied by unusually high fluctuations of employment in contract construction. For various years between 1947 and 1971, the ratio of the lowest monthly employment to yearly average employment in contract construction ranged from 84.8 percent to 90.0 percent; the ratios in the total economy ranged from 96.1 percent to 98.4 percent.

For the same selection of years, the ratio of highest monthly employment to the yearly average in contract construction ranged from 107.5 percent to 111.8 percent; the range in the total economy was from 101.1 percent to 103.6 percent.

The Deficiencies in Investment and Employment in Residential and Commercial Construction

This analysis also sets forth estimates of the deficiencies in residential and commercial construction during 1953–1972. These estimates are based upon the gap between actual performance and optimum performance as indicated in my comprehensive *U.S. Economic and Social Performance Budget* for the economy at large. This *Performance Budget*, as it must, involves large variations in the growth rates of the various components, based not only upon the estimated requirements for economic equilibrium, but also upon the satisfaction of ultimate needs.

Thus estimated, and measured in 1970 dollars, the deficiency in the output of residential structures aggregated 193.3 billion dollars during 1953–1972 inclusive, and 184.3 billion during 1960–1972 inclusive; and stood at 14.9 billion in 1972 alone. For commercial structures, the deficiencies were 21.6 billion, 19.8 billion, and 3.2 billion, respectively. For the two combined, they were 214.9 billion, 204.1 billion and 18.1 billion, respectively.

The correlative deficiencies in man-years of employment opportunity were 1.6 million during 1953–1972 inclusive; 1.4 million during 1960–1972 inclusive; and 0.2 million in 1972 alone.[28]

The Impact of the Foregoing Deficiencies Upon the Overall Economy

The next stage in the analysis is to estimate the impact of the foregoing sector deficiencies upon the performance of the overall economy, taking proper account of "multiplier" effects.

In consequence of the sector deficiencies during 1953–1972 inclusive, with all dollar measurements in 1970 dollars, the resultant impact upon

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[27] See chart 23.
[28] See chart 24.

total economic performance is estimated at 429.8 billion dollars; the resultant loss of man-years of work at 9.9 million; the resultant Federal revenue loss, at existing tax rates, at 86.0 billion; and the resultant loss of State and local property taxes at 16.5 billion, all at existing tax rates.[29]

Growth Rate Goals for Residential and Commercial Construction

During 1972–1980, with all measurements in constant dollars, total national production needs to grow at an average annual rate of 5.8 percent; personal consumption expenditures at 5.1 percent; private domestic investment at 6.3 percent; government purchases of goods and services at all levels at 6.5 percent; total fixed investment at 5.7 percent; and investment in residential construction should grow at an average annual rate of 5.3 percent, and investment in commercial structures at 5.3 percent, with the average of the two combined at 5.3 percent.[30]

These respective growth rates would appear to indicate that the needed growth rates for residential and commercial construction do not differ very much from most of the other needed growth rates shown. But this should not obscure the fact that achievement of the needed growth rate for these sectors will be far more difficult than achievement of the other growth rates if viewed independently (although it has earlier been shown that the needed growth rate in G.N.P. is far from obtainable, if the needed growth rate for these sectors is far from attained). The reasons why achievement of the needed growth rate for these sectors will be especially difficult are these: In the first place, during 1953–1972, the growth rate for residential fell considerably below the other growth rates set forth; and, in the absence of drastic changes in programs and policies, there is little reason to suppose that the same thing would not happen again during the years ahead. Second, the relatively high performance of housing in 1972 reduces greatly the size of growth-rate projections made from that year as a base. But this tends to create an erroneous impression as to the difficulty of the task ahead, in that 1972 was a very unusual and nonsustainable year for residential construction under current policies and programs. And third, sustaining the optimum rate of growth in residential construction will require extraordinary changes in the composition of the product. All of these difficulties are compounded by curtailment of Federal aid to housing and community development.

Dollar Goals for Residential and Commercial Construction

Portrayal of the immensity of the goals set forth requires the translation of the foregoing growth projections into another form. Projected from a 1972 base, and with items in 1970 dollars, the output of residential structures needs to rise 5.3 billion dollars, or 10.9 percent, by fourth quarter 1973, and 25.0 billion, or 51.4 percent, by 1980; the output of commercial structure needs to rise 2.1 billion, or 19.4 percent, by fourth quarter 1973, and 5.6 billion, or 51.8 percent by 1980; and the output of the two combined needs to rise 7.4 billion, or 12.5 percent, by fourth quarter 1973, and 30.6 billion, or 51.5 percent, by 1980.

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[29] See chart 25.
[30] See chart 26.

Man-years of employment in the two sectors, within the ambit of the foregoing activities, need to rise 0.103 million, or 6.9 percent, from 1972 to fourth quarter 1973, and 0.375 million, or 25.0 percent, from 1972 to 1980.[31]

Needed Changes in the Composition of Housing Starts

As earlier noted, the composition of housing starts needs to be radically changed, both to sustain adequate volume and to meet the most pressing needs. In 1972, as well as in earlier years, only a miniscule portion of the starts was directed toward the needs of the lower-middle- and low-income groups who occupy almost all of the substandard housing. This, indeed, has become the core of "the housing problem."

If the sound goal of almost 2.3 million average annual housing starts is to be achieved during 1972–1980 inclusive, the composition of these starts needs to conform closely to this pattern:

(1) Almost 1.3 million yearly starts of traditionally financed private housing for middle- and high-income families.

(2) About 0.5 million yearly starts for lower-middle-income families, with low-interest, long-term loans, perhaps some public subsidy, and cooperative housing.

(3) About 0.5 million yearly starts for low-income families, through low-rent and low-cost-sale housing, with public subsidies.

While there is always room for improvement, current implementing legislation is broad and abundant. But the resultant programs have thus far been picayune with respect to starts for lower- middle- and low-income families, mainly because a pigmy amount of public funding has been provided to do a giant job.[32]

Have the Housing Programs "Failed"?

It is often alleged that the Federally-assisted aspects of housing programs have "failed," especially as to public housing for low-income groups. This is the main "justification" for the recent Government decision, virtually to cut off Federal aid. To this specious plea, there are two answers:

First, since 1933, Federal housing legislation has done an immense amount of good. It has reformed home financing, multiplied home ownership, stimulated construction and employment, cleared many slums, and transferred several million people from indecent to decent quarters.

Second, the reason why the effort to rehouse low-income families has "failed" is that it has not been tried, except in token form. An annual building program averaging one-twentieth of the annual need has inevitably raised almost as many problems as it has solved. It has tended to make "poor houses" of the public projects. It has permitted the slums to remain in tremendous numbers. It has perpetrated one of the most dangerous of all social errors, to offer promises rather than performance.

The vital need is not to *reform* the housing programs—although some improvement in detail is needed—but rather to *perform* them.

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[31] See chart 27.
[32] See again chart 19.

Future Consequences, Under Current National Programs and Policies

It must be obvious that nothing like the foregoing goals for residential and commercial construction can be achieved, without drastic changes in national policies and programs. The reasons for this, with respect to housing, have already been stated.

Without such changes in national programs and policies, and especially in view of the recent action by the Government, this analysis estimates that the real growth performance with respect to housing and commercial construction during 1972–1980 would be at an average annual rate of about 3.0 percent, or much lower even than the deficient 3.5 percent rate during 1953–1972.

In this event, and with dollar measurements again in 1970 dollars, the deficiency in the output of residential structures is estimated at 55.2 billion dollars during 1973–1980 inclusive, and 10.2 billion in 1980 alone. The deficiencies in the output of commercial structures are estimated at 20.0 billion and 3.7 billion, respectively. For the two combined, the estimates are 75.2 billion and 13.9 billion, respectively.

The deficiencies in man-years of employment are estimated at 0.5 million for 1973–1980 inclusive, and 0.1 million in 1980 alone.[33]

Consistent with the projected residential and commercial deficiencies during 1973–1980 inclusive, the resultant G.N.P. loss is estimated at 150.4 billion; the man-years of work loss at 2.6 million; the Federal revenue loss at 30.1 billion; and the State and local property tax loss at 3.9 billion. These revenue losses are estimated at now existing tax rates.[34]

The Maldistribution of Home Production in Relationship to Family Income Distribution

The primary obstacle to adequate home construction is that the existing product is built almost entirely for middle- and high-income groups, while only a fragment is built for lower-middle- and low-income groups. Hence, the erratic pattern of performance, the grossly deficient performance in the long run, and the persistence of slums and blighted areas in intolerable amounts.

This grave distortion of home production continues unabated. In 1970 (later comprehensive data not available), about 98 percent of the purchases of new homes insured by the FHA were found among the 69 percent of all U.S. families with incomes of $7,000 and over, while only about 2 percent were found among the 31 percent of all U.S. families under $7,000. The data with respect to the distribution of purchasers of existing homes insured by the FHA show comparable results.[35]

The Impact of Inadequate Federal Spending Related to Residential and Commercial Construction

Because so large a portion of the deficiencies in housing and related commercial construction are tied in with the problem of slum clearance

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[33] See chart 24.
[34] See chart 25.
[35] See chart 28. In October 1972, of all new one-family homes sold, 21 percent were priced under $20,000, 35 percent between $20,000 and $30,000, and 44 percent at $30,000 and over.

and low-rent or low-sales-price housing, inadequate Federal spending for housing and community development is of vital import.

During the fiscal years 1965–1972, the portion of net Federal subsidy programs devoted to housing averaged annually only 10.5 percent, compared with 52.3 percent to agriculture, and 17.8 percent to air transportation and maritime. Even in fiscal 1972, according to the President's original budget, it appeared that the portion of net Federal expenditures for subsidy programs devoted to housing was only 26.2 percent, compared with 40.4 percent to agriculture. I have not been able, in the time available, to develop comparable later data.[36]

Depreciation allowances are really a type of subsidy, and here again the discrimination has been blatant. In 1968 (later comprehensive data not available), manufacturing received 47.5 percent of the total depreciation and depletion allowances granted by the Federal Government. Meanwhile, transportation, communication, and electric, gas, and sanitary services received 23.1 percent. Even wholesale and retail trade received 7.8 percent, and the service enterprises 6.2 percent. But real estate at large received only 4.8 percent, and contract construction only 2.8 percent.[37]

To overcome these imbalances, there is need for huge increases in Federal outlays for housing and community development.[38]

The Excessive Tax Burden Upon Real Estate, Including Housing

Another basic reason why the course of Federal tax action during recent years has been so irrational is that the tax burden on real estate, including housing properties, has been and still is excessively high by comparative tests. In 1971 (later comprehensive data not available), the ratio of the total tax burden to the gross product or volume of economic activity in various sectors was 35.2 percent for real estate, contrasted with 26.3 percent for all U.S. industries, and 23.2 percent in manufacturing. With income taxes bearing down less heavily upon real estate than upon the other sectors, the explanation of the disparities in the overall tax burden is to be found in direct taxes, including property taxes. In 1971, the ratios of indirect taxes to the volume of economic activity were 22.3 percent for real estate, contrasted with a 9.2 percent for all U.S. industries, and 7.3 percent for all manufacturing.[39]

Another way of indicating the inordinate tax burden on real estate is to compare the trends in various types of tax receipts, bearing in mind that it is State and local taxes, and especially property taxes, which are the basic source of this burden. From 1950 to 1971, Federal tax receipts increased by 184.6 percent, State and local taxes by 485.5 percent, and property taxes by 340.2 percent.[40]

XI. Toward a Cogent International Economic Policy

The very long discussion of international economic policy in the *Report* of the CEA, as I have already suggested, substantially misses the mark. The essential error, analogous to the errors which I have

[36] See chart 29.
[37] See chart 30.
[38] See again chart 6, for needed amounts.
[39] See chart 31.
[40] See chart 32.

portrayed with respect to domestic analysis, arises from not developing a comprehensive quantified picture of ultimate goals.

A "favorable" or "unfavorable" balance of trade or international payments is not an ultimate goal. The kind of analysis which I deem to be necessary might reveal that the U.S. should run an "unfavorable" balance of payments for many years to come, and might even with benefit run an "unfavorable" balance of trade in some years. I do not argue now that this is the case, but we should not automatically assume, on the basis of stereotyped or traditional theories, that is not the case, any more than we should assume automatically that an unbalanced Federal budget is always undesirable.

Thus, the first requirement for developing an intelligent international economic policy is that we engage in the analytical quantifications which I have suggested above. And obviously, these need to be set in the perspective of the quantification of goals for the domestic economy, now sorely lacking on a short-range or long-range basis, and which we so urgently need. To illustrate: Manifestly, we cannot determine our goals for farm product exports and imports without setting our domestic farm policies in the context of our goals for the whole economy and for the farm population; this we obviously have not done. The same applies to our exports and imports of industrial goods. Besides, reexamination of the optimum composition of our imports and exports, respectively—necessarily related to our domestic needs—would improve our prespects for a "favorable" balance.

The second vital point that we should bear in mind is the direct connection between the performance of the U.S. economy and our "unfavorable" balances of trade and payments. For many years, I have insistently pointed out, on the basis of empirical observation, that we do best internationally when we were doing best at home, and *vice versa.* Despite this, today as many times before, we deliberately take measures to repress growth, priorities, and justice at home, on the grounds that this will help us internationally. The error in this regard is very analogous to our erroneous campaign against inflation.

In the third place, there is the pressing current issue of how much "protectionism" we should undertake, in one form or another. In view of the fact that most of the economies comparable to ours are highly managed, we cannot resolve this issue by adhering with blind faith to the doctrine of "free trade," even though we should view with horror the prospect of intensified economic cross-purposes and "trade wars" among nations. But before we can decide wisely whether or how much of "protectionism" to adopt, we must develop the above-suggested rationale for our trade and balance of payments objectives, and this we have not yet even commenced to do.

Meanwhile, national economic policy is neglecting this point of crucial importance: No matter what we may do specifically with respect to international economic policy, we cannot expect and should not ask workers in fields where unemployement is very high, because of the inflow of goods from overseas, to accept their dismal lot with equanimity or not to become "protectionists" in their sentiments, citing to them some alleged national interest which is obviously not their interest. The first and most important approach to this would be to get back to a genuine policy for "maximum" employment, production, and purchasing power in the U.S. An intermediate step, and

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even a necessarily long-range step, would be a determined national policy which assured useful jobs for those dispossessed by the inflow of goods, just as it is equally essential for us to assure employment for those dispossessed by domestic technological change.

In view of my earlier comment that we do not yet know whether it would be in our own interests to strive for a "favorable" or "unfavorable" balance of payments in the short-run, I should repeat again that the main trouble confronting us is caused, not by the "unfavorable" balance of payments, but rather by the outmoded methods of settlement. The attempts to deal with this which we have made during the past decade, and especially the devaluations of the dollar a year ago and again this year, have already proved to be improvised and ineffectual measures, generating one "crisis" after another. We need to screw our courage to the sticking point, and to exert our utmost influence toward bringing about a really modernized and viable system for international settlements. I do not deem it advisable to discuss the technique of such proposals in my current discussion.

XII. Policy Proposals, and the Need for Planning Under Freedom

Basic Policy Proposals

My policy proposals have been revealed clearly by what I have already said. So I will summarize the highpoints:

We should put "maximum" employment, production, and purchasing power above all else, and this necessarily involves due accent upon priorities and justice;

We do not now need increases in the total burden of Federal taxation. But we sorely need, and at once, "progressive" changes in the distribution of that burden, on both "economic" and "social" grounds (if there be any valid distinction between the two);

We need a far less repressive monetary policy now and for the long-run, with much lower interest rates in general and still lower rates for priority programs (e.g. housing), and reassertion of Congressional and Executive control over the Federal Reserve System;

We need a much higher level of Federal spending, with more stress on the great priorities, such as decent medical care, housing, and education of all at costs within their means; removal of pollution; adequate transportation, etc. In this connection, we should avoid "revenue sharing" without strings, which is wasteful of Federal revenues and destructive of State and local revenue-efforts;

We need to reconstruct the self-defeating campaign against inflation;

We need to bring any "controls" program into line with quantified goals for growth, priorities, and justice. If we moved vigorously toward these goals through *correct* fiscal and monetary policies, we might even be better off without "controls," or at most with a few highly selective ones;

We need to engage at once in a full-scale war against poverty, with its spending and distributive implications for all Federal programs. In this context, we need a universal income support program;

We need to restore priority of income and public services for farm people and others in rural areas. This requires a complete reconstruction of the national farm program, and an educational program to eradicate the current misconceptions of the general public with respect to farmers and farm income;

We need to make much further progress against discrimination in all its forms. But we must come to appreciate that this task spawns irrepressible opposition, so long as people must compete for the sharing of scarcity, and that only a fully used economy and shared abundance can discrimination be eradicated in practical terms.

The Need for Planning Under Freedom

All the defaults of omission and commission reviewed above result essentially from the extreme dearth of planning under freedom in the formulation and deployment of national economic and social policies. The Employment Act of 1946 was intended to close this gap. It mandated a long-range process, akin to my *U.S Economic and Social Performance Budget*, of setting long-range goals for growth, priorities, and justice (which should accent the extirpation of poverty), and integrating the entire range of relevant policies or means toward their attainment. But the *Reports* under the Act make slight contact with this requirement; they stress forecasts more than goals; they usually concentrate mainly upon fiscal and monetary policies, and greatly neglect many other policies of comparable impact. The result is many discrete plans and programs, but no one coherent plan or program. The term "fine tuning" has served as a poor excuse for the repeated bad guesses which are the inevitable consequence of planlessness.

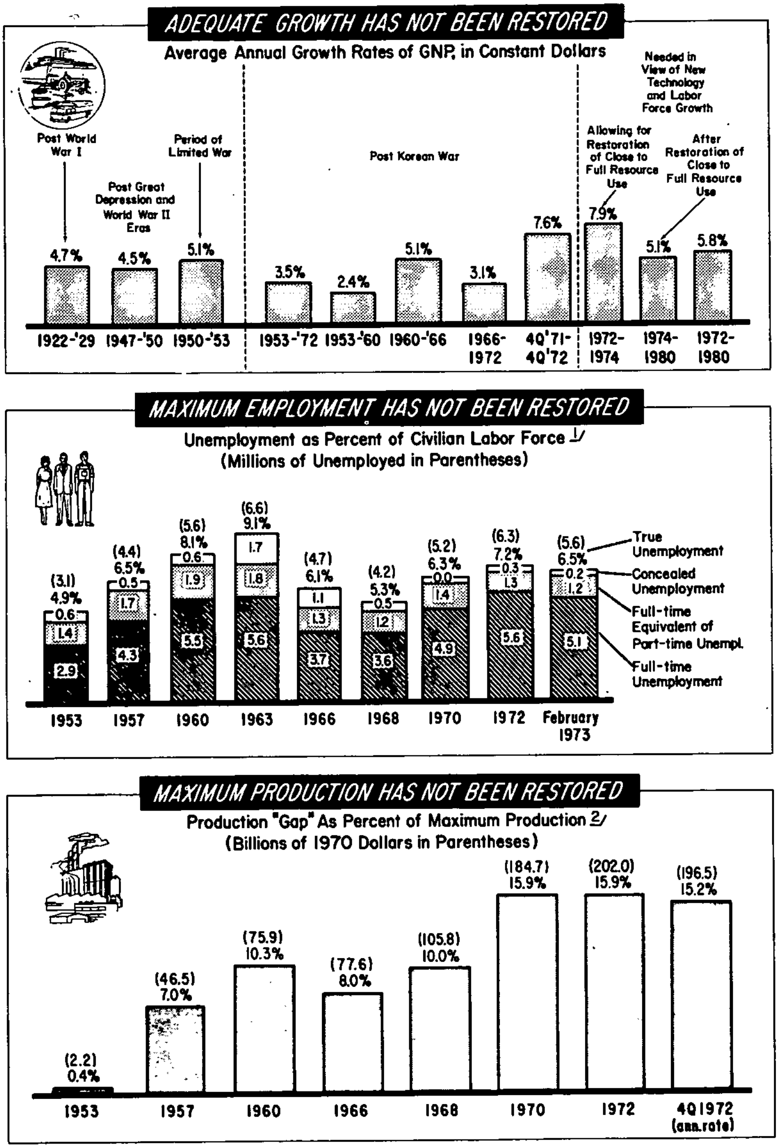
In addition to the examples stated earlier, I will cite only a few others. In brutal fashion, the goal of farm "parity" has been abandoned, and scores of millions of farm people driven into the cities, where it was claimed they would find a haven of jobs and security. Instead, during two decades, they have contributed almost half of the nationwide total of excessive unemployment and soaring welfare costs. A strategic war against poverty would have resorted to a few highly selective efforts, such as assuring useful employment to those who can and should work, and income supplements for those who cannot or should not. Instead, the "war" deteriorated into a hopeless medley of errant experimentalism at all levels, under-funded and conflicting, and resulted in a frustration which is now prompting abandonment of by far the most important endeavor we should be recasting and carrying forward. I foretold all this in 1965. As already stated, our international balance of payments policies have not been founded upon careful analysis of what composition of trade and exchange would really be best for us and the rest of the world, and, like the spurious war against inflation, have done much damage to our domestic economy while aggravating the specific evil they were designed to cure.

The type of planning I suggest does not involve precommitment to any particular policies, nor to any particular philosophy of the division between private and public responsibilities. Rather, it imports a mature *method of arriving at decisions*. In fact, the weeding out of conflict and cross-purposes should in some respects reduce the role of the Federal Government, and certainly enlarge its effectiveness—a very different thing from the current reckless annihilation of vital programs. Looking far ahead does not mean delayed action; it means judging better how to act now, by knowing where we want to go instead of moving in fits and starts. Far from excessive centralization, this type of planning would reduce the divisions among our people, and bring the watchful eye of an informed people to bear on all that is attempted, so that we may steer between the Scylla of monolithic fiat and the Charybdis of aimless neglect and cross-purposes.

[The charts referred to in the text follow:]

Chart I

BASIC U.S. ECONOMIC TRENDS, 1953-1972



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

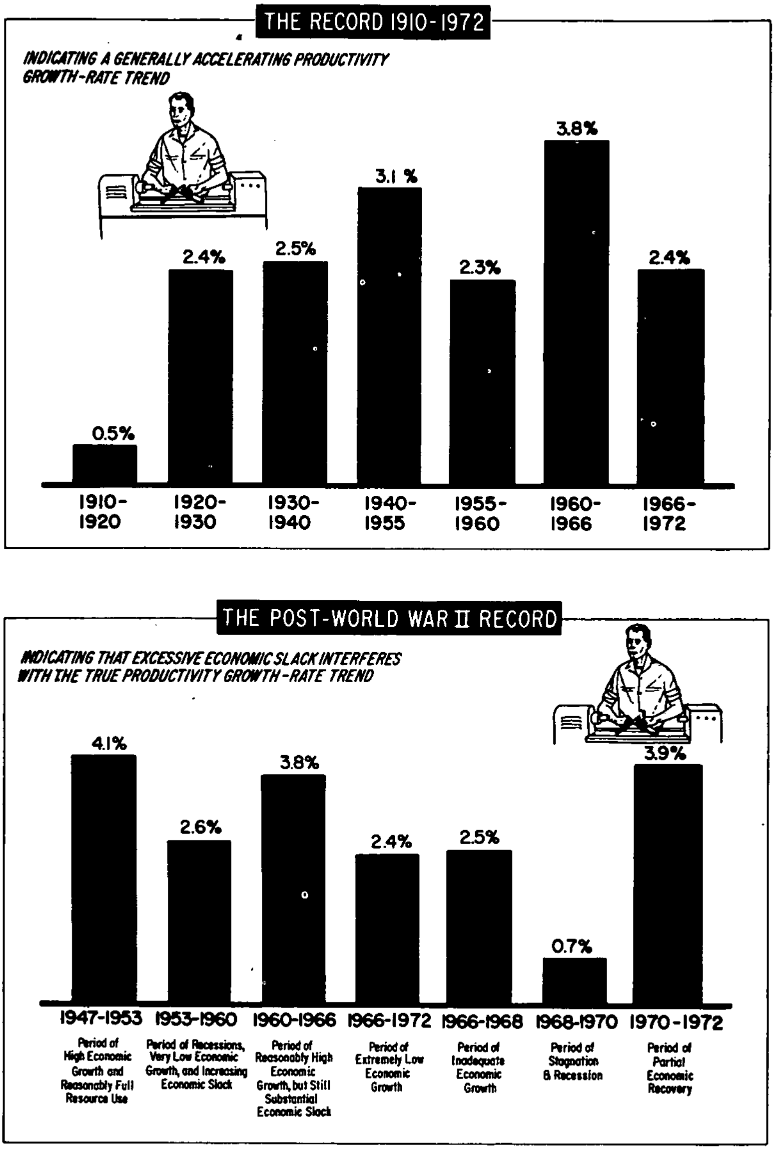
2/ Maximum production, 1972, equates with average annual growth rate of 4.5%, 1953-1972.

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

Chart 2

LONG-TERM TRENDS IN PRODUCTIVITY U.S. PRIVATE ECONOMY, 1910–1972

Average Annual Rate of Growth in Output per Man-hour for the Entire Private Economy



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

Chart 3

COSTS OF DEFICIENT ECONOMIC GROWTH U.S. ECONOMY, 1960-1972 AND 1973-1980

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

1960-1972 1/

Total National Production (GNP)	Man-years of Employment 2/	Personal Consumption Expenditures	Gov't Outlay for Goods and Services
1960-1966: $588.7 1967-1972: 931.4 4Q 1972: 196.5	1960-1966: 21.1 Million 1967-1972: 10.6 Million 4Q 1972: 2.6 Million	1960-1966: $300.6 1967-1972: 402.9 4Q 1972: 81.5	1960-1966: $136.4 1967-1972: 249.1 4Q 1972: 65.0
Private Business Investment (Incl. Net Foreign)	**Average Family Income (1970 Dollars)**	**Wages and Salaries**	**Unincorporated Business and Professional Income**
1960-1966: $151.6 1967-1972: 279.4 4Q 1972: 50.0	1960-1966: $6,076 1967-1972: 6,985 4Q 1972: 1,435	1960-1966: $344.7 1967-1972: 459.6 4Q 1972: 95.5	1960-1966: $45.2 1967-1972: 61.4 4Q 1972: 14.0

1973-1980 3/

Total National Production (GNP)	Man-years of Employment 2/	Personal Consumption Expenditures	Gov't Outlay for Goods and Services
1973-1980: $1,677.9 1980: 323.9	1973-1980: 16.5 Million 1980: 2.6 Million	1973-1980: $1,028.3 1980: 206.0	1973-1980: $238.4 1980: 43.4
Private Business Investment (Incl. Net Foreign)	**Average Family Income (1970 Dollars)**	**Wages and Salaries**	**Unincorporated Business and Professional Income**
1973-1980: $411.3 1980: 73.4	1973-1980: $13,570 1980: 2,588	1973-1980: $866.5 1980: 171.3	1973-1980: $97.6 1980: 17.3

1/ All deficits are calculated from a 1953 base, in that growth rates since then have averaged far too low. Quarterly deficits are shown at annual rates. 1972 and 4Q 1972 estimated.

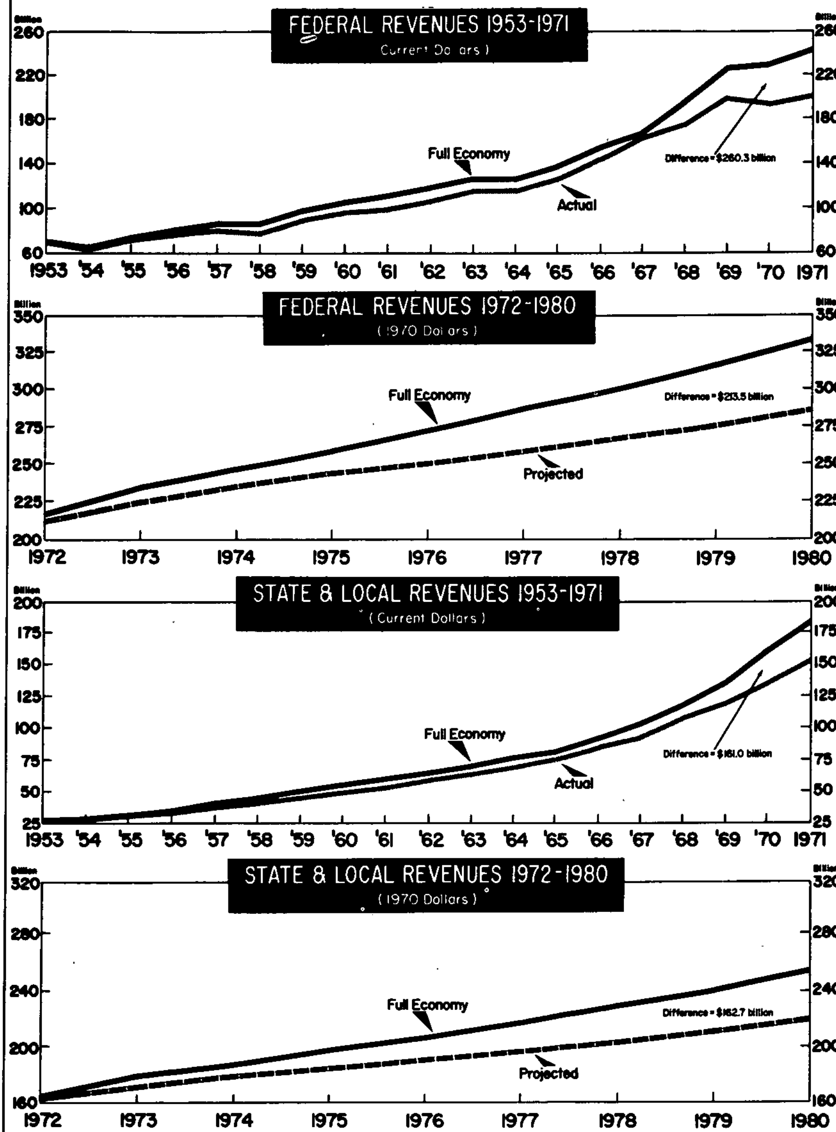
2/ Based upon true level of unemployment, including full-time unemployment, full-time equivalent of part-time unemployment, and concealed unemployment (nonparticipation in civilian labor force) due to scarcity of job opportunity.

3/ These deficits are projected from a 1972 base, writing off the cumulative deficits 1953-1972.

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

Chart 4

FEDERAL AND STATE AND LOCAL RECEIPTS ACTUAL AND AT OPTIMUM ECONOMIC GROWTH RATES 1953-1971 AND PROJECTED 1972-1980[1/]



1/ Roughly speaking, the deficits in the tax table on this chart are in accord with the deficits shown on Chart 3.

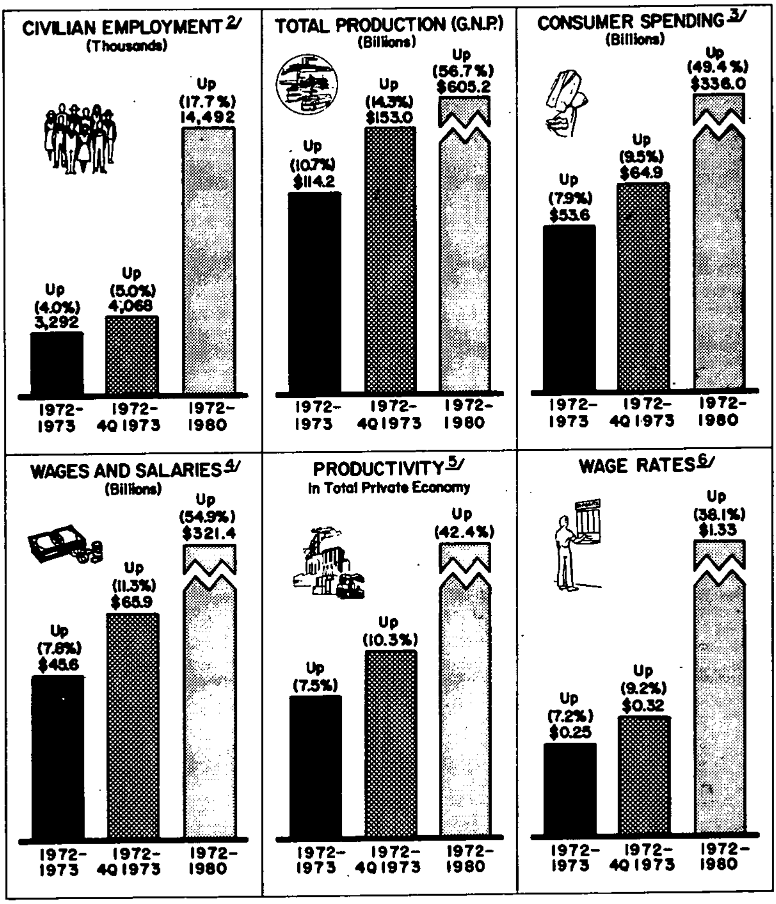
Source: Dept. of Commerce, Bureau of Economic Analysis for actual

Chart 5

GOALS FOR THE U.S. ECONOMY, 1973, 4th Q 1973, & 1980 PROJECTED FROM 1972 BASE 1/ TO ACHIEVE FULL RESOURCE USE BY 4th Q 1973

(Total Percentage Changes in Parentheses)

Dollar Items in 1970 Dollars



1/ 1972 estimated.

2/ Unemployment down 40.9%, 46.2%, and 41.4% respectively.

3/ Growth is less than growth of G.N.P., primarily because of needed growth in public outlays to meet domestic priorities, projected at 18.6%, 22.7%, and 65.8% respectively.

4/ Total labor income, 7.4%, 10.9%, and 54.9% respectively.

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

6/ Projected at slightly slower than growth in productivity, so as not to move wage rate growth too far out of line with longer-term sustainable trends, in view of extremely high and nonsustainable growth in productivity during vigorous recovery movement.

Chart 6

GOALS FOR A FEDERAL BUDGET, 1973 AND 1980, GEARED TO ECONOMIC GROWTH & PRIORITY NEEDS

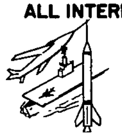
1974, fiscal year; goals for 1973 and 1980, calendar years

All figures in fiscal 1974 dollars 1/

ALL FEDERAL OUTLAYS

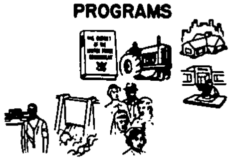
Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1974 2/	268.67	1,273.32	20.51
1973	289.28	1,363.53	21.60
1980	397.45	1,678.95	20.95

NATIONAL DEFENSE, SPACE TECHNOLOGY, & ALL INTERNATIONAL



Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1974 2/	88.02	417.16	6.72
1973	109.42	515.75	8.17
1980	156.90	662.77	8.27

ALL DOMESTIC PROGRAMS



Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1974 2/	180.65	856.16	13.79
1973	179.86	847.78	13.43
1980	240.55	1,016.17	12.68

RETIREMENT AND SOCIAL INSURANCE

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1974 2/	68.01	322.32	5.19
1973	60.27	284.08	4.50
1980	94.86	400.71	5.00

HOUSING AND COMMUNITY DEVELOPMENT

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1974 2/	4.93	23.36	0.38
1973	12.06	56.83	0.90
1980	11.39	48.10	0.60

AGRICULTURE; AND NATURAL RESOURCES

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1974 2/	9.24	43.79	0.71
1973	13.39	63.14	1.00
1980	19.91	84.11	1.05

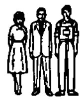
EDUCATION

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1974 2/	6.85	32.46	0.52
1973	8.03	37.86	0.60
1980	14.42	60.90	0.76

HEALTH SERVICES AND RESEARCH

Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1974 2/	21.73	102.99	1.66
1973	19.95	94.06	1.49
1980	18.02	76.12	0.95

MANPOWER PROGRAMS AND WELFARE SERVICES



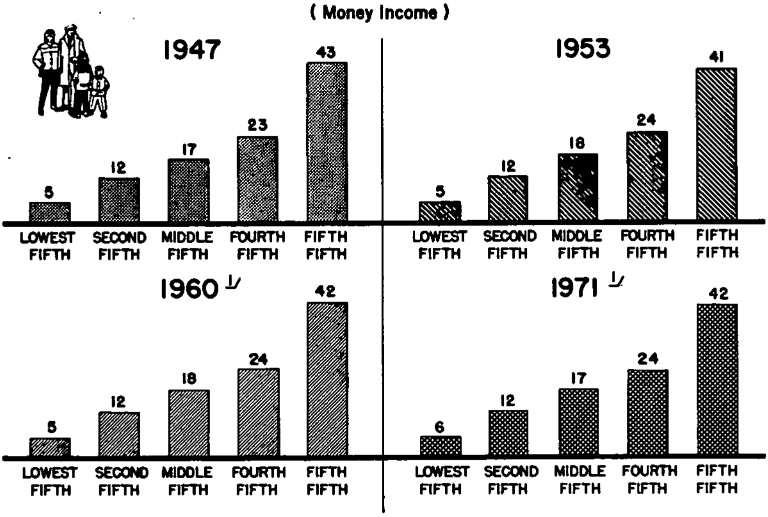
Year	Total Expend. (Bil. $)	Per Capita ($)	% of GNP (%)
1974 2/	17.24	81.71	1.32
1973	26.52	124.99	1.98
1980	30.73	129.81	1.62

1/ Estimated price level during fiscal year 1974.
2/ Administration's Proposed Budget as of January 29, 1973.
Projections by CEP

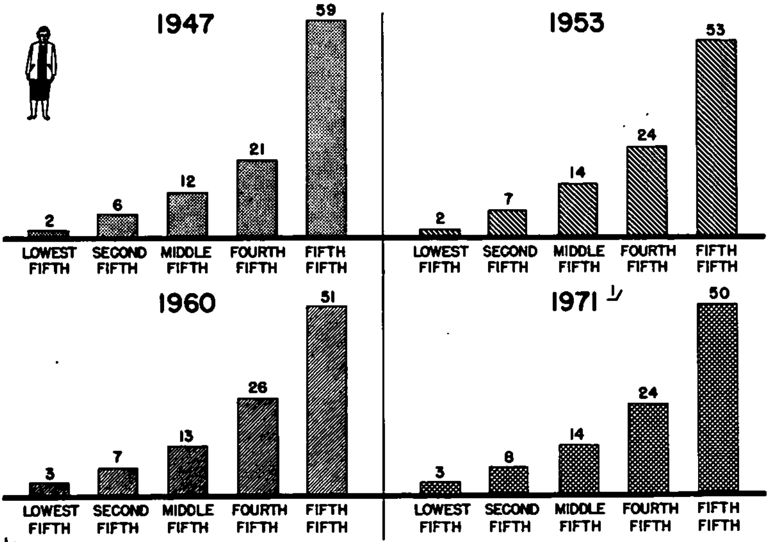
Chart 7

SHARE OF FAMILIES IN TOTAL FAMILY INCOME BY QUINTILES, 1947, 1953, 1960, and 1971

(Money Income)



SHARE OF UNATTACHED INDIVIDUALS IN TOTAL INCOME OF UNATTACHED INDIV., BY QUINTILES, 1947, 1953, 1960, and 1971



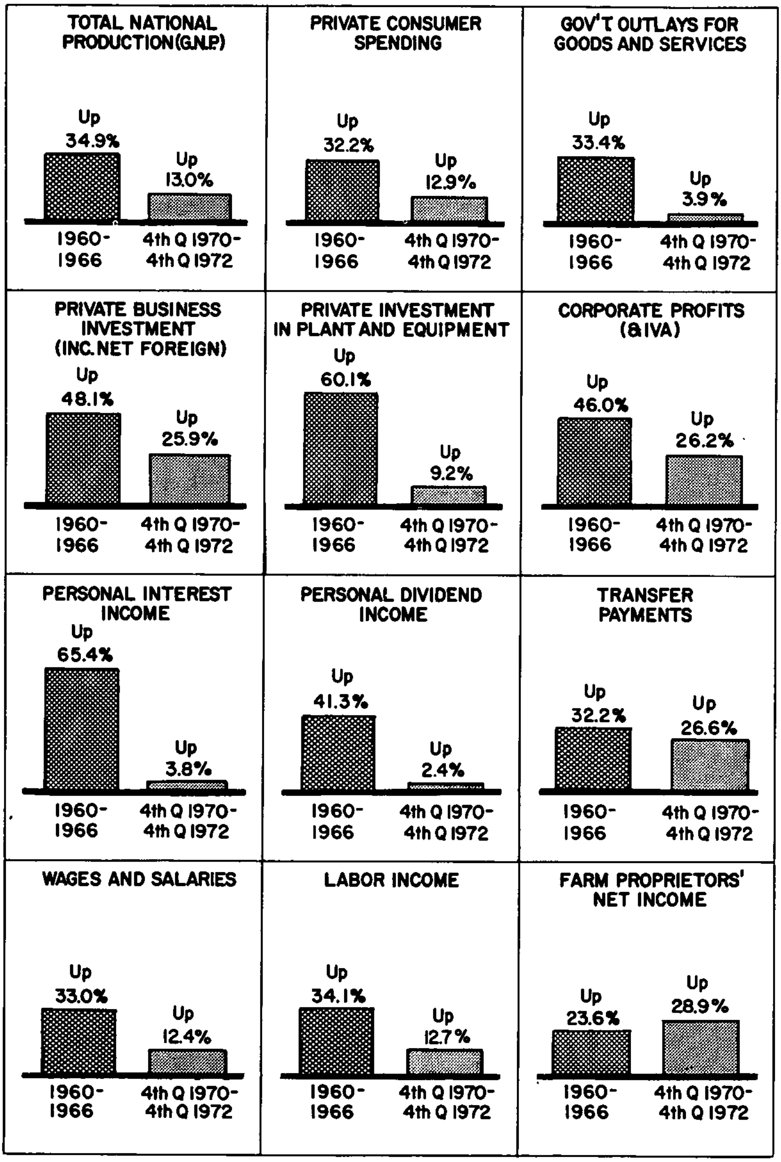
1/ Figures do not add to 100, owing to rounding.

Data: Bureau of the Census.

Chart 8

COMPARATIVE GROWTH IN VARIOUS ASPECTS OF U.S. ECONOMY 1960-1966 & 4TH Q 1970-4TH Q 1972

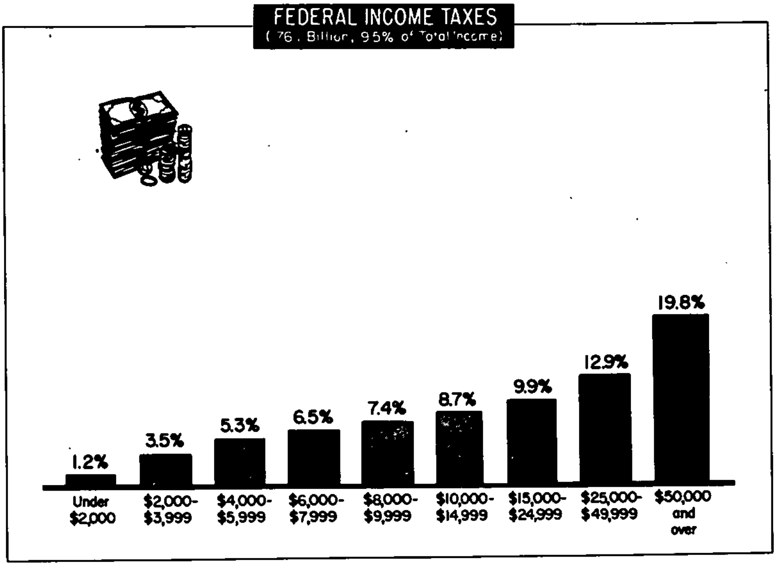
Total Percentage Changes, in Constant Dollars

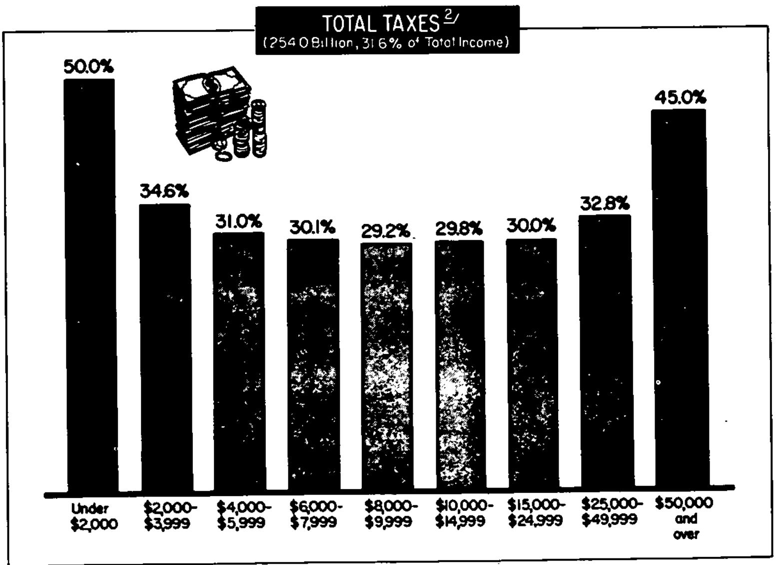


Source: Dept. of Commerce, Bureau of Economic Analysis

Chart 9

TAXES PAID AS PERCENT OF INCOME, U.S. 1968[1]



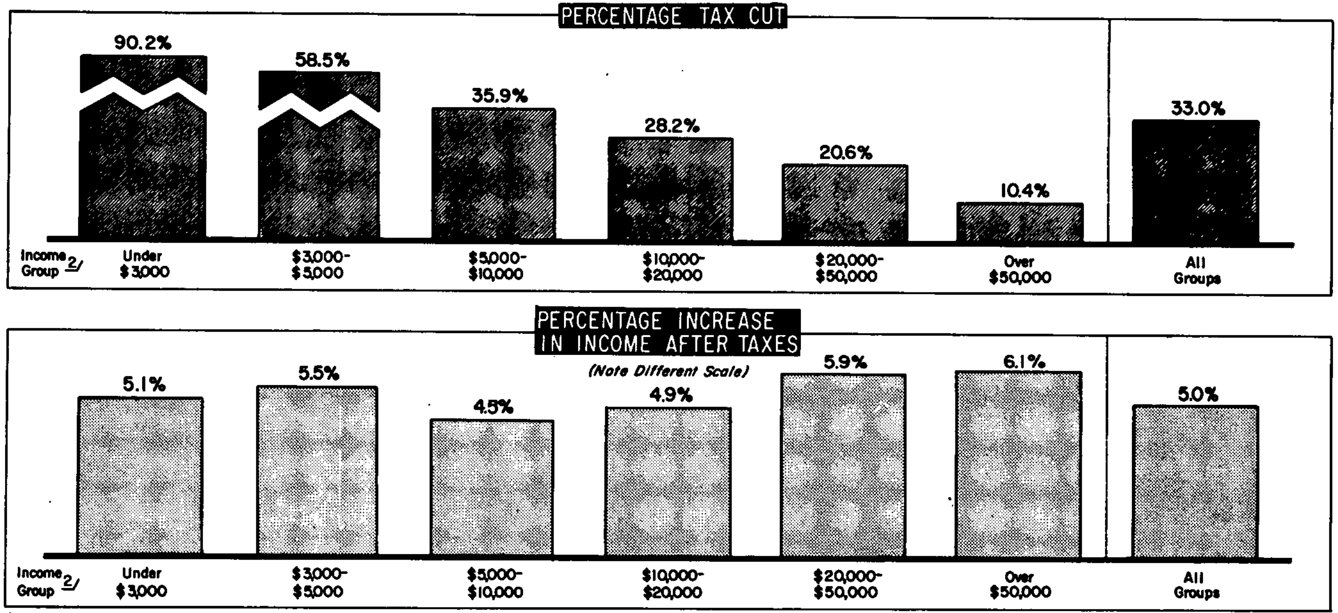


1/ Income relates to total income of all persons in the adjusted money income classes shown. Total income is adjusted money income, plus imputed income, less direct taxes, plus retained corporate earnings, plus taxes minus transfer payments, plus realized capital gains.

2/ Includes the following Federal and State and Local taxes: Individual income, estate and gift, corporate profits, and social security. Also includes Federal excise and customs taxes, and State and Local sales taxes, motor vehicle licenses, property taxes, and miscellaneous other taxes.

Basic Data: Dept. of Commerce, Bureau of the Census

PERCENTAGE TAX CUT AND PERCENTAGE INCREASE IN INCOME AFTER TAX, VARIOUS INCOME GROUPS, 1963-1973[1]



1/ Effects due to changes in personal tax under Revenue Act of 1964, Tax Reform Act of 1969, and Revenue Act of 1971 (H.R. 10947, as reported by the House-Senate Conference Committee, excluding the effect on personal taxes of removing the first year convention under the Asset Depreciation Range system).

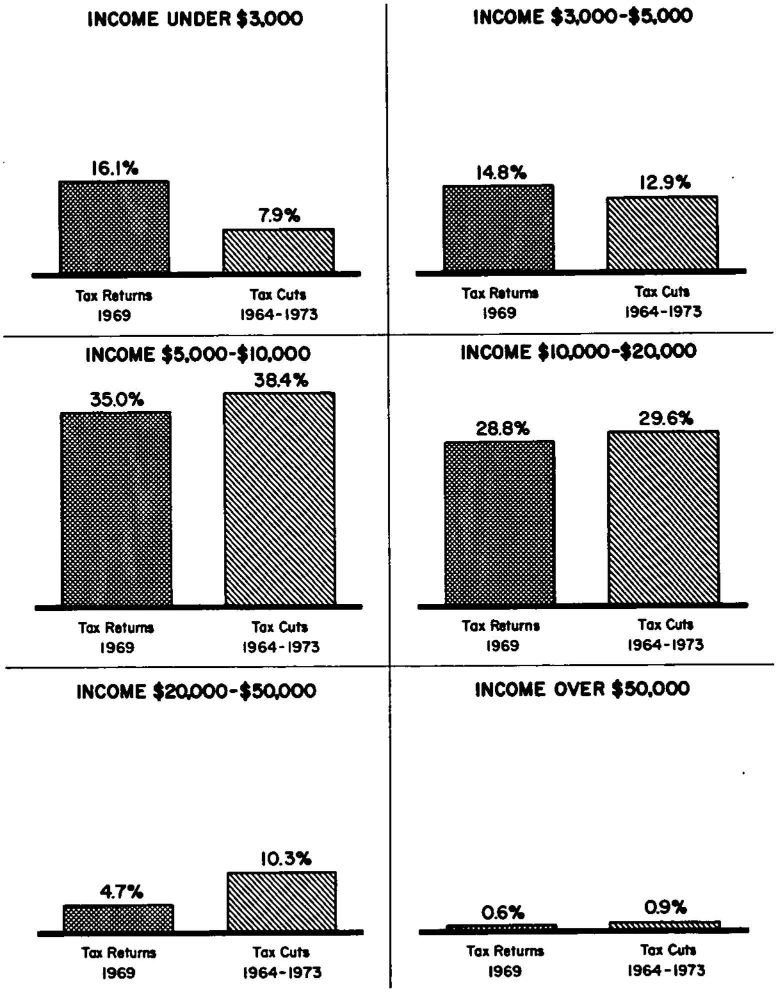
2/ Adjusted gross income class.

Basic Data: House Ways and Means Committee and Senate Finance Committee Reports, and Congressional Record

Chart 10

Chart II

PERCENTAGE DISTRIBUTION OF TAX RETURNS, 1969 AND OF TAX CUTS, 1964-1973 [1] AMONG VARIOUS INCOME GROUPS [2]



1/ Weighted average of percentage distributions of tax cuts in Revenue Act of 1964, Tax Reform Act of 1969, and Revenue Act of 1971 (H.R. 10947, as reported by the House-Senate Conference Committee). Weights are relative size of three tax cuts, each expressed as a percentage of total personal income: 1.92 percent for 1964, 0.99 percent for 1969, and 0.21 percent estimated for 1973.

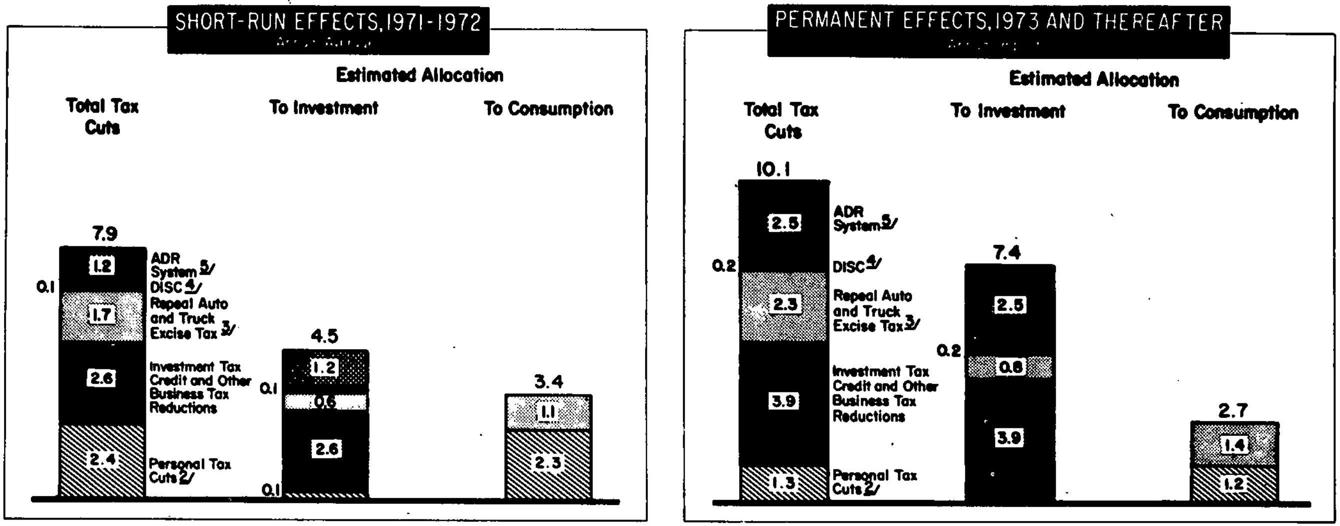
Tax cuts in each bill are net permanent effect, ignoring any phase-ins and (in the 1971 Act) accelerations of previously scheduled tax reductions.

2/ Adjusted gross income classes.

Basic Data: House Ways and Means Committee and Senate Finance Committee Reports, and Congressional Record

ALLOCATION OF 1971 TAX CUTS[1]: BETWEEN INVESTMENT AND CONSUMPTION

(Billions of Dollars)



1/ H.R. 10947, as reported by the House-Senate Conference Committee, and Asset Depreciation Range (ADR) System promulgated by the Treasury Department.

2/ Allocation to investment based on portion of cuts for those with income over $15,000, which they would save; remainder allocated to consumption.

3/ Allocation between investment and consumption based on business or nonbusiness use of vehicles.

4/ Tax deferral by Domestic International Sales Corporations (DISCs).

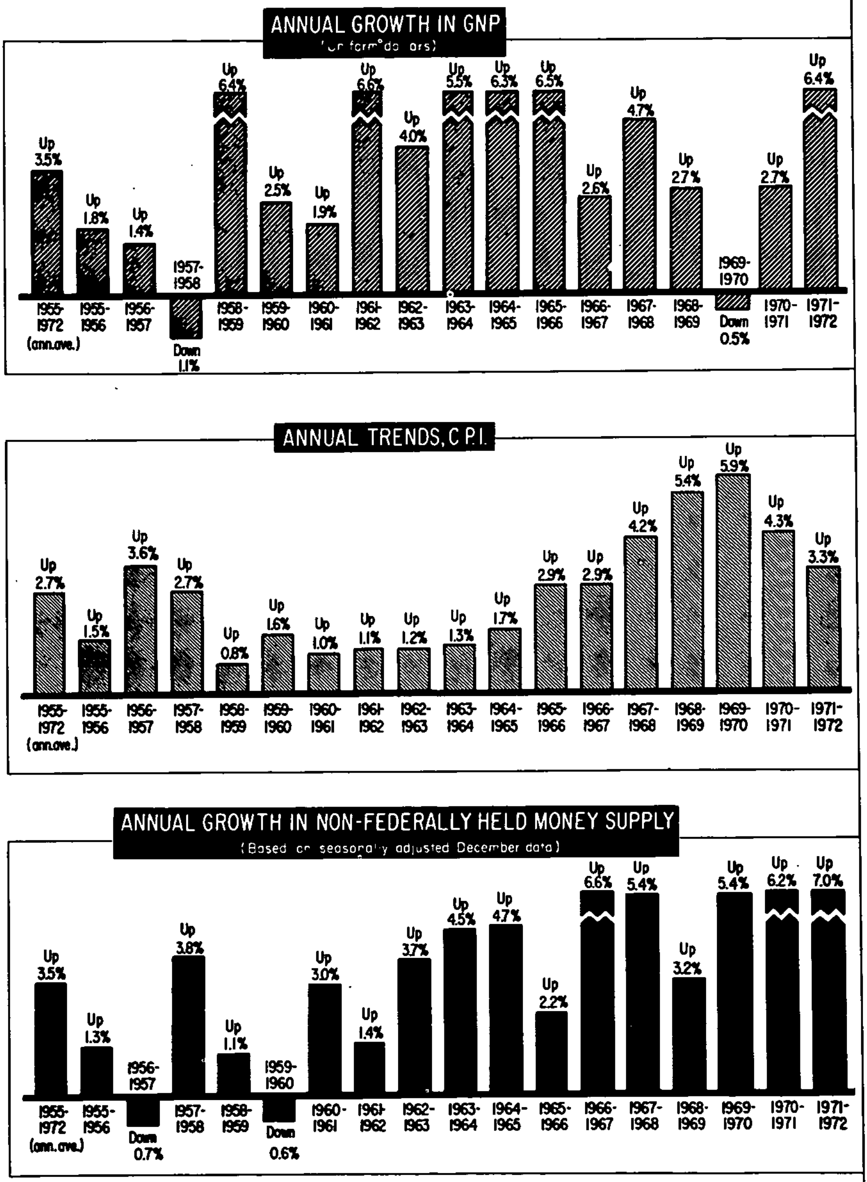
5/ Treasury regulations as modified by H.R. 10947 as reported by the conference committee.

Note: Components may not add exactly to totals, owing to rounding.

Chart 12

Chart 13

COMPARATIVE TRENDS IN GNP, PRICES, AND NON-FEDERALLY HELD MONEY SUPPLY, 1955-1972



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

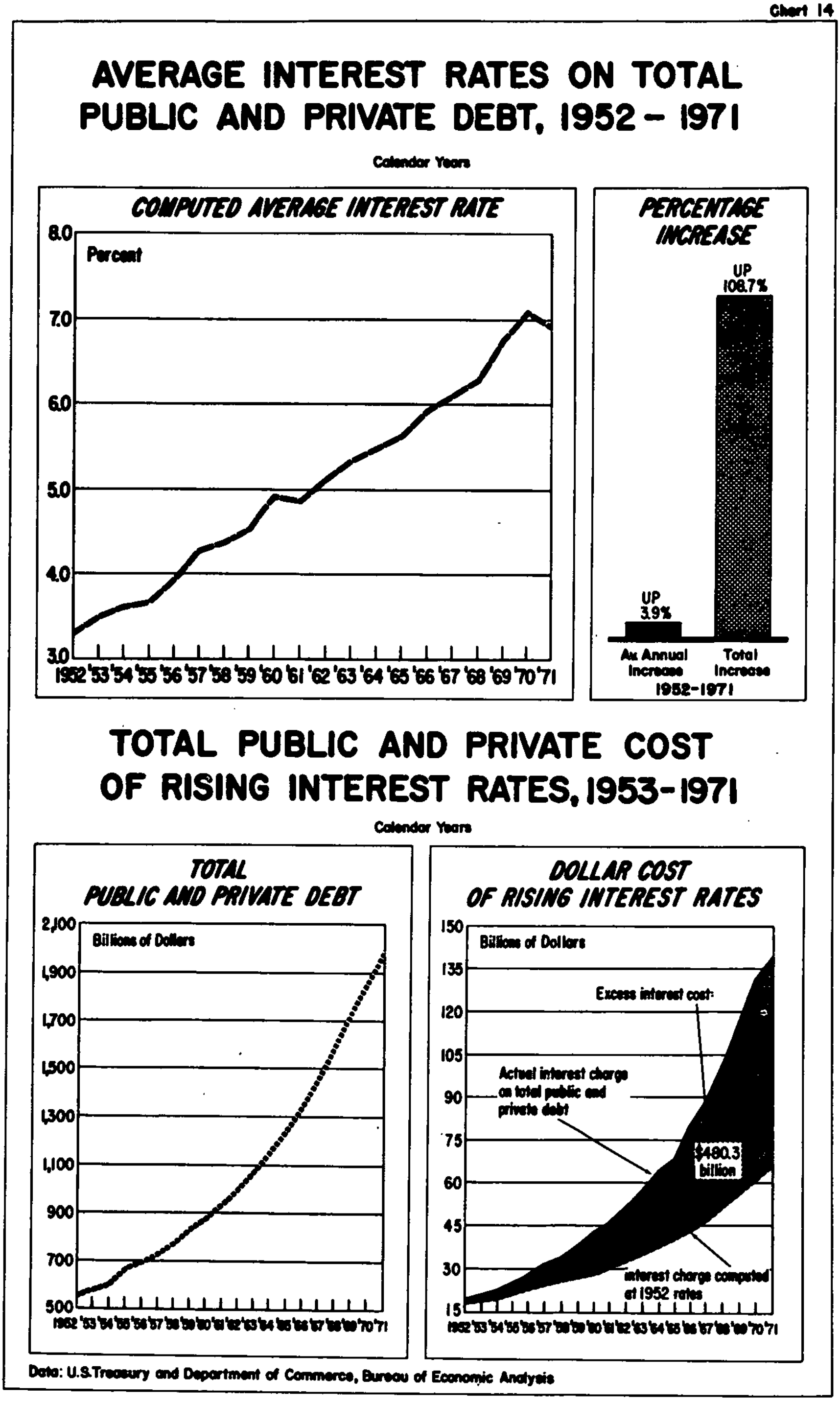
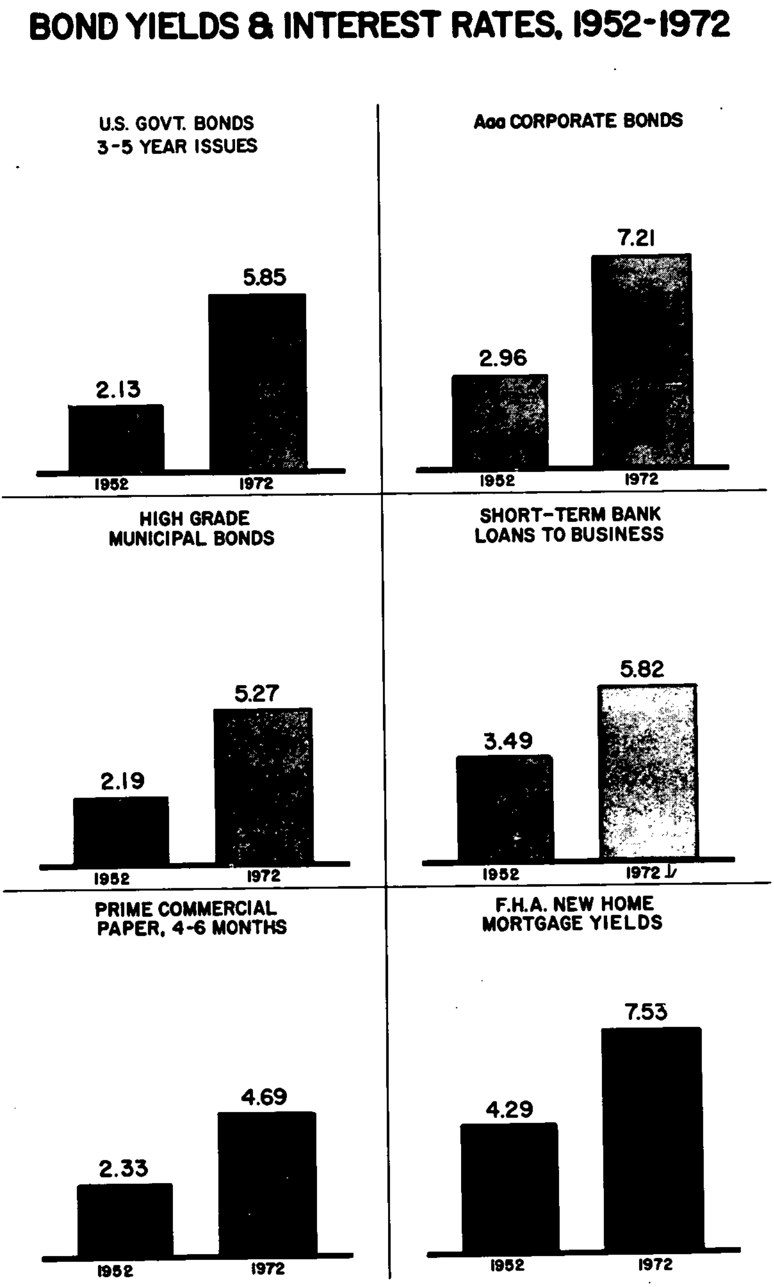


Chart 14
AVERAGE INTEREST RATES ON TOTAL PUBLIC AND PRIVATE DEBT, 1952 - 1971
Calendar Years
COMPUTED AVERAGE INTEREST RATE
Percent
8.0
7.0
6.0
5.0
4.0
3.0
1952 '53 '54 '55 '56 '57 '58 '59 '60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70 '71
PERCENTAGE INCREASE
UP 108.7%
UP 3.9%
Av. Annual Increase
Total Increase
1952-1971
TOTAL PUBLIC AND PRIVATE COST OF RISING INTEREST RATES, 1953-1971
Calendar Years
TOTAL PUBLIC AND PRIVATE DEBT
Billions of Dollars
2,100
1,900
1,700
1,500
1,300
1,100
900
700
500
1952 '53 '54 '55 '56 '57 '58 '59 '60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70 '71
DOLLAR COST OF RISING INTEREST RATES
Billions of Dollars
150
135
120
105
90
75
60
45
30
15
Excess interest cost:
Actual interest charge on total public and private debt
$480.3 billion
interest charge computed at 1952 rates
1952 '53 '54 '55 '56 '57 '58 '59 '60 '61 '62 '63 '64 '65 '66 '67 '68 '69 '70 '71
Data: U.S. Treasury and Department of Commerce, Bureau of Economic Analysis

Chart 15



1/ Estimated.

Source: Treasury Dept.; Federal Reserve; F.H.A.

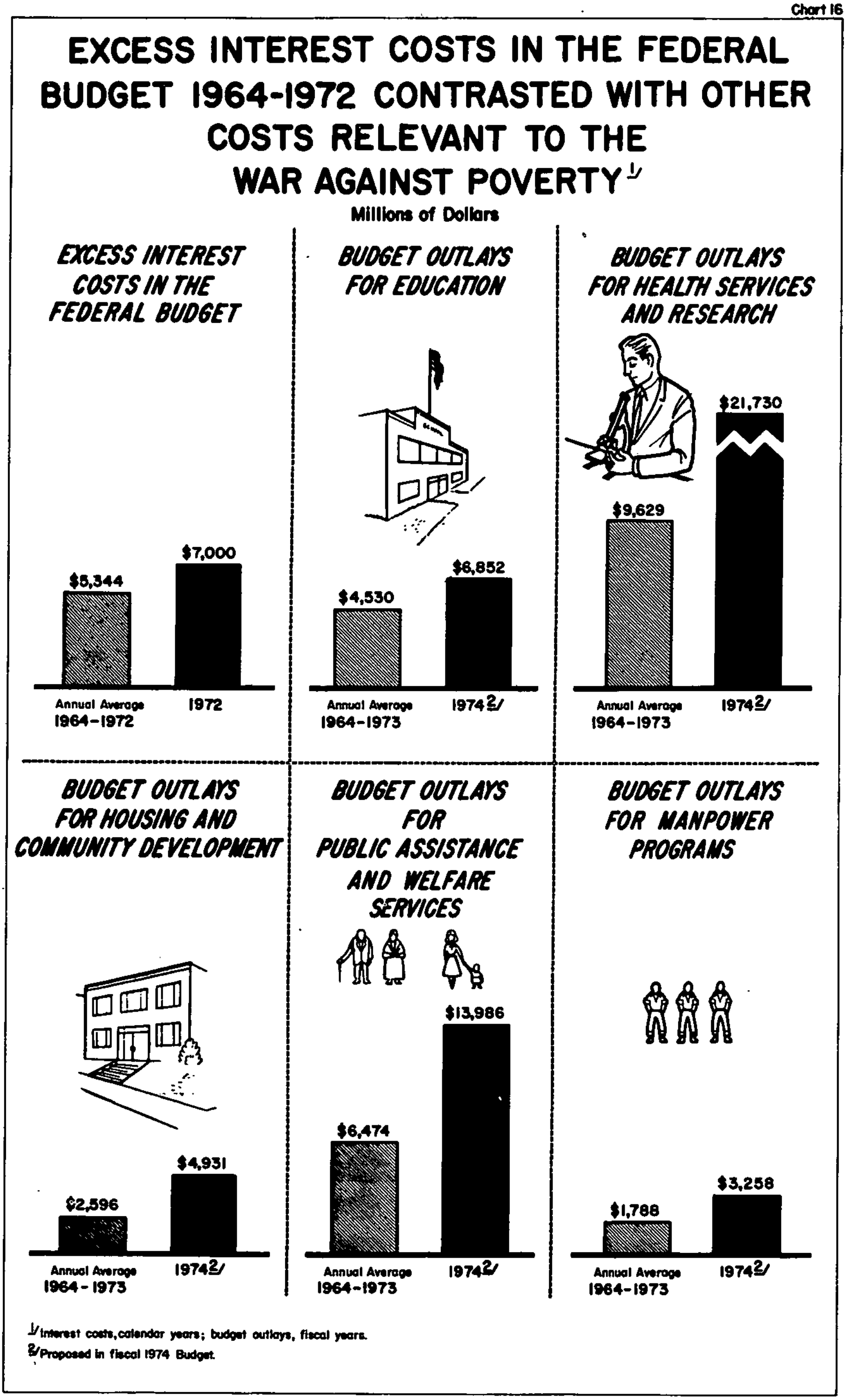
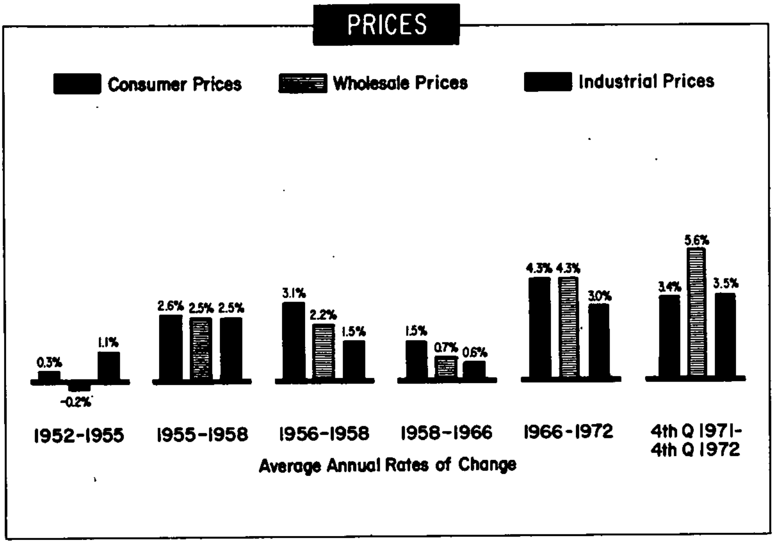
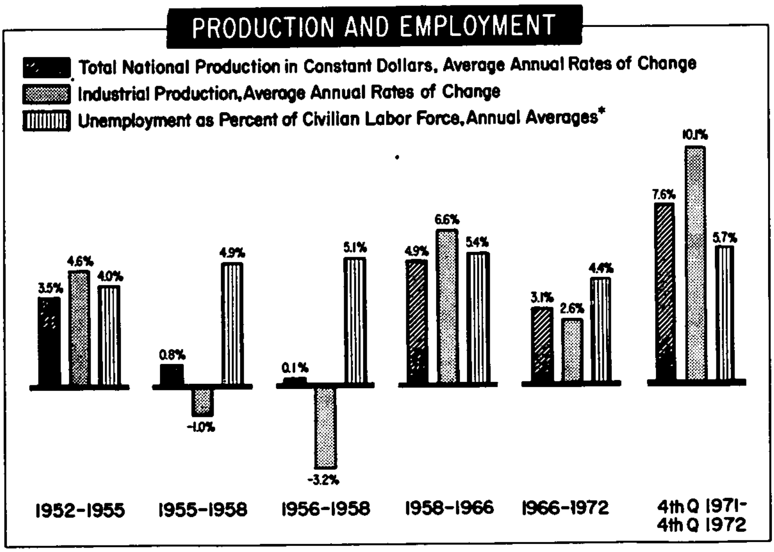


Chart 16
EXCESS INTEREST COSTS IN THE FEDERAL BUDGET 1964-1972 CONTRASTED WITH OTHER COSTS RELEVANT TO THE WAR AGAINST POVERTY 1/
Millions of Dollars
EXCESS INTEREST COSTS IN THE FEDERAL BUDGET
$5,344
$7,000
Annual Average 1964-1972
1972
BUDGET OUTLAYS FOR EDUCATION
$4,530
$6,852
Annual Average 1964-1973
1974 2/
BUDGET OUTLAYS FOR HEALTH SERVICES AND RESEARCH
$9,629
$21,730
Annual Average 1964-1973
1974 2/
BUDGET OUTLAYS FOR HOUSING AND COMMUNITY DEVELOPMENT
$2,596
$4,931
Annual Average 1964-1973
1974 2/
BUDGET OUTLAYS FOR PUBLIC ASSISTANCE AND WELFARE SERVICES
$6,474
$13,986
Annual Average 1964-1973
1974 2/
BUDGET OUTLAYS FOR MANPOWER PROGRAMS
$1,788
$3,258
Annual Average 1964-1973
1974 2/
1/ Interest costs, calendar years; budget outlays, fiscal years.
2/ Proposed in fiscal 1974 Budget.

Chart 17

RELATIVE TRENDS IN ECONOMIC GROWTH UNEMPLOYMENT, & PRICES, 1952 - 1972





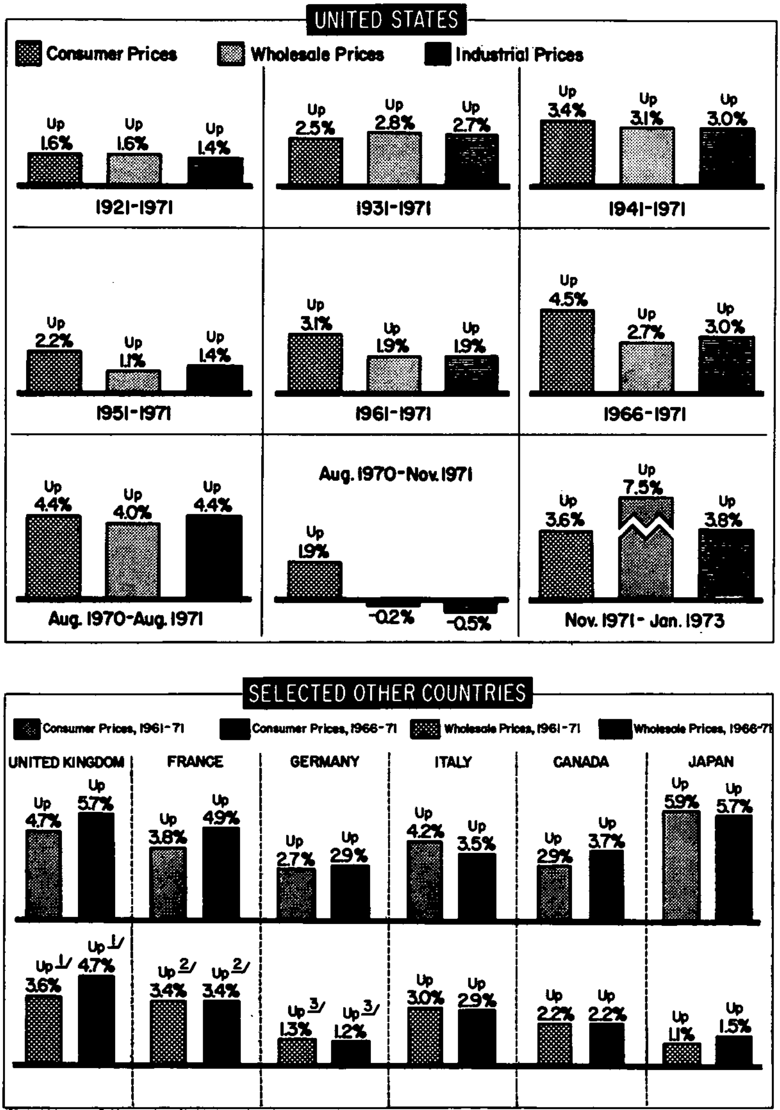
*/ These annual averages (as differentiated from the annual rates of change) are based on full-time officially reported unemployment measured against the officially reported Civilian Labor Force.

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

Chart 18

SELECTED PRICE TRENDS, 1921-JAN. 1973
U.S. AND SELECTED OTHER COUNTRIES

(Average Annual Rates of Change)



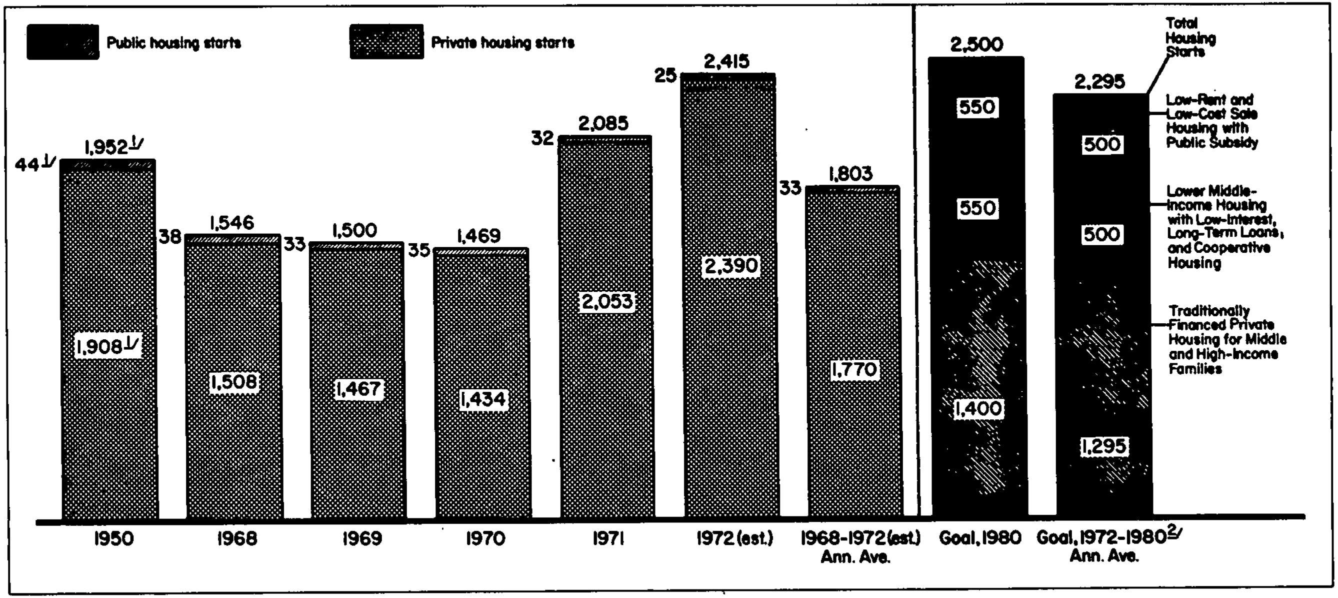
1/ Based on index for industrial output.

2/ Based on index for industrial goods, tax included. 1961 not available, so first growth rate is for 1962-1971.

3/ Based on index for industrial goods.

HOUSING STARTS, 1950-1972, AND GOALS FOR 1972-1980

(Thousands of Units)



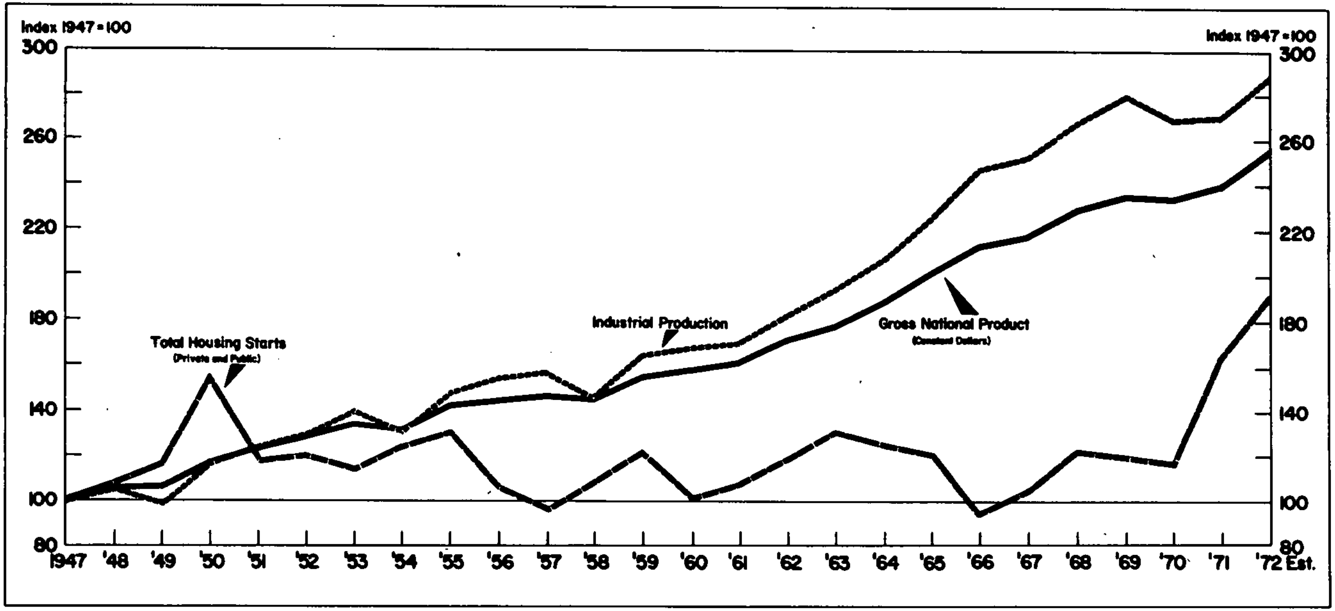
1/ Non-farm only, farm not available.

2/ Inclusive. Based on needed annual average of 2.2 million during 1970-1980 inclusive.

Source: Dept. of Commerce, Bureau of the Census

Chart 19

HOUSING STARTS, INDUSTRIAL PRODUCTION, AND GROSS NATIONAL PRODUCT, 1947-1972 [1]



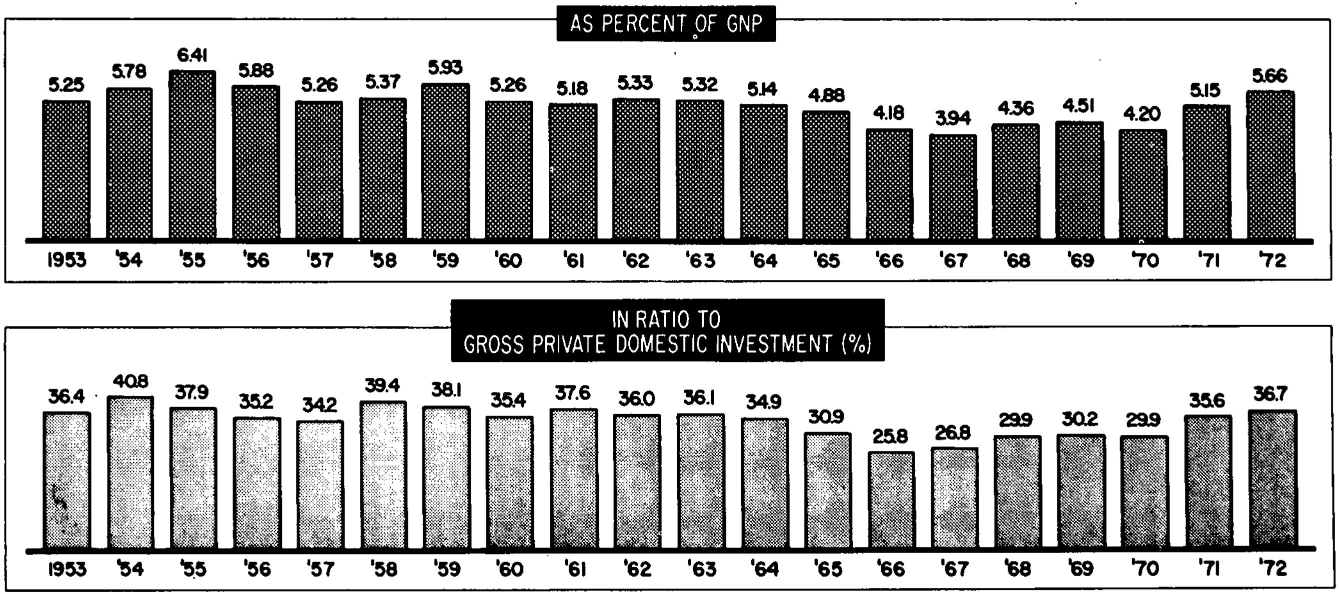
[1] 1972 estimated.

Source: Dept. of Commerce, F.H.A., and V.A.

Chart 20

ROLE OF NEW RESIDENTIAL AND COMMERCIAL STRUCTURES IN THE NATIONAL ECONOMY, 1953-1972 1/

(Construction as Percentage of Major Economic Aggregates)



1/ 1972 estimated.

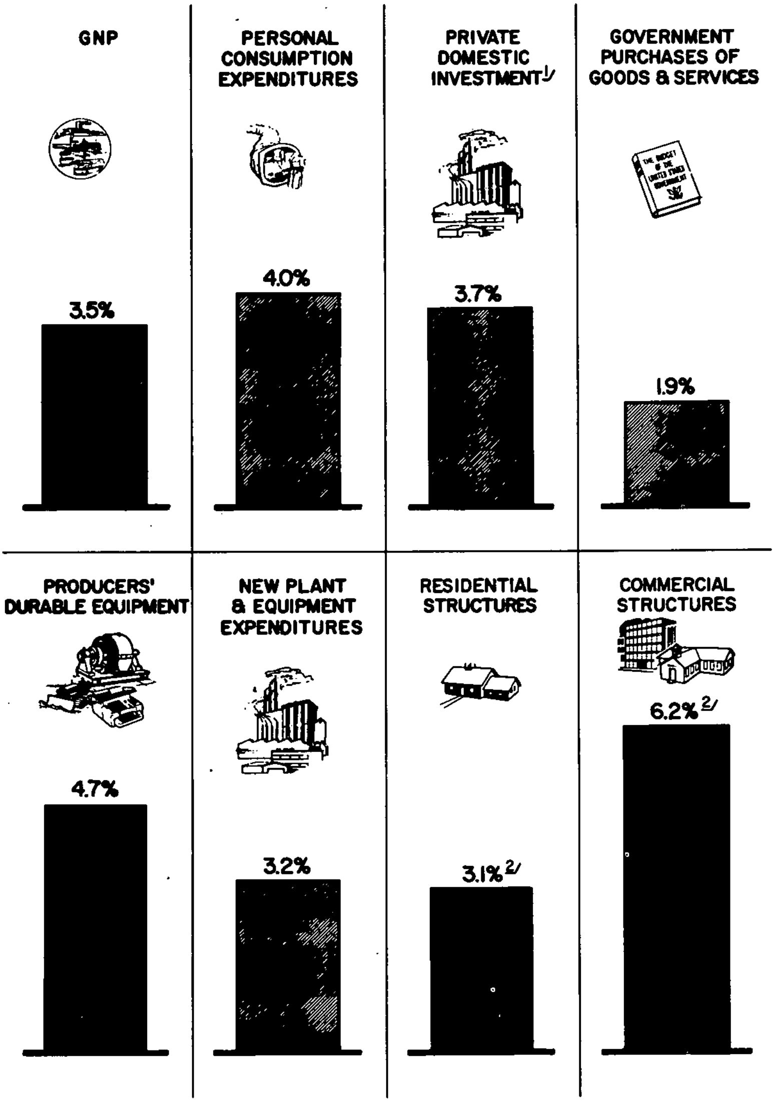
Source: Dept. of Commerce, Bureau of Economic Analysis

Chart 21

Chart 22

COMPARATIVE GROWTH RATES, 1953-1972

Constant Dollars
Average Annual Rates of Change

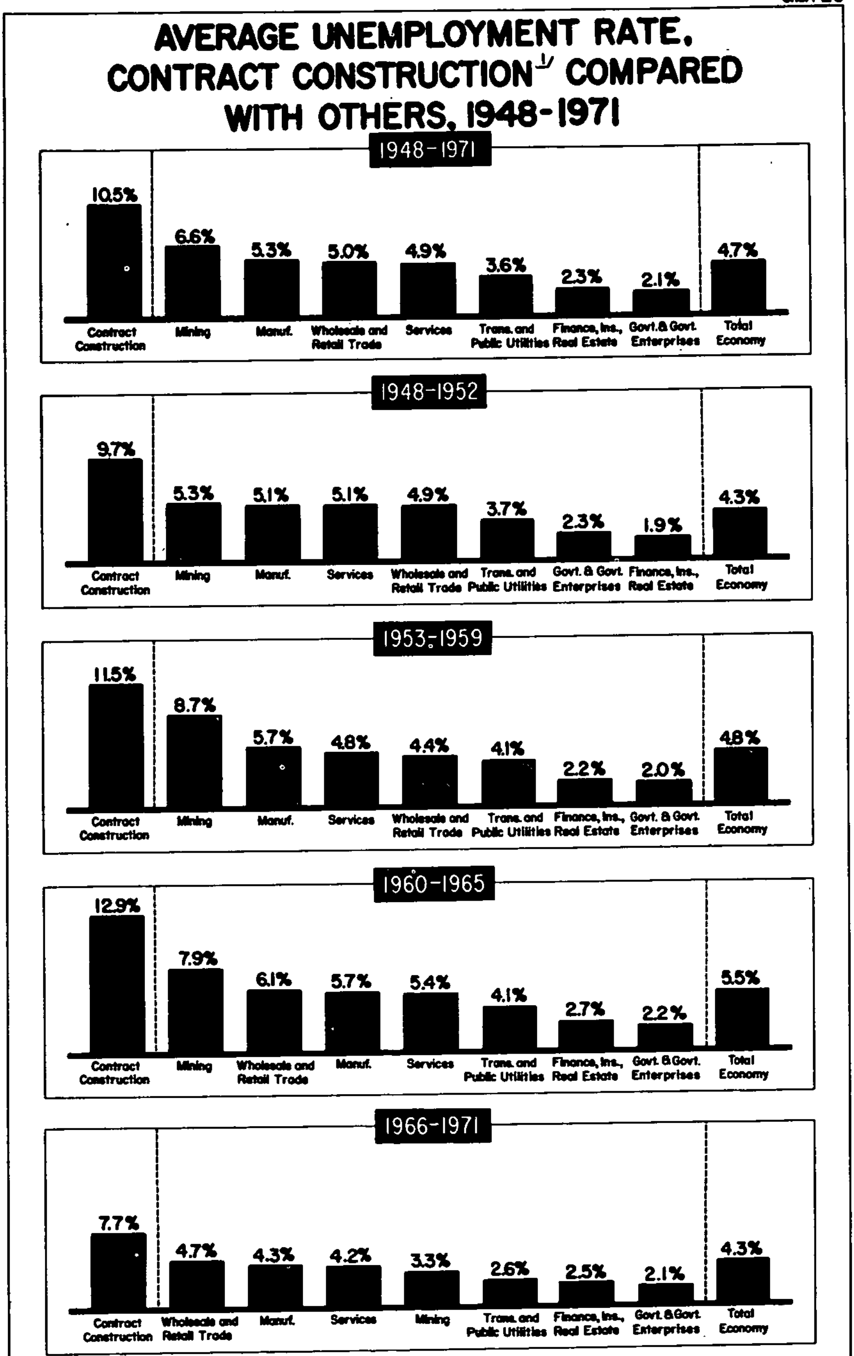


1/ Gross private investment, including net foreign 1.9%.

2/ Residential and comercial structures combined 3.5%.

Basic Data: Dept. of Commerce, Bureau of Economic Analysis

Chart 23



[1] Unemployment rates for plumbers and building trades not available.

Source: Dept. of Labor, Bureau of Labor Statistics

Chart 24

OUTPUT & EMPLOYMENT DEFICIENCIES IN HOUSING & COMMERCIAL CONST., 1953-1972[1] & 1973-1980

(Dollar Items in Billions of 1970 Dollars)

1953-1972

Deficiencies in Output of Residential Structures

1953-1972: $193.3
1960-1972: 184.3
1972: 14.9

Deficiencies in Output of Commercial Structures

1953-1972: $21.6
1960-1972: 19.8
1972: 3.2

Deficiencies in Output of Residential and Commercial Structures

1953-1972: $214.9
1960-1972: 204.1
1972: 18.1

Deficiencies in Man-Years of Employment[2]

1953-1972: 1.6 Million
1960-1972: 1.4 Million
1972: 0.2 Million

1973-1980

Deficiencies in Output of Residential Structures

1973-1980: $55.2
1980: 10.2

Deficiencies in Output of Commercial Structures

1973-1980: $20.0
1980: 3.7

Deficiencies in Output of Residential and Commercial Structures

1973-1980: $75.2
1980: 13.9

Deficiencies in Man-Years of Employment[2]

1973-1980: 0.5 Million
1980: 0.1 Million

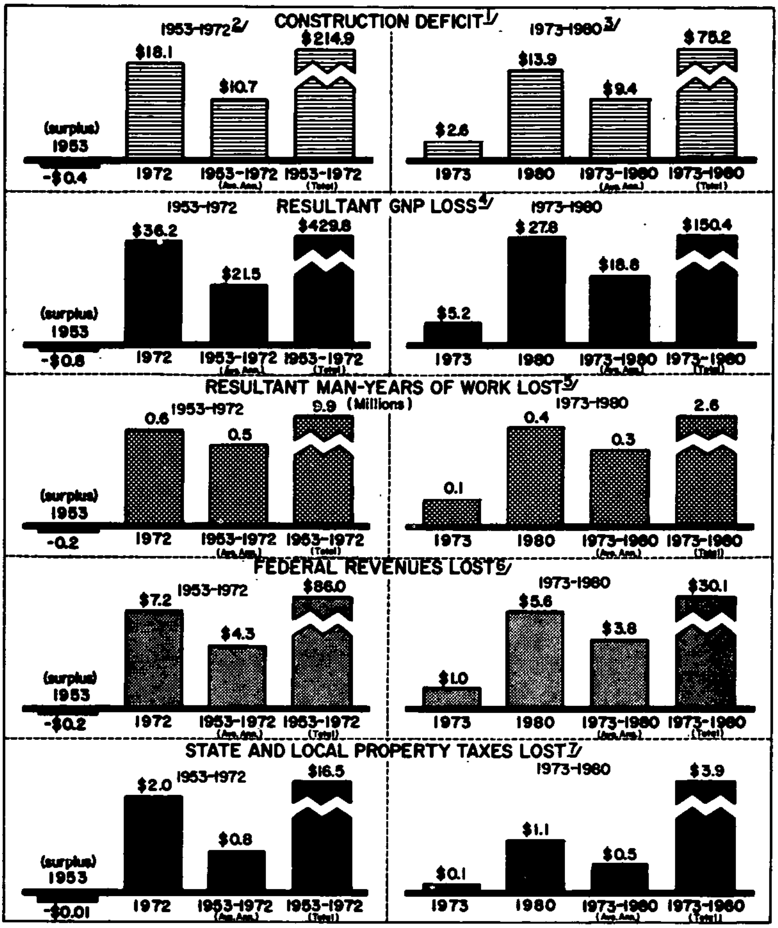
[1] 1972 estimated.
[2] Figures are for construction workers only, not including supervisory personnel, and relate to total number of workers, without regard to degree of employment over the years.
[3] These deficits are projected from a 1972 base, writing off the cumulative deficits 1953-1972.
Basic Data: Dept. of Commerce; Dept. of Labor

Chart 25

IMPACTS OF DEFICITS IN RESIDENTIAL & COMMERCIAL CONST. 1953-1972, AND PROJECTED 1973-1980

(All Dollar Figures in Billions of 1970 Dollars)

(Note Different Scale in Each Box)



1/ Deficits measure actual (estimated for 1972-1980) performance against estimated needed performance in terms of model for total economy.

2/ Actual average annual growth 3.5%; needed, 4.9%, or higher than needed growth rate of 4.3% for total economy.

3/ Projected performance, 3.0%; needed, 5.3%, or lower than needed growth rate of 5.8% for total economy.

4/ Based on multiplier of 2.0.

5/ Based on G.N.P. loss, after allowing for that part of the G.N.P. loss due to repressed productivity growth among those employed even in slowly growing economy.

6/ Equals 20% of GNP loss.

7/ Assumes property tax loss is 2% of private construction deficit, cumulated.

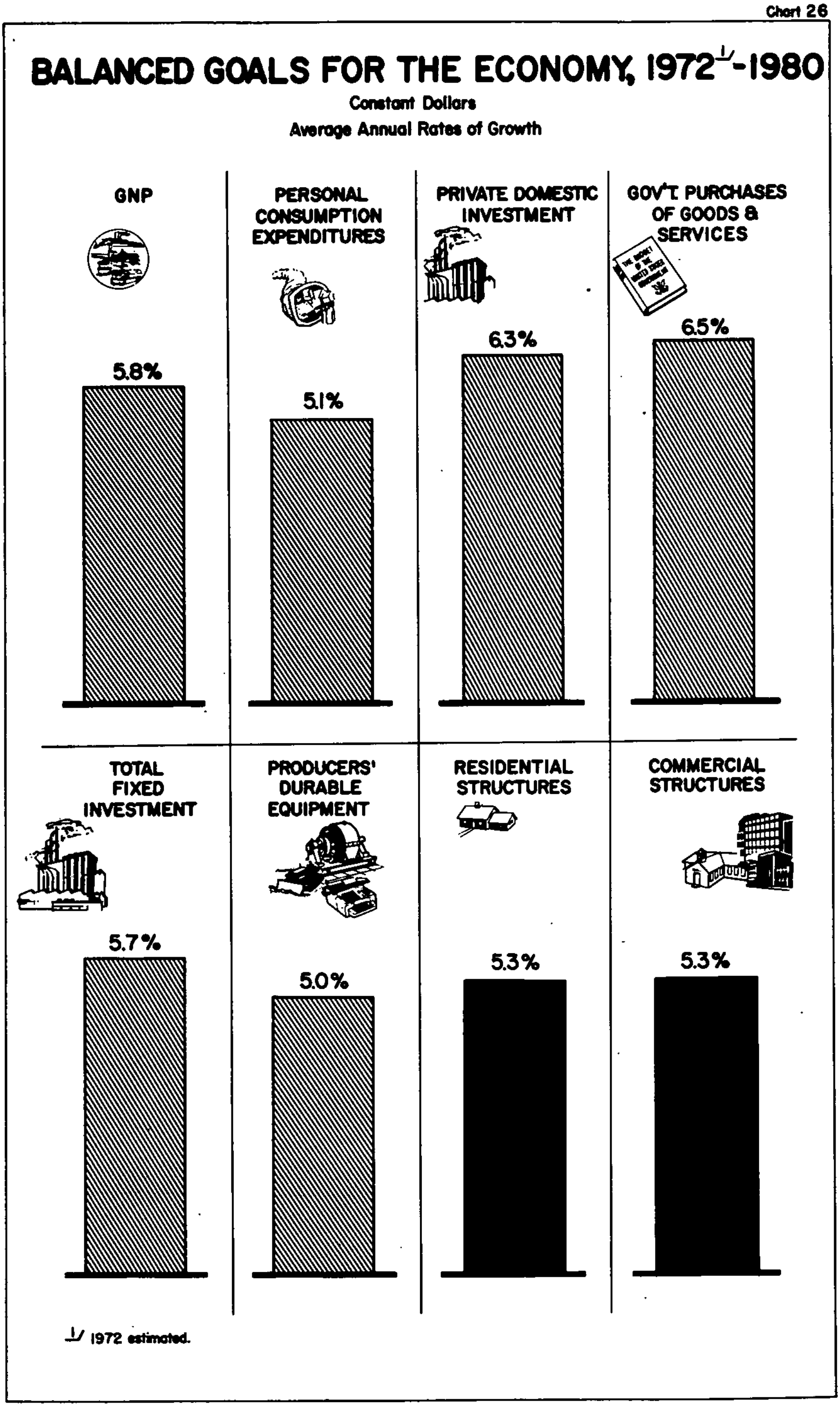


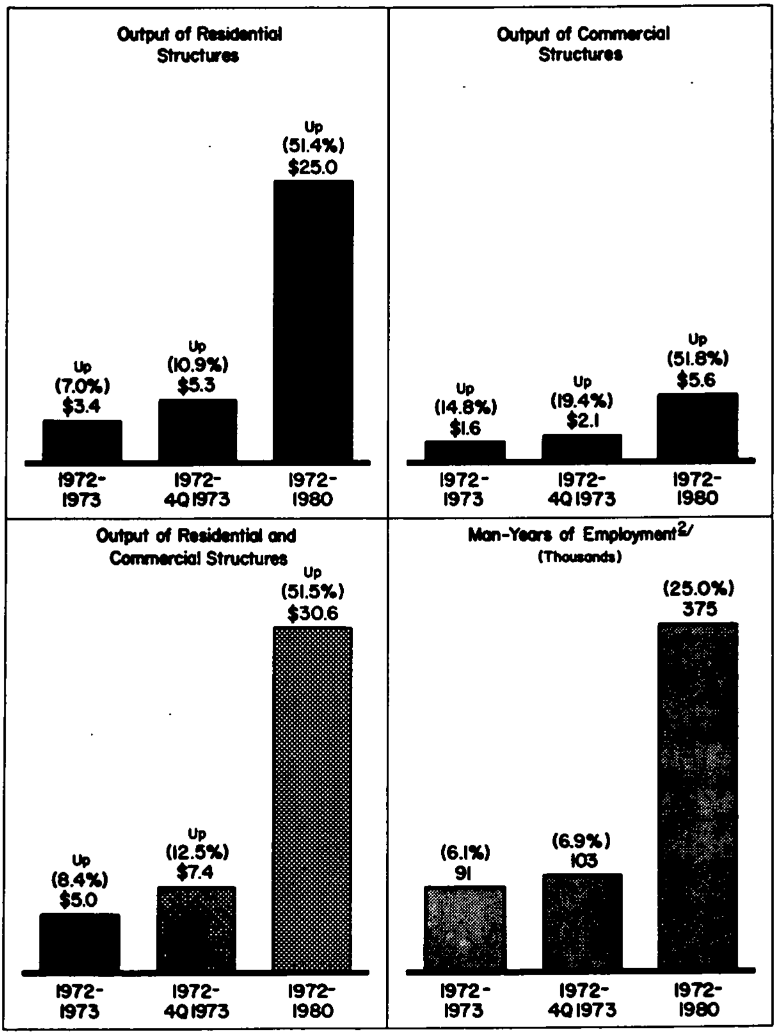
Chart 26
BALANCED GOALS FOR THE ECONOMY, 1972 1/ -1980
Constant Dollars
Average Annual Rates of Growth
GNP
5.8%
PERSONAL CONSUMPTION EXPENDITURES
5.1%
PRIVATE DOMESTIC INVESTMENT
6.3%
GOV'T. PURCHASES OF GOODS & SERVICES
6.5%
TOTAL FIXED INVESTMENT
5.7%
PRODUCERS' DURABLE EQUIPMENT
5.0%
RESIDENTIAL STRUCTURES
5.3%
COMMERCIAL STRUCTURES
5.3%
1/ 1972 estimated.

Chart 27

GOALS FOR RESIDENTIAL & COMMERCIAL STRUCTURES 1973, 4Q 1973, & 1980, PROJECTED FROM 1972[1] BASE CONSISTENT WITH FULL RESOURCE USE BY 4Q 1973

(Total Percentage Changes in Parentheses)

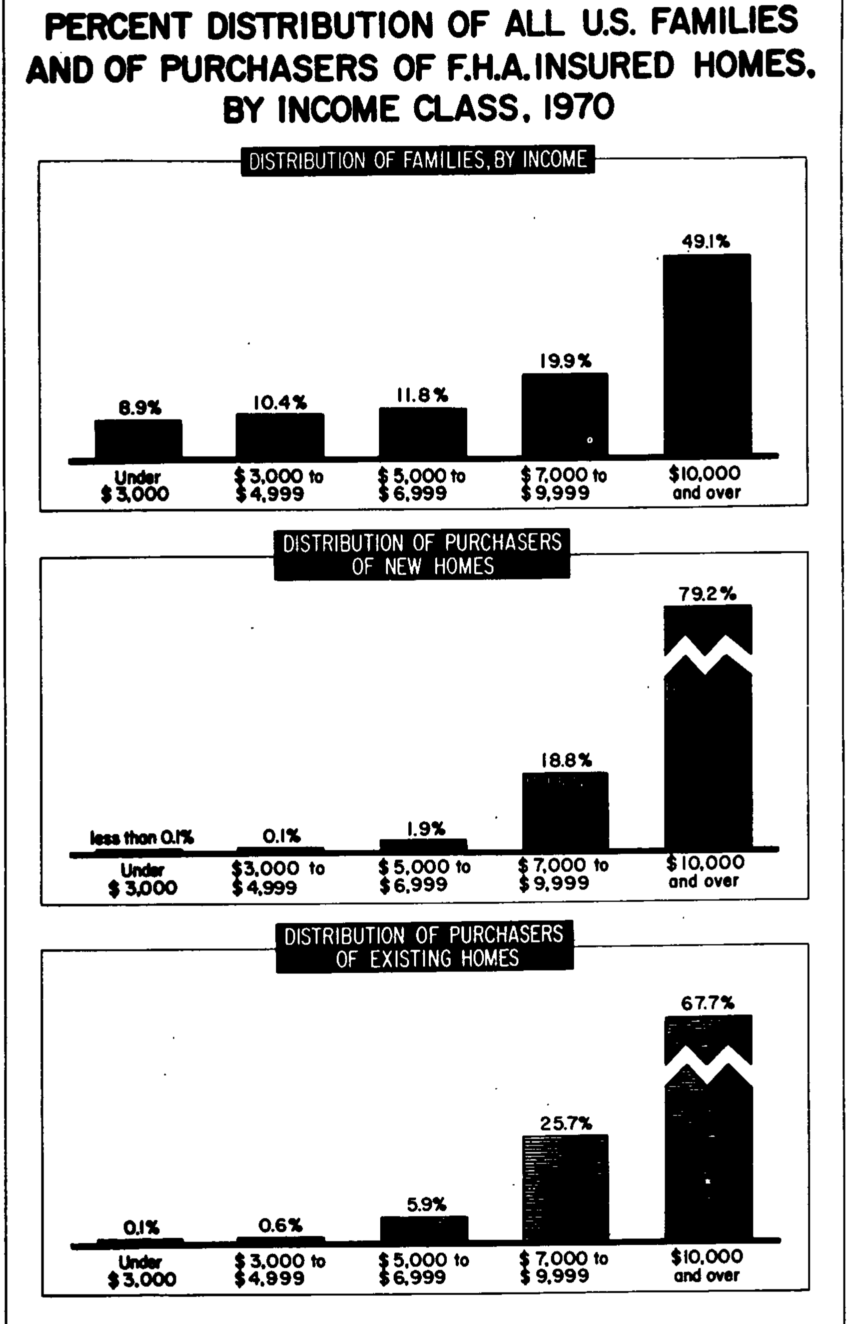
Dollar Items in Billions of 1970 Dollars



[1] 1972 estimated.

[2] Figures are for construction workers only, not including supervisory personnel, and relate to total number of workers, without regard to degree of employment over the years.

Chart 28

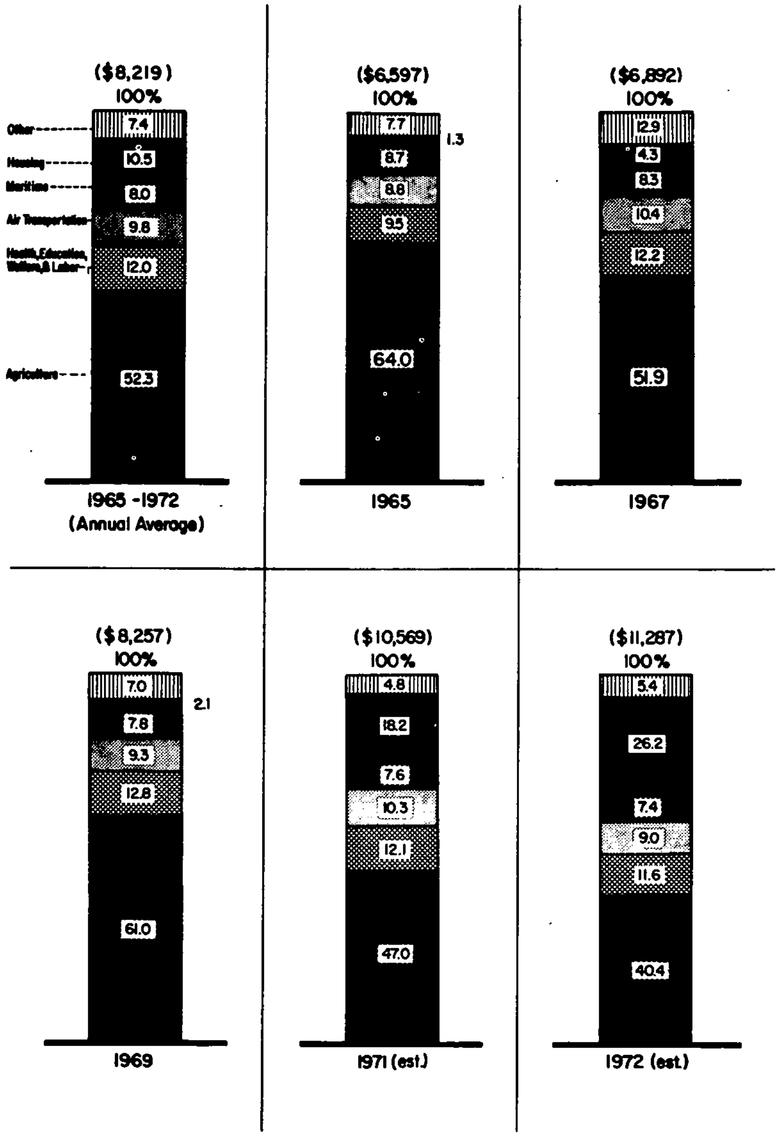


Source: Dept. of Commerce, Bureau of the Census; Dept. of Housing and Urban Development

Chart 29

% DISTRIBUTION OF NET FEDERAL EXPENDITURES FOR SUBSIDY PROGRAMS, F.Y. 1965-1972

(Millions of Current Dollars in Parentheses)



Source: Dept. of Commerce. 1972 based on President's fiscal 1972 Budget.

Chart 30

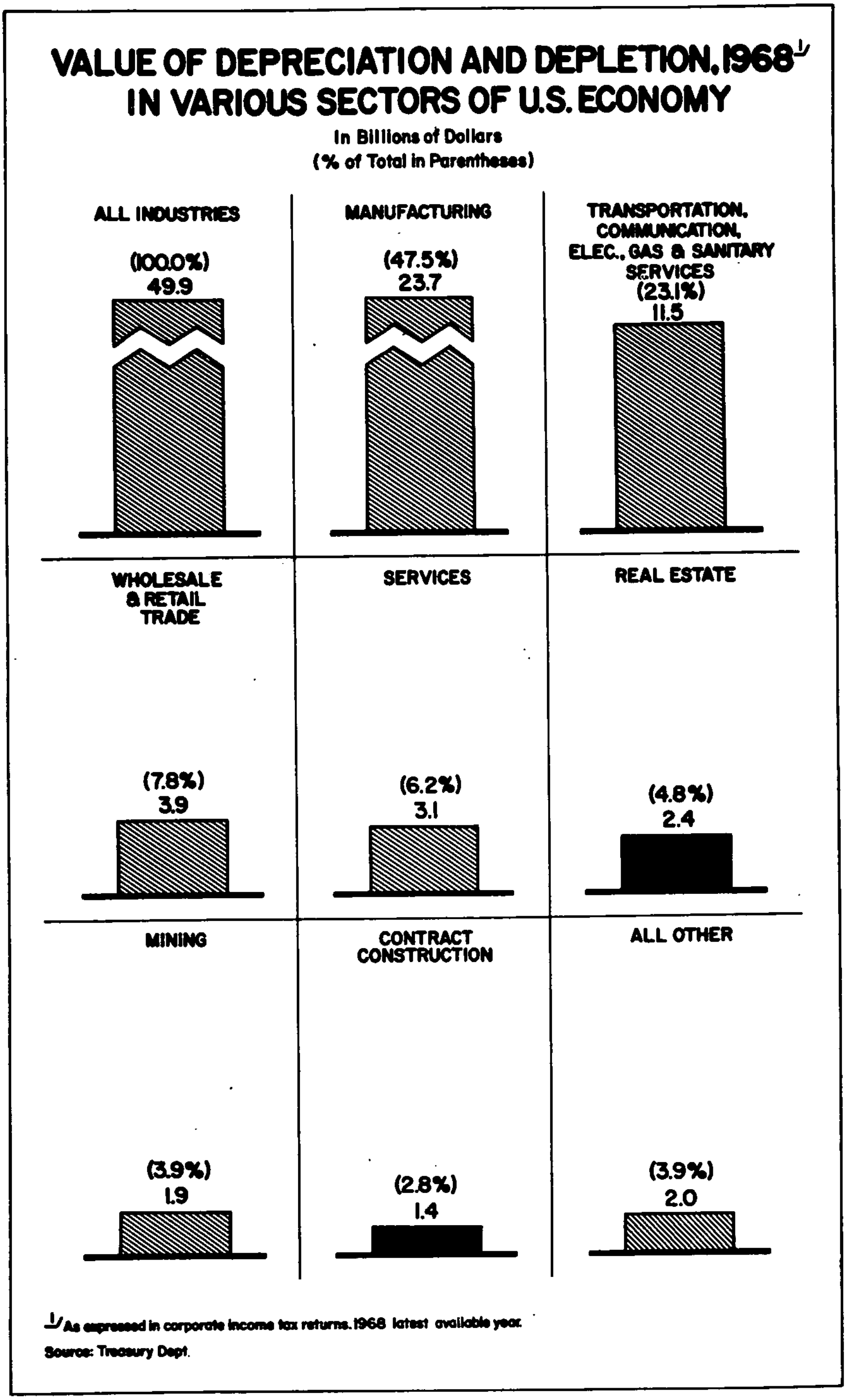
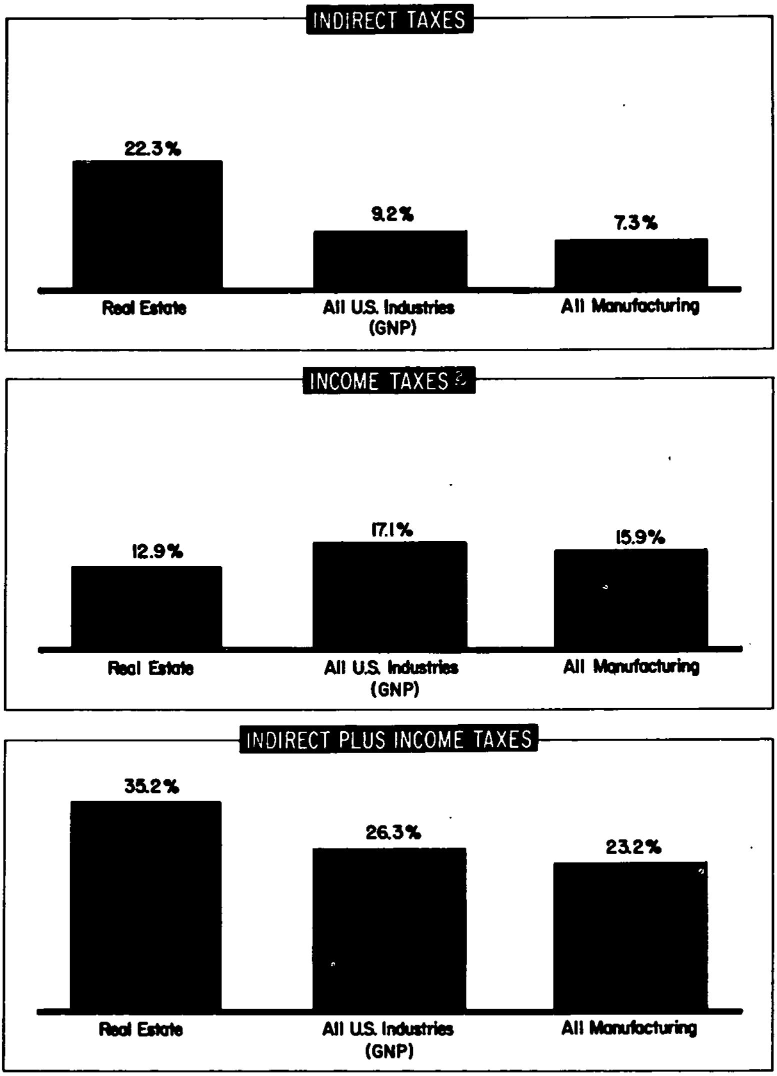

VALUE OF DEPRECIATION AND DEPLETION, 1968[1/]
IN VARIOUS SECTORS OF U.S. ECONOMY
In Billions of Dollars
(% of Total in Parentheses)
ALL INDUSTRIES
(100.0%)
49.9
MANUFACTURING
(47.5%)
23.7
TRANSPORTATION, COMMUNICATION, ELEC., GAS & SANITARY SERVICES
(23.1%)
11.5
WHOLESALE & RETAIL TRADE
(7.8%)
3.9
SERVICES
(6.2%)
3.1
REAL ESTATE
(4.8%)
2.4
MINING
(3.9%)
1.9
CONTRACT CONSTRUCTION
(2.8%)
1.4
ALL OTHER
(3.9%)
2.0
1/ As expressed in corporate income tax returns. 1968 latest available year.
Source: Treasury Dept.

Chart 31

THE TAX BURDEN ON REAL ESTATE, 1971

Taxes as a Percentage of Gross Product [1]
Real Estate and Other Industries



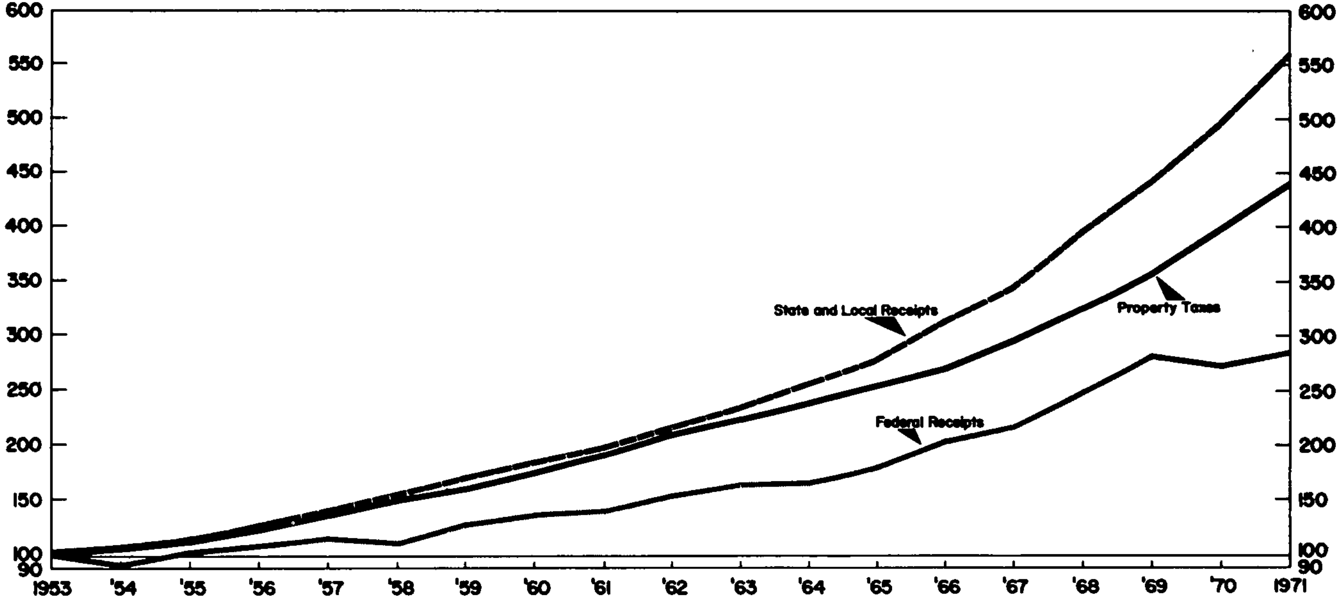
[1] Gross product is the volume of economic activity occurring in an industry; for all industries, it is the G.N.P. However, the imputed production associated with owner-occupied housing has been eliminated from G.N.P. and its real estate component, to focus only on output actually sold in the marketplace.

[2] Income taxes are estimated as 16% of employee compensation, 20 percent of net interest, and 40 percent of profit-type income (all other income, consisting of corporate profits, proprietors' incomes, and rental income), except that profit-type incomes in real estate are assumed taxed at the rate of only 25 percent.

Basic Data: Department of Commerce, Bureau of Economic Analysis

TRENDS IN TOTAL FEDERAL TAX RECEIPTS, TOTAL STATE & LOCAL TAX RECEIPTS, AND TOTAL STATE & LOCAL PROPERTY TAXES, 1953-1971

(Index, 1953=100)



Source: Dept. of Commerce; Bureau of Economic Analysis

Chart 32

CONSERVATION FOUNDATION

By SYDNEY HOWE, *President*

THE NEW FEDERAL BUDGET SEEKS TO SLOW DOWN SOME MAJOR ENVIRONMENTAL ACTIVITIES—BUT MANY PROGRAMS WOULD RECEIVE HIGHER APPROPRIATIONS

Environmentalists trying to gage the impact of President Nixon's ingenious budget for fiscal 1974 are likely to feel nagged by troublesome and conflicting perceptions. It's not just that the budget proposes substantial cutbacks or slowdowns for some environmental programs, and increased appropriations for a wide variety of others. There are additional considerations which complicate any assessment:

> The budget and the apologia accompanying it have put environmentalists—as well as Congress—very much on the defensive. The President is generally conceded to have the upper hand. Using a variety of arguments, he moves to quash programs or lop off their funds. It is difficult for Congress and others to react appropriately to such initiatives. And it is still impossible to predict what adjustments Congress will make, apoplectic as it is over executive suffocation of programs it enacted into law, and executive impoundment of moneys it appropriated.
>
> In a limited sense, environmentalists are in a weak position to complain about appropriations requests for their programs, especially considering the drastic cuts planned for so many non-environmental social programs—cuts which Senator Hubert Humphrey (D., Minn.) says amount to "domestic disengagement." Nor is it feasible to ignore public concern over inflation, the national debt, and the threat of higher taxes.
>
> In a broader sense, however, environmentalists can legitimately join the ranks of the many observers who have pointedly wondered why the President's diligent fiscal sleuths were unwilling or unable to liberate more funds for sound social and environmental programs by ferreting out comparable waste and inefficiency in the defense budget, in foreign military aid, in the space program, and in a wide range of tax and other corporate subsidies, including the "bailing out" of Penn Central and Lockheed. When corporate-related programs are examined too closely by such professional cost-cutters as Ernest Fitzgerald and Gordon Rule, the Administration scorns them.

In a January 31 letter to the President, 23 "public interest" individuals and groups referred to the corporate subsidies: "Your search 'into every nook and cranny of the bureaucracy' does not seem to include this obvious area of waste (not to mention the fact of a defense budget increased by $4.2 billion during peacetime). . . . If 'throwing dollars at problems' can be wasteful in human resource problems, why aren't the billions handed over to the maritime, drug and defense industries included in your analysis? . . . The fundamental test of presidential courage and leadership is to make government work best for those who need it most, rather than eliminating those programs with the weakest constituency and preserving those pushed by the most powerful."

The Administration seeks $515 million for the Environmental Protection Agency's operations and research. This would be a 9.3% increase over the fiscal 1973 appropriations. (The figure does not include EPA's grants for the construction of municipal waste treatment plants.) EPA chief William D. Ruckelshaus said, "Considering the budget as a whole, I feel we've done very well . . . remarkably well."

The Administration envisions substantial increases for the programs dealing with water pollution, pesticides and noise pollution. Congress last year passed major laws in these three areas (see December 1972 *CF Letter*), and EPA, negotiating with the Office of Management and Budget, argued for money to implement them. Contrarily, air pollution and solid wastes appropriations would be reduced. (Some specifics are discussed later.)

As the table below shows, the budget calls for several changes in emphasis for EPA's wide-ranging activities. There would be a sharp decline in funds for developing new pollution control technologies. This accounts for the cut in research and development, which also includes roughly the same amount of money as in fiscal 1973 for basic research on pollutants and their effects. At the same time, substantial increases are sought for abatement and control activities, and for enforcement.

[In millions of dollars]

	1973 appropriations	1974 request
Research and development	173.1	148.7
Abatement and control	212.0	264.1
Enforcement	35.6	47.4
Agency management (and scientific activities overseas)	50.2	54.8
Total	470.9	515.0

Air Pollution

The request for EPA's air pollution programs totals $146.4 million—down from $152.5 million in fiscal 1973.

There would be a drop of almost $10 million in research and development, from $67.4 million to $57.1 million. Most of this is due to what EPA regards as completion of its efforts to demonstrate first-generation technology for removal of sulfur oxides—an assessment challenged by many within and outside the agency.

EPA says it is now moving into second-generation technology which, in its earlier stages, does not demand as much capital investment. It adds that, in the second phase, "the private sector is expected to further refine and improve this technology."

Funds for research on cleaner auto engines would be cut back from $9.4 million in 1973 to $6.4 million in 1974.

Abatement and control programs would decline slightly (from $80.8 million to $79.7 million), and enforcement would more than double (from $4.3 million to $9.5 million). Ruckelshaus pointed out that many standards have been set, and that state implementation plans have been developed, though they are still being refined. "Now a lot of the responsibility is shifting to enforcing the plans and assisting the states in enforcement," he said. Certification and regulation of autos is included in this activity. (Ironically, the 1973 enforcement appropriation was overshadowed by the $7 million fine which a federal judge levied on the Ford Motor Co. last month because some of its employes doctored car engines being tested for certification under federal standards.)

Water Pollution

The largest environmental item in the federal budget is EPA's grants for waste treatment works. This program also has played a major role in triggering the bitter dispute between the Administration and Congress over who holds the federal purse strings. Last year's water pollution law amendments authorized $5 billion in contracts for fiscal 1973 and $6 billion for fiscal 1974. But President Nixon quickly announced—and the budget request reflects—his intention to allocate to the states only $2 billion in 1973 and $3 billion in 1974.

He said the higher amounts would be "budget-wrecking" and lead to higher taxes. The President's veto of the water pollution bill was overridden by Congress resoundingly, but he nevertheless ordered EPA to allocate only $5 billion to the states during the two years, rather than the full $11 billion called for in the law.

Congress, in a high snit over the withholding of these and other monies, could pass legislation seeking to require the President to spend appropriated amounts. But the success of this approach seems dubious. Several pending court cases touch this separation of powers issue. New York City filed suit last December 12 challenging as unconstitutional the President's refusal to *allocate* the additional $6 billion for water pollution control waste treatment plants. A decision might not cover the slightly broader question of impoundment.

In a case before the Eighth Circuit Court of Appeals, the State of Missouri—backed by a phalanx of congressmen—is contesting the President's right to impound Highway Trust Fund money appropriated by Congress. A lower court judge ruled in Missouri's favor. But a decision on the Trust Fund also may not be viewed as applicable to the wider question of impoundment in general, over which the President claims constitutional authority.

Speaking of the treatment plant grants, the National League of Cities and U.S. Conference of Mayors said: "The consequence of the failure to allocate the full funds available . . . will be the inability of cities to meet the federal deadlines and mandates imposed by the Act." They said cities could continue to finance plants without federal aid, as they have in the past, but "this will require cutbacks in other priority areas at the local level, a difficult choice for any city to make." ("The Federal Budget and the Cities," February 1973.)

The new water pollution law also authorized $2.75 billion to reimburse cities and states that went ahead and built plants on their own without waiting for federal grants. The Administration budget would appropriate only $1.9 billion of this pay-back money.

Cities which cannot borrow for waste treatment facilities at reasonable rates could be helped by the Environmental Financing Authority created last year and scheduled to begin operations in 1974. EFA is authorized to purchase obligations issued by state and local authorities to finance their shares of eligible waste treatment facilities. The budget provides for $100 million in Treasury funds for initial capital.

EPA's water pollution operations and research would be boosted from $139.2 in fiscal 1973 to $192.4 million. This reflects a decrease for control technology and development, but a giant increase for abatement and control (from $70.3 million to $121.7 million) and a substantial increase for enforcement ($20.9 million to $24 million). Several key changes:

State program grants would double, to $40 million in fiscal 1974, to help them meet their expanded obligations under the new law.

A new "areawide waste treatment management" program created by the 1972 law would be funded for the first time in 1974, at $25 million in contract authority—well below the $100 million authorized by Congress.

The increase for enforcement includes $2.2 million more for implementation of the Refuse Act permit program, bringing the 1974 total for this to $11 million.

Energy

The Administration requests increased appropriations for a range of programs seeking near-term and long-term remedies for the nation's energy deficiencies. Most of them, while aimed at more environmentally benign sources of energy, nevertheless have uninviting environmental implications.

Heaviest emphasis continues to be placed on expensive nuclear technologies, which is of little comfort to those concerned with safety, radiation and thermal pollution. The Administration continues to push for expansion of Outer Continental Shelf oil and gas leasing, which already is outpacing environmental opposition. Considerable stress also would be placed on conversion of coal to cleaner fuels, which could lead to much more strip mining.

But environmental considerations are likely to be outweighed by pressures for increased energy supplies and by other advantages inherent in some of the options. Greater availability of domestic sources such as the Continental Shelf and coal deposits would reduce dependency on foreign sources and alleviate the balance-of-payments problem. Coal is plentiful, and the OCS leases and royalties produce huge revenues for the U.S. Treasury (a whopping $4.2 billion in 1973 and an estimated $2.1 billion in 1974). Nuclear sources carry a least a long-term promise of energy which is superabundant, and perhaps inexpensive and clean as well.

The following table lists budget figures for major federal energy research and development programs. Agencies involved are the Atomic Energy Commission, National Science Foundation, Environmental Protection Agency, Coast Guard, and various Interior Department operations (Office of Coal Research, Bureau of Mines, Bureau of Land Management, Bureau of Reclamation, and U.S. Geological Survey). Figures generally include associated costs of plants and facilities:

[In millions of dollars]

	1973 appropriation	1974 request
Nuclear:		
Liquid metal fast breeder reactor (AEC and TVA)	272.0	323.0
Controlled thermonuclear fusion (AEC)	39.7	47.5
Current nuclear reactor technology (AEC)	88.3	135.9
Coal:		
Gasification, high Btu (to obtain product comparable to pipeline gas) (OCR)	[1] 20.0	20.0
Gasification, low Btu (also clean, but cheaper; for power generation) (OCR)	3.0	11.5
Gasification (conversion to clean, synthetic fuels) (Bureau of Mines)	13.7	13.1
Liquefaction (obtaining clean fuel oil from coal) (OCR)	9.4	9.0
Magnetohydrodynamics (OCR)	3.5	3.8
Fluidized-bed boiler (OCR)	.5	2.7
Clean coke and fuels (OCR)	1.0	1.5
Oil and gas:		
Offshore oil and gas (evaluation of new Outer Continental Shelf areas, accelerated leasing program, inspection) (USGS and BLM totals)	13.8	17.5
Underground explosions (nuclear fracturing to release natural gas) (AEC)	6.8	3.8
Oil shale (Bureau of Mines)	2.6	2.1
Other:		
Solar energy (NSF)	4.0	12.0
Geothermal steam (USGS, Bureau of Reclamation, BLM totals)	4.1	4.0
Energy transmission and storage technologies (AEC and Interior)	2.5	3.0
Isotopes development (AEC)	5.9	2.2
Central Energy Research and Development Fund (Secretary of the Interior)		25.0
Total	482.4	632.4

[1] The actual 1973 figure is $5,000,000 higher, but this is considered a delayed appropriation for the prior year, maintaining a planned $20,000,000 a year level, plus $10,000,000 a year contributed by industry.

The budget said that the Energy Fund (last item in the table) would be used to "provide a flexible source of support to exploit technological opportunities that may arise to deal with *non-nuclear* energy problems with particular emphasis on the solution of *near-term* problems." (emphasis added) It suggested that precombustion cleaning of coal might be an activity supported by the Energy Fund, and a White House source said $21 million of the $25 million appears earmarked for coal gasification or liquefaction projects. The other $4 million might go into geothermal work, he said.

Money from the Fund would go to contract researchers or government agencies. Perhaps the Fund was set up so that officials could hold in abeyance decisions on what energy projects should be beefed up. Perhaps it is designed chiefly for public relations purposes at a time when efforts to deal with the energy "crisis" have high priority. And perhaps the Fund represents another wedge in the Administration's efforts to coordinate energy policy formulation in an Interior Department that it wants to transform into a Department of Natural Resources with authority over nuclear as well as non-nuclear energy sources.

Among the items not included in the table is $135.2 million to subsidize construction of ships to carry liquefied natural gas, and another $102 million for oil supertankers.

Many programs designed to foster energy production also entail measures to mitigate environmental damage. Other energy programs are designed principally or in large part to alleviate environmental problems. Some of these are:

[In millions of dollars]

	1973 appropriations	1974 request
Research and demonstration on restoration of strip-mined land, control of subsidence, mine refuse disposal, etc. (Bureau of Mines)	5.5	3.9
Implementation of pending strip-mine legislation (proposed for later transmittal)		7.0
Dry cooling tower development (AEC)	1.0	2.0
Radioactive waste burial and storage (ACE)	7.4	15.0
Biological, health and environmental research (AEC)	93.1	98.7
Regulatory activities (AEC)	39.3	54.5
Radiation programs (EPA)	7.1	7.1
Surveillance of trans-Alaska pipeline construction (BLM) (total increase conditioned on issuance of right-of-way permits)	.8	8.2
Maritime environmental protection, mostly oil pollution prevention, detection, and cleanup (Coast Guard)	8.0	11.0

Solid Wastes

EPA's solid wastes program is a major casualty in the budget proposals, with a planned drop from the $30 million appropriation in 1973 to $5.8 million in 1974. (Also, the Administration has not used and does not plan to use $6 million of the 1973 appropriation.)

Eliminated would be any new grants for demonstrating recycling technology. The official Administration position is that the basic, relevant technology has now been demonstrated; that no practical, worthy new projects are available; that the key problem in any case is lack of markets or economic incentives to utilize the technology; and that private industry should play a bigger role.

The Administration further proposes to phase out state and local planning grants. Quite a few plans have been completed but some are inadequate and some are just put on the shelf, Ruckelshaus said. He charged that local governments are not apt to enforce good plans until they are "faced with a problem so severe they in effect are forced to do something about it." The Administration also opposes use of federal funds to help build local solid waste facilities. It feels local governments can best decide how to handle their problems, and how to provide funding—through user charges, for example. The availability of federal funds may further lead communities to opt for capital intensive systems even if they are less efficient alternatives.

What sort of solid wastes bag does that leave EPA holding? "The intent," it says, "is to reorient the program towards a federal regulatory activity dealing with the safe disposal of toxic and hazardous solid wastes."

Meanwhile, the February 5 issue of Solid Waste Report credited White House sources with saying that "EPA's request to intervene in the market place with a tax incentive package to stimulate recycling had died ot the Office of Management and Budget."

A debate over all these policies apparently is still going on within the Administration. And in Congress, where decisions on the federal role in solid wastes management are expected within the next year or so, with expiration of the Resource Recovery Act of 1970, many members disagree with the Administration's views.

Parks and Recreation

After three years of support for full use of Land and Water Conservation Fund acquisition money, President Nixon seeks a retrenchment. Although the Fund automatically receives $300 million in revenues each year, and $300 million was appropriated for use in fiscal 1973, the budget proposes that this be dropped to only $55.2 million for 1974.

The Administration says, however, that with unobligated appropriations carried over from prior years, the Bureau of Outdoor Recreation will be able to support the Fund acquisition programs in the amount of $263.4 million—down from $311.7 million in fiscal 1973. Of these totals, the federal agencies' share would decrease from $86.5 million to $80 million, and assistance to states would go down from $220 million to $178.2 million. A number of states which obligated their allocations rapidly now have little to carry over, and will feel some pinch.

Appropriations decisions in the next couple of years will determine whether the lower amounts represent a permanent loss to the states or just a delay. For the additional money will be available in the Fund. At the end of fiscal 1974, if only $55.2 million is appropriated, the balance in the Fund will be $283.3 million. Revenues of $300 million during the year would raise the total available to $583.3 million. Revenues during a particular year are available for three years; if still not appropriated, they become general receipts. "Once they've used up the carry-over, then what happens in fiscal 1975 will be the gut issue," a BOR official said.

For the National Park Service, $286.7 million is requested, a $54 million increase over fiscal 1973. Most of the additional funds will be focused on planning and construction of buildings, roads and other projects associated with the 1976 Bicentennial. In addition, historic preservation programs would be funded at $19.6 million. This represents a sizeable $8 million increase over 1973; it is to be used for special matching grants so states can fund historic preservation projects "in those major cities which figured importantly in the movement leading to independence."

As this was written, the Administration had not yet announced what areas the Park Service would seek to acquire in 1974 with its $59.4 million in carryover funds. A number of newly authorized areas will receive *operating* funds for the first time—principally the Gateway National Recreation Area in New York ($6.2 million) and the Golden Gate National Recreation Area in California ($2.5 million). Among other areas to receive initial funding are the Cumberland Island National Seashore in Georgia and the Buffalo National River in Arkansas.

Transportation

Budget authority of $5.6 million is requested for federal-aid highway programs, a slim $100 million below the 1973 figure. The Administration anticipates 1974 obligations of $4.6 billion, the same level as in 1973. This would include $2.6 billion for the Interstate Highway System (down from $2.8 billion): $800 million for urban transportation (up from $645 million); and no funding for several programs favored by many in Congress, such as priority primary routes and economic growth center development highways. (See October 1972 *CF Letter.*)

The unappropriated balance in the Highway Trust Fund at the end of fiscal 1974 is projected at $6.7 billion. This suggests a golden opportunity for President Nixon to follow up on the statement in his February 15 environmental message that he will continue to place "high priority" on using the Fund for mass transit purposes. However, the budget proposes only a limited application of this principle, which is currently the subject of intense debate in Congress: the $800 million in urban transportation funds would be available to urban areas to use for capital investment in either highways or mass transit system.

The budget proposes, meanwhile, that the Urban Mass Transportation Administration be allowed to obligate $1 billion in fiscal 1974, about the same as in 1973. Included in the total would be $872 million for capital facilities grants, $38 million for technical studies grants, and $80 million for research, development and demonstration grants and contracts.

UMTA's R & D activities were provided $93.3 million for fiscal 1973, but only $73.2 million is expected to be used—a far cry from the $115 million the Administration originally requested of Congress. The $80 milion level proposed for 1974 would be made up of a $60 million appropriation plus the $20 million in unusued 1973 appropriations. Included in the R & D total for 1973 is about $32 million for "new systems," among them personal rapid transit technologies. The amount is expected to be roughly the same for 1974. The Morgantown, W. Va. project would continue to be funded, at $10 million to $15 million; but the Denver PRT demonstration is excluded. (See November 1972 *Cf Letter*.) One UMTA spokesman said the system would not be compatible with the region's transportation planning; but Colorado officials are irate.

Why a deemphasis on such a high priority need as finding a good, advanced PRT system? Department of Transportation officials insist that some projects are not ready to be started or advanced: "We're sort of betwixt and between on PRT," said one. "We have a large investment, but we've got to find out where we stand." Said another. "Demonstrations of new systems, particularly PRT's, are horrendously expensive. We're going through a little soul-searching within the bureaucracy, trying to find systems that are both technologically feasible and attractive as a form of transportation."

Land Use and Planning

The Coastal Zone Management Act passed last year authorized $45 million in grants to states during fiscal 1974—for developing and administering management programs for their coastal lands and waters, under federal guidelines, and for acquisition and operation of estuarine sanctuaries for research. President Nixon's budget, however, requests *no funds* for these grants. (The National Oceanic and Atmospheric Administration plans to deploy $300,000 to keep its own coastal zone function going.)

At the same time, President Nixon's budget envisions a 1974 appropriation of $20 million to implement national land use policy legislation—even though Congress probably is many months aways from passage of a bill. Senator Ernest F. Hollings (D., S.C.), in a letter in the New York Times on February 23, said this action is "all the more incredible" because "the most critical problems of land use exist in the coastal zone. In other words, the Administration is ignoring a program which could begin solving these problems immediately. The excuse of budgetary limitations is patently false since funds already have been requested for a nonexistent land use program."

The President has consistently opposed the coastal zone law, and almost vetoed it, claiming it would be superfluous when a national land use policy is enacted. Commenting on the absence of money for grants under the coastal zone legislation, an Office of Management and Budget representative suggested to a group of reporters that the states could go instead to the Department of Housing and Urban Development for planning and management assistance.

The 1974 HUD budget, to be sure, requests a $110 million appropriation for its "701" planning program, an increase of $10 million. But only about a fifth of these funds currently go to state agencies, as opposed to local and regional bodies, and even if all the funds were to be funneled through the governors, as the Administration suggests, only a small fraction is likely to be available for coastal zones.

The "701" funds also are being stretched over more and more functions. For example, the Administration now expects the states to use HUD planning money to assist regional planning commission—if they so choose—because their prior source of support, the Commerce Department's Economic Development Administration, is extirpated from the budget.

Urban Environment

The Administration is closing down several of the Department of Housing and Urban Development's community grant programs—including *Model Cities*, *open space land*, *urban renewal*, and *basic water and sewer facilities*. These activities will not disappear outright, though they may be headed for tough sledding. Congress is expected to enact the President's special urban revenue sharing proposal, under which $2.3 billion would be available to local governments for the year starting July 1, 1974, to be used for community development projects more or less of their choice. In the interim, although outstanding obligations under these programs will continue to be funded, no new commitments would be made.

The National League of Cities and U.S. Conference of Mayors called it "unfortunate" that the Administration found it necessary to say the community development programs had failed. "Quite the contrary, cities view these present programs as being the lifeblood of their efforts to redevelop and revitalize their communities." They like the idea of revenue sharing, with its greater flexibility and local control. But many mayors and others are not so sanguine about the prospects for these programs in competition with other municipal activities over limited funds.

Other Programs

The budget request for EPA's pesticides program is $25.5 million, up from $21 million. The increase is designed to implement the new law and beef up enforcement. Total appropriations for the non-chemical pest management research and development program, involving four agencies, are roughly estimated at $8.7 million, down from about $9.7 million in fiscal 1973.

The budget seeks an increase in EPA's noise pollution program, from $2.4 million to $4 million, chiefly to implement the Noise Control Act of 1972. Also, the Transportation Department seeks from Congress about $2.5 million for noise abatement work on aircraft, vehicles and trains.

The budget proposes to terminate the environmental education program in HEW. Appropriations for 1973 were $3.2 million. Funds for the Youth Conservation Corps would rocket from $6.5 million to $10 million.

COOPERATIVE LEAGUE OF THE USA

By STANLEY DREYER, *President*

SOME REACTIONS TO THE 1973 ECONOMIC REPORT

The Cooperative League of the USA has studied the 1973 Economic Report of the President on which the Joint Economic Committee of the Congress is holding hearings to secure a cross-section of public response to the implications of this Report.

We are glad to contribute to this useful dialogue initiated by your Committee the reaction of our League which is the 57-year-old federation of all types of customer-owned businesses, both urban and rural, whose activities reach into every phase of this nation's economy. These include housing, credit, health, power, insurance, farm marketing and supply, consumer goods, plus many more, and touch the lives of individual members in over twenty million families.

In our opinion the clearest, least ambiguous thrust of the President's Economic Report—the one easiest to understand—is expressed in figures rather than words, and the figures to which we make reference are those in the President's Budget. The Budget is a sharper delineation of his purpose, direction, and meaning than the words of the Report where its meaning often becomes lost in rhetoric.

The Budget always invites sharp, searching review by your Committee and it is certainly the most useful and comprehensive that it receives. This year, with a staggering $269 billions involved, such a hard look at the Budget by you is more imperative than it has ever been in the history of our Republic. The 1973 Budget poses a watershed moment when a fundamental decision must be made regarding the direction our society should take.

This is preface to saying that the Cooperative League differs and must register its dissent from the Budget's thrust at many points and in overall context. It is no exaggeration to say this Report and Budget turns national priorities upside down in terms of what the people as a whole need and want.

It calls for more military outlays while backing away from acute social problems at home. For our part, we would call for exactly the opposite: a measurably lower outlay for military hardware and more spent to meet human needs, the costs for health, housing, a more decent old age, and for imaginative solutions to the bitter distress of the cities.

Solving these problems will make this a safer country than the added billions the generals and their civilian colleagues want to spend on sophisticated weapons systems just at the moment when we are finally extricating ourselves from a decade-long military adventure which—if it did nothing else—showed how unrewarding is the path down which they would lead us.

The defense section in the Budget cannot help being confusing because in one breath it says that "a way has been found to save $2.7 billion in the projected defense budget for 1974," while one is asked to reconcile this statement with the fact that the 1974 defense budget is $4 billion *higher* than the year before. Elsewhere it is called "a true peace-time budget in every sense of the word"—and that is supposed to characterize what is in fact the largest budget proposed for defense since World War II. In this context attention must be focused on the figures alone for the words, as these quotes suggest, have more in common with *Alice in Wonderland* than contemporary reality.

Without losing ourselves in budget details our League would like to associate its support with the many other responsible elements in our country's public life who do not accept that, as peace returns, we must nonetheless continue every year to add to the military budget. If as we withdraw from Asian battlefields we do not turn to domestic problems, when will we find the energy to do it? Of all the impressions one gains from this Budget, the clearest and least debatable is that it is one of retreat and withdrawal on the home front too.

Looking back twenty years to the close of the Korean War, it troubles us to remember that we followed a cease-fire then with a decade of domestic inaction while needs of the cities in health and housing and a need for a revitalized agriculture were allowed to slide unattended. Now we threaten to take the path of apathy again in strikingly similar circumstances, with recent history to show how dangerous such inaction can be for our country's ecnomic health. When will we learn that the ABM's are no protection against threats such as these? There is plenty of room in a $269 billion budget for adequate military defense and provision for programs to meet the manifold human needs of our own people too.

We are convinced that funds can be found for vital programs left out of this Budget without increasing the deficit. This will be possible if we apply to military and space budgets the same stringent review to which people-oriented programs were subjected by those who drew up this projected deployment of our resources.

Among priorities undernourished or overlooked we would list housing transportation, health, education, environmental protection, rural development, and urban renewal. In this Budget there is a reduction of at least $14 billion for these purposes. Just one example in the education field will suffice. Researchers have found that 50% of man's intelligence is developed by the age of 4, yet programs for day care support are currently being slashed and restricted in the new regulations pronounced for social services.

This $14 billion reduction stands in sharp contrast to a $4 billion increase for the military.

We believe an additional sum of $8 billion can be found through long delayed tax reforms; and selective reductions in what the Pentagon proposes to spend should produce a comparable amount at the very least, some $15 or $16 billion in all.

What we propose is a modest goal, neither fiscally irresponsible nor inflationary, and we hope the Congress will address itself to achieving it.

CORPORATE ACCOUNTABILITY RESEARCH GROUP

By Mark J. Green, *Director*

As seems altogether fitting for a submission to the Joint Economic Committee, created by an act which underscored the extent of our mixed public/private economy, I would like to discuss briefly three particular issues at the government-business interface. In all, government action directly affects business behavior and performance, and hence has a discernible impact "on the economic issues facing the nation."

I.

There is, first, the regulated economy. If one looks at air, water and surface transportation, banking, interstate electric power and natural gas operations, and radio and television broadcasting (i.e., the ICC, CAB, FMC, FPC, Comptroller, FDIC, MED and FCC)—* industries regulated by the federal government account for 9.2% of all wages,[1] 10.9% of the Gross National Product [2] (or about $125 billion), and 34.4% of all new plant and equipment expenditures.[3] In this considerable section of the American economy, the federal government has sponsored policies which have undermined competition and efficiency and fomented monopoly and collusion.[4] Because we have no clear regulatory philosophy, we have regulated too much. Thus, for example, the major pre-condition of economic regulation is when a *natural monopoly* exists; since the market cannot protect the consumer, it is assumed that the government must. But even assuming AT&T has a natural monopoly in interstate communications, the manufacture of telephone equipment is decidedly not a natural monopoly; yet AT&T subsidiary Western Electric supplies its parent with all its telephones. While there are large economies of scale in the *generation* of electric power, they do not exist in its *distribution*, although the large scale of the first is used to justify large scale in the second. And although there may have been regional railroad monopolies in the late 1880s and 1890s, truck transportation would probably come about as close to the model of pure competition and ideal resource allocation as is possible in the real world; yet trucking is as regulated by the ICC as railroads.

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*This section deals with *economic regulation,* where agencies make the kind of price and entry judgments which competitors in the market are competent and interested to make. It does not include *health/safety regulation* (e.g., FAA, FDA, NHTSA, Product Safety Commission) where the market failure to protect consumers from damage requires affirmative government action on all manufacturers of a given product. For an elaboration of this distinction, see Nader & Green. "Economic Regulation vs. Competition: Uncle Sam the Monopoly Man,"; rebuttal by Winter, "Nader and Creeping Capitalism"; and Green & Moore, "Winter's Discontent: Market Failure and Consumer Welfare"—all in forthcoming April issue of *Yale Law Journal.*

[1] C. Phillips, *The Economics of Regulation* 10 (1969).

[2] F. M. Scherer, *Industrial Market Structure and Economic Performance* 519 (1970).

[3] *Survey of Current Business,* July, 1970, at S–2.

[4] This theme was best identified by Walter Adams and Horace Gray in their 1955 book, *Monopoly in America:* "Government today is, in many instances, a promoter of monopoly. It frequently puts together the power concentrates which the antitrust authorities are later called to break asunder. In short, government often supports, rather than countervails, the forces making for concentration and monopoly."

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Much has been written about the politics of the regulatory agencies, and how the regulators get co-opted by the regulatees.[5] Delayed proceedings often afflict the agencies, creating scenes seemingly out of *Bleak House;* there is an information shortage, so agencies become dependent for their data on the very trade groups they are supposed to regulate; there is an assumption of expertise, which is often more assumption than actuality; enforcers often come from the regulated industry or ultimately exit to it, sapping regulatory vigor; there is, of course, the political context, from the Presidential appointment power to Congressional pressuring for favored positions; and finally, business lobbying can be massive and controlling of agency policy. Less is understood, however, about the economic results and consumer impact of this regulator-regulatee relationship. For these defects of process slide into errors of policy.

Rate regulation.—"The Supreme Power who conceived gravity, supply and demand, and double helix must have been absorbed elsewhere when public utility regulation was invented," complained Professor F. M. Scherer of Michigan. "The system is cumbersome, vulnerable to incompetence, and prone toward becoming ingrown and coopted."[6] The pessimism applies both to rate-*setting* in "natural monopolies and rate *regulation* in "natural monopolies."

Rate-setting commissions (e.g., the FCC's common carrier bureau and state public utility commissions) often lack the requisite data to make accurate accounting judgments. Regulated firms can often inflate asset worth (and hence profits) by a variety of accounting methods. Firms can also emasculate any profit ceilings by cutting corners on quality. One highly respected study, comparing the differences in average electricity rates in regulated and unregulated states between 1907 and 1937, concluded that rate regulation had no measurable effect on utility rates, discriminatory pricing, or the value of utility stocks.[7]

Agencies like the ICC, CAB, and FMC depend on industry collaboration in so-called "rate conferences" or private cartels to set their prices. Fears of rate instability lead the agencies docileley to approve those rates presented them. When a 1897 Supreme Court decision declared such railroad rate conferences illegal, the ICC permitted them to continue; they were again declared illegal by the Court in 1945. The 1948 Reed-Bulwinkle Act, passed over President Truman's veto, finally gave them Congress's legal blessings. Today an unmanageable 270,000 tariffs are filed each year with the ICC, and less than 1% of all proposed rate changes by regulated common carriers are generally investigated by the Commission.

Nor did the CAB have to acquiesce to the International Air Transport Association (IATA) when that world cartel fixed prices in 1946. The agency lamely explained that it felt pressured because of control by foreign governments over the right of American planes to land abroad. But we had *already* secured, through bilateral agreements, landing rights in most of the world. K.G.J. Pillai, author of *The Air Net*, argues that domestic and international airline rates are 50% too

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[5] See generally, L. Kohlmeier, *The Regulators* (1969); R. Fellmeth, *The Interstate Commerce Omission* (1970); M. Mintz, J. Cohen, *America, Inc.* (1972).

[6] Scherer, *supra* note 2, at 537.

[7] Stigler and Friedland, "What Can Regulators Regulate? The Case of Electricity," 5 *J. Law & Econ.* (1962).

high because of collusion by the airline trade association (ATA domestically and IATA internationally).[8] For example, while the 340 mile, unregulated (intrastate) Los Angeles-San Francisco plane trip costs $16.20, a trip of equivalent distance between Chicago and Minneapolis costs $33 and the New York City-Washington shuttle (230 miles) cost $26. The consumer overcharge is direct and costly. After carefully studying the effects of ICC and CAB rate regulation, William Jordan concluded the agencies served producers, not consumers:

> Regulatory actions and procedures have allowed the carriers in each industry to reach agreements regarding prices and to enforce adherence to those agreements . . . Without regulation, prices [for interstate airlines, freight motor carriers, and railroads] would be from 9 to 50 percent lower than they are with regulation, with many reductions in the long run exceeding 30 percent.[9]

Entry.—Regulatory agencies restrict entry of new competitors into their regulated industries. Instead of permitting competitive forces to determine whether a new venture can be profitable or not, the burden is shifted to the potential firm to show its worth. It is both expensive and difficult to assume this burden of proof, which discourages competition.

The CAB has not certified a new trunk carrier since its creation in 1938. Yet within the confines of California, where CAB jurisdiction does not extend, 16 intrastate carriers entered the market between 1946 and 1965. The ICC not only restricts new entrants into the potentially competitive trucking industry, but it also lays down a network of other controls: e.g., "backhauls" are limited, only certain commodities can be carried, specific routes must be taken. A trucking firm operating between Philadelphia and Montreal was required to travel through Reading, Pennsylvania. The company petitioned the ICC to take an alternative route which would reduce the distance by 62 miles. The ICC said no, prompting one of its Commissioners to protest that "instead of preventing a monopoly, it helps to establish one, and once created, it becomes a case for the perpetuation of the monopoly." [10]

Mergers.—While new entrants must make an affirmative showing to earn their existence, mergers by statute are usually only limited by the requirement that the transaction be "consistent with the public interest." Competition usually does not survive the kind of *ad hoc* arguments which can be used to justify nearly any merger; that there will be labor savings, that the managements complement each other, that there is overcapacity anyway, and so on. Thus, the FPC approved of the 1957 acquisition by El Paso Natural Gas of the Pacific Northwest Gas Company. But the Supreme Court has now said four times that the merger violated the antitrust laws and that the FPC should never had approved it. A consequence of the Penn-Central merger—the proponents convincing the ICC that there existed various economies and efficiencies in this corporate wedding—has been the biggest bankruptcy in American history.

Technology.—It is difficult to provide evidence of what innovations would have occurred without regulation; yet it is clear that technological lethargy logically inheres in the very structure of regulation. For

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[8] Pillai, "The CAB as Travel Regulator," M. Green (ed.), *The Monopoly Makers* (forthcoming, May, 1973).

[9] Jordan, "Producer Protection, Prior Market Structure and the Effects of Government Regulation," XV *J. of Law & Econ.* 151, 161 (April, 1972).

[10] See generally, J. Blair, *Economic Concentration* 398 (1972).

one specific example—AT&T sits on Comsat's board of directors and has an interest in its earth stations. As a result, Ma Bell's land-cable interests can both conflict with the satellite's competitiveness and restrain the advance of satellite technology. More generally, a firm with a steady rate base and rate of return will not be overly eager to introduce innovations. In fact, since a firm's return depends on the extent of its capital investment, it is encouraged to retain older equipment long after obsolete in order to inflate the rate base. Regulatees and regulators are wary of technological change toppling carefully coordinated patterns. A report by the Brookins Institution notes that "No matter how beneficial an innovation, it has little chance of timely adoption in a regulated industry if it will lead to a substantial redistribution of wealth among the regulated that cannot be compensated through some clever regulatory device." [11] Nevertheless, some technological breakthroughs have occurred after considerable delays, such as motor trucking on extensive highways, widespread pipeline transportation, container ships, "piggyback" operations in mail transport, and (shortly one hopes) cable TV.

All of these regulatory policies exact a huge economic and social toll. Economic studies of the various agencies, when aggregated, put the economic cost of regulation at between at least $16 billion and $24 billion.

Economic waste from regulation

Sector	*Billion*
Transportation:	
ICC Increased costs and shifting of traffic from low cost to high cost modes, involving railroads, trucks, watercarriers	[1] $4.02–8.7
CAB and trade associations price fixing	[2] 2–4
FMC and merchant marine price fixing	[3] 2–3.5
Communications:	
FCC "additional value to consumers" if FCC reallocated TV channels so as to permit seven national networks instead of three	[4] 8
Total	16.2–24.2

[1] T. G. Moore, "The Feasibility of Deregulating Surface Freight Transportation," a paper presented at the Conference on Antitrust and Regulated Industries, October 28 and 29, 1971, Brookings Institution, Washington, D.C.

[2] Estimate of Professor Levine, based on comparison of unregulated intrastate and regulated interstate markets. Cited in Passell and Ross, "Mr. Nixon's Economic Melodrama," *New York Review of Books*, September 23, 1971, at 8.

[3] Maritime Transportation Research Board, *Legal Impediments to International Intermodal Transportation* 42 (1971).

[4] McGowen, Noll and Peck, "Subsidization through Regulation: The Case of Commercial Television Broadcasting," Prepared for Joint Economic Committee, December 1971, at 35–40, to be expanded into a book, *Economic Aspects of TV Regulation* (Brookings Institution, 1973).

Yet Uncle Sam need not inevitably be a monopoly man. The diseconomies of large size and gains from economic competition, once widely understood, could lead to the rearrangement of government involvement in industrial enterprise.

Beyond obvious reforms in process and procedure, more structural rearrangements are possible. New legislation could clarify the proper authority for many of the agencies, which now find themselves in the contradictory role of both regulating their industries and promoting them. The 1887 Act creating the ICC emphasized regulation; the National Transportation Act of 1920 emphasized promotion. The 1938 CAB Act does both. Even if publicly spirited Commissioners were

[11] R. Noll, *Reforming Regulation* 25 (1971).

appointed to the ICC or CAB, one could well understand their institutional schizophrenia.

A more pervasive antidote to excessive regulation is deregulation.[12] Where there are significant elements of (property defined) "natural monopoly" or "natural oligopoly" present, or where public health and safety require it, regulation would largely remain. Thus, for example, the FCC could still (try to) determine AT&T's long distance telephone rates and the FAA could establish airline safety rules. But trucking and water transport could return to the open market.

Except for perhaps maximum rates, railroads, transoceanic shippers and airlines could no longer price-fix with agency approval. Between an extreme floor and ceiling they could compete on price, not on the color of their planes and the cut of their stewardess' clothes. Then the most effective mode would ship goods, reducing net social losses. Then railroads and airplanes would not price themselves out of their markets, as now occurs.

But deregulation is politically difficult to achieve. Industry and agency have often built up a benign interdependence and more competition can only destabilize. And consumers, it appears, couldn't be less interested in the issue. President Kennedy's 1962 transportation message did call for the abandonment of minimum rate regulation in the shipment of bulk commodities on trucks, trains and barges. The plan, however, was buried in Congress, opposed by the truckers, the barge operators, *and* the ICC.[13] A recent deregulation proposal by the Department of Transportation would have given carrier management more freedom to price, abandon unprofitable operations, and allow greater freedom of entry. But a House Committee has shelved these reforms, and is now leaning toward Lockheed-like loan guarantees to salvage the industry.

Deregulation, if it is ever to occur, would have a necessary predicate. Antitrust policy and competition (discussed next) must be vigorous to contain the kind of monopolistic abuses which bedeviled shippers in the late 1880s. Competition rarely exists in heavy industry. Not that it *could* not prevail, but that it *does* not. Any move toward deregulation, therefore, must be preceded by a serious commitment of resources and resolve by future administrations, including industrial deconcentration where necessary,[14] to make antitrust enforcement a reality.

II.

Second, the government not only entrenches monopoly power by its regulatory policies, but it also fails to adequately enforce the antitrust laws.

The reasons are multiple: resources, process, criminal enforcement and politics:

First, resources. The Antitrust Division budget for FY 1973 is $12½ million—one-fifth the budget of the Bureau of Commercial fisheries, one-twentieth Proctor & Gamble's advertising budget. Small budget;

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[12] Weiss, "Regulation," *The Public Interest* (Spring, 1971).

[13] *See, e.g.*, Meyer, Peck, Stenason, & Zwick, *The Economics of Competition in the Transportation Industries* (1959).

[14] *See* Senator Philip Hart's bill on this subject, S. 1167. *See* generally, Green et al., *The Closed Enterprise System* I–29, 293–318 (1972).

small staff. In 1950 the Antitrust Division had 314 lawyers and economists; today it has 354—a 12% increase during two decades when the top 200 industrial corporations increased their control of all manufacturing assets from 46% to some 66%. For a trillion-dollar-plus economy, with 245 firms having assets over a billion dollars, with 85,000 firms over one million in assets, 354 corporate cops are hardly adequate. In the present IBM case, for one example, a handful of Division staff, costing some fraction of the $12½ million budget, are contesting approximately 200 in-house and law firm IBM attorneys spending a reported $20 million. As a result of meager resources generally, few cases are filed (an average of 57 annually for the past decade), especially few big cases; of those cases which are filed, over 80% are settled by a consent decree (for civil cases) or *nolo contendre* plea (for criminal cases). Deterrence is therefore minimal. "The government can't hit everyone," says a San Francisco executive, "so a business goes ahead and does what it wants, if it isn't obviously crooked, and gambles that it won't get caught. There is no moral dimension to it. The odds are in your favor."

The antitrust *process* seems almost intentionally designed for inefficiency, both in (*a*) information gathering and (*b*) delay.[15]

(*a*) Unlike murder or rape, an antitrust violation leaves no *corpus delicti*. Ferreting out the facts is an art and a chore. In order of their effectiveness, there are five basic ways of compelling disclosure of corporate information prior to filing a case:

A grand jury can be empaneled when the Division has cause to believe a crime has been committed. It is by far the best investigatory tool the Division possesses. The grand jury can demand documents and subpoena witnesses for cross-examination without their lawyers present. Because of the adverse connotations of being the subject of a grand-jury inquiry, and because the Division fears calling too many grand juries which do not return indictments, not many grand juries are actually called. There were 26 in fiscal 1970 and 22 in 1969.

By the early 1960s many firms under investigation were refusing to supply any requested data to the Division. "The situation is getting steadily worse," Attorney General Robert Kennedy protested. "We are just not getting cooperation from the business community of the United States."[16] In 1962, and after several attempts, Congress finally passed a Civil Investigative Demand Act, which stated: "Whenever the Attorney General or Assistant Attorney General . . . has reason to believe that any person under investigation may be in . . . control of any documentary material relevant to a civil antitrust investigation, he may . . . issue . . . a civil investigative demand [CID] requiring such person to produce such material for examination." Violation of a CID request incurred a fine up to $5,000 or imprisonment up to five years, or both. As drafted and passed, however, the bill had previous omissions; information could be obtained only from a firm "under investigation," not other parties or potential witnesses; the later release of information to private plaintiffs was forbidden; and there was no provision for "oral" CIDs—"deposing" the potential defendants and cross-examining them.

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[15] For a detailed elaboration of the following discussion, M. Green, et al., *The Closed Enterprise System* (1972).
[16] *New York Times*, April 24, 1961, at 20.

Despite the availability of CIDs, the voluntary request for information has again become the primary way of uncovering information in civil cases. The use of CIDs, after an energetic start, has drastically declined: in 1963 there were 127; in 1964, 254; 1965, 290; 1966, 97; 1967, 120; 1968, 105; 1969, 74; and 1970, 123. Voluntary requests are less formal and easier to draw up, do not need to be reviewed by the Director of Operations and the AAG, and hence can be sent out faster than CIDs. In that crucial Division parlance, "It saves resources." In an interview one staff attorney summarized the basis of this trend: "The goal is to make antitrust enforcement the least burdensome to defendants and to conserve our own resources."

The FBI often acts as an investigating arm of the Division when many people have to be interviewed in a short period of time—*e.g.*, 100 dealers on a pattern of manufacturer discrimination. A staff attorney lists the precise questions to be asked, and the FBI agent asks them. While a large volume of information can be obtained by this means, agents lack the background and expertise to pursue answers with appropriate follow-up questions.

Finally, there are a number of ways a violation is initially uncovered. Complaints from consumers, competitors, or informers usually give the Division its first lead. Newspapers, trade journals, and reports of identical bidding are also reviewed for indications of illegal conduct and mergers. Very rarely, the policy-planning staff undertakes industry-wide studies.

These mechanisms consume varying resources and produce varying results, but, taken together, it becomes clear that *it is extremely difficult, time-consuming, and costly to uncover even the most basic industrial information.* Even such a basic fact as the market share of the investigated firm—often the key determinant of a violation—is difficult to determine. Sometimes studying *Moody's* and annual reports will produce the data. Other times, however, due often to lack of division-by-division sales reports by corporations, the only way to get market-share data is to ask competitors *their* sales and profits. But there is no legal way to compel such information from firms not "under investigation."

The Executive Branch of government compounds the problem. Census Bureau figures, a potentially valuable source of information, consist of aggregations of *accounting* data which are not broken down into the relevant *economic* markets which are being sought. (For example, they may have a category called "drills," when the Division lawyer is studying the competitive submarket called "twist drills.") Also, census data per firm are not made available to sister agencies of government, because the Census Bureau claims that otherwise it would be too difficult to obtain any information. An internal Antitrust Division report to Antitrust Chief Lee Loevinger in 1961 explained the issue:

> Fundamentally, the Bureau appears to take the position that it is primarily, if not almost entirely, an organization set up for the benefit of businessmen, and that Government agencies are low on the totem pole insofar as cooperating with respect to furnishing information . . . This is not a minor matter. Upon our ability to secure such information will often depend the success or failure of cases we bring involving the Sherman and Clayton Acts.

The lack of product-line or division data particularly impedes antitrust and competition. As conglomerates grew more numerous and big, it became important for antitrust agencies to know the sales and profits of the different products of a firm. Hypothetically, it did the Division little good to know ITT's net profits if it studied the predatory pricing in the Rent-a-Car market (ITT owned Avis) or in the brand market (ITT owns Continental Baking Company). Furthermore, the economy itself requires such data, since the rise and fall of industries in a competitive economy occur in response to profit opportunities. Increasingly, potential entrants must make marketing decisions in total ignorance of the profit experience of firms already in the industry.

But antitrust enforcement cannot act as the referee of our competitive economy if it does not know what the players are doing. This statistical ignorance owes to two of our sillier economic shibboleths: America's aversion so socialism foments a distrust of any economic "planning," so that proposals to enlighten government about business activities invariably invite "Big Brother" responses; corporations have been able to transform the rights of personal privacy and trade secrets into a shield against the dissemination of "private" information. But does a GM or IBM, with larger gross revenues than most countries and having enormous impact on millions of people, have a right to "privacy"?

(*b*) Protracted proceedings also drain meager antitrust resources. By excluding all cases settled within six months of filing, law professor Richard Posner found that it took an average of 33 months during 1955–59 and 38 months during 1960–64 between the filing of a complaint and its resolution.[17] These statistics exclude the investigation time expended before the filing of a complaint. Based on the common estimate of one year investigating time before a complaint is filed, and on the more recent average of 29.5 months from complaint to disposition between 1965 and 1970, the average Division case takes three and a half years from start to finish. Merger and monopoly cases take quite a bit longer.

Examples of horribly unwieldy and protracted cases are easy to find. The present IBM case, already mentioned, is one. The 1945 *Alcoa* case had 15,000 pages of documentary evidence and took 20 years to resolve, although at issue was a firm with 100% of the market. *National Lead* two years later had 1,400 exhibits to be identified and authenticated. *Ferguson* v. *Ford Motor Company*, a private suit filed in 1948, entailed 100,000 pages of depositions from 173 witnesses, with some 700,000 pages of documents in all. The oil-cartel case of 1953 against the five biggest integrated oil companies accumulated 100,000 documents and took 13 years to decide—by a combination of ineffective decrees and dismissals; the case never did get out of pretrial proceedings. Suits against GM for its bus monopoly and its acquisition of Euclid each took a decade to settle, without any litigation. While these are extreme examples, no comfort can be taken from the *average* merger or monopolization case. Economist Kenneth Elzinga found that it took an average of 63.8 months—or over five years—from the time of

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[17] Posner, "A Statistical Study of Antitrust Enforcement," XIII *J. of Law & Econ.* 37–38 (Summer, 1969).

an illegal merger to a final divestiture order.[18] Richard Posner found the average length of a monopolization suit to be about eight years.

Third, criminal activities under the antitrust laws—(Section 2 of the Sherman Act) are underpenalized. And the economic costs to the public for such crimes should not be underestimated. An international quinine cartel cornered the world market in the early sixties, raising the price of quinine from 37¢ an ounce to $2.13, and thereby pricing it beyond the means of patients who needed it to restore natural heart rhythm. "I cannot continue to pay these high prices for quinine," complained one elder citizen to a Senate subcommittee, "yet my doctor tells me I cannot live without it." Between 1953 and 1961, 100 tablets of the antibiotic tetracycline cost as little as $1.52 to manufacture but retailed for about $51; ten years later, after congressional hearings and a criminal indictment exposed a conspiracy among some of the nation's largest drug houses, the retail price for the same quantity was approximately $5. While the average American paid about 20¢ for a loaf of bread in 1964, the Seattle consumer was paying 24¢, or 20 percent more, due to a local price-fixing conspiracy, which was finally ended by a Federal Trade Commission ruling; it was estimated that consumers in the Seattle area were overcharged by $35 million. The electrical price-fixing cases of 1961 saw seven corporate officials sent to jail (20 others got suspended sentences). Seven billion dollars of equipment sales were implicated during the conspiracy, and more money was stolen by this one suite crime than all the street crime for that year combined.

In general, the failure to penalize the perpetrators of such economic crimes makes such activities profitable and predictable. The likelihood of a white collar antitrust criminal spending time in prison is near nil. Even in the 1940's, which included Thurman Arnold's widely admired tenure and involved a record number of criminal cases filed, there was not one case where a defendant was actually incarcerated. Since 1890, there have been a total of 461 individual defendants sentenced to prison. Most were labor racketeers or individuals who mixed violence with a labor or management scheme. In almost all cases the sentences were immediately suspended. In the more than 80-year history of the Sherman Act, there have been only three occasions when businessmen have actually gone to jail for a criminal antitrust violation. And the *total* amount of time spent in jail by all businessmen who have ever violated the antitrust laws is a litle under 2 years.

From 1890 to 1955 the maximum Sherman Act fine was $5,000 per violation, in 1955 it was increased to $50,000 per violation. Both are insignificant, dwarfed by the $49 million average net income for each of the top 500 industrial firms in 1969. Moreover, the actual fines levied are usually far below the maximum possible. Between 1946 and 1953, for example, the average Sherman Act fine was $2,600. Despite the tenfold increase in possible penalties in 1955, between 1955 and 1965 corporate fines averaged only $13,420 and individual fines $3,365. (The $50,000 fine is even small by white collar standards. For example, the Nixon Environment program, if passed, would allow court-imposed fines as high as $50,000 *per day* for a second violation of water quality standards.) Lee Loevinger, former antitrust division chief,

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[18] K. Elzinga, "The Antimerger Law: Pyrrhic Victories?" 12 *J. of Law and Econ.* 43 (1969).

has described GE's $437,500 total fine in the electrical cases as "no more severe than a $3 ticket for overtime parking for a man with a $15,000 income." While some court-imposed fines achieve compensation and others seek deterrence, antitrust fines do neither.

Treble damage actions could be a great deterrent to price-fixing. The theory is that any person who can prove damages from the illegal antitrust conspiracy can then recover three times his damages from the corporate defendant. The multi-fold return was intended to spur the bringing of such private suits, which would both penalize the violator and indemnify the victim. But for a number of reasons—the high rate of no-contest pleas, the difficulty of proving actual damage, the reluctance of many harmed companies to sue a brother firm, and procedural obstacles—private treble damage suits have never realized their potential.

A potentially powerful deterrent occurs when a corporation's goodwill is damaged by an antitrust conviction. Corporations may not mind paying minor sums out of their profits but do object if their reputation is besmirched in consumers' minds. Lack of interest by the news media eases the pain of this informal stigma. And "nolo" does not ring in peoples' minds as does "guilty." Therefore, business firms and law firms try to perpetuate the fiction that a nolo plea, while legally an admission of guilt, really concedes nothing at all, or even that a *guilty plea* doesn't mean quite that. Former Attorney General Herbert Brownell represented Westinghouse during the 1961 courtroom proceedings. Upon pleading his client guilty to seven counts, he had the pluck to assert that Westinghouse "does not admit the allegation of any of these indictments, but simply changing its pleas for the purpose of promptly disposing of pending litigation."

In sum, the network of sanctions that aim to deter antitrust criminality does not outweigh the possible benefits to the violator. The meager fines imposed, and even treble damage payments, become merely costs of doing business. Based on six case studies, including offending firms who had their damage payments trebled, a study by the Law Department of New York City concluded: "Indictment by a federal grand jury, punishment inflicted through criminal action, the payment of trebled damages resulting from civil trials, all legal costs incurred in the process, *none of these nor any combination of them succeeds today in denying the price fixer a profit realization at least double a normal level.* (emphasis supplied) [19]

Finally, there is the political context of antitrust enforcement. In fact, based on hundreds of interviews with former and present antitrust officials and staff, the hammerlock ITT threw on the Justice Department is not at all rare in antitrust annals. Which should be about as surprising as a *L'Osservatore Romano* review of a Papal Encyclical. For antitrust cases—although considered arcane and outdated by some—involve huge stakes intimately affecting the defendant corporation and the public. ITT feared it would lose the $500 million premium it paid for acquisition of the Hartford Insurance Company; breaking up General Motors would save consumers $1.3 billion annually according to economist Leonard Weiss, but it would also cause GM's management serious discomfort; the series of electrical

[19] H. N. McMenimen, Jr., *High Profitability—The Reward for Price-Fixing* (1969).

machinery price-fixing cases in the early sixties involved *seven billion dollars* worth of commerce. In cases of this magnitude, consequently, business has a keen incentive to insure success. Despite their liturgical honoring of free enterprise, few businessmen favor it for themselves—a point of view that they do not hesitate to impress upon their government. Many antitrust officials routinely denied that *realpolitik* ever determined which cases to file, and which to file away. But since the ITT imbroglio, the question that can no longer be denied is not whether, but how often? When asked in an interview about lobbying on antitrust cases, former AG Ramsey Clark paused and then cryptically sighed, "Politics and antitrust. It's a problem that's haunted me." Nicholas Katzenbach, who preceded Clark, was even more candid, and far more culpable. On a case where he permitted a seemingly illegal merger in Louisiana, which won him the favor of Senator Albert Ellender (D.-La.) he explained, "Why not get a political benefit from what you are going to do anyway?"

III.

Finally, there is President Nixon's proposed budget, which by tax raising and "tax expenditures" has a direct impact on business revenues and planning. At a time of nagging inflation and large federal deficits, concern over the level of federal spending is of course understandable. But what seems unjustified, and at the least unexplained, is why the Administration has wielded an ax on a number of social service programs without even applying a scalpel to corporate subsidy programs. The former can save millions of dollars at the cost of human welfare while the latter wastes billions of dollars on behalf of preferred business firms.

The following lists compare the costs of these two types of programs:

	1974 budget reduction in millions
Human Welfare:	
Hill-Burton Program—To construct public or other nonprofit hospital and clinical facilities	$90
Regional Medical Program—To improve and regionalize research on, and delivery of, health services, especially "for persons residing in areas with limited health services"	60
Community Mental Health Clinics—To develop community mental health centers as an alternative to ineffective and costly State mental institutions, especially to provide facilities to those unable to pay	50
Training Grants and Fellowships—Promotes long-term categorical training for selected professional disciplines, like social workers, health aides, and psychiatrists	58
Medicare—To provide medical insurance to the elderly. Various rule changes will increase out-of-pocket charges to the 23 million elderly and disabled beneficiaries of this program	1,600
Education—Includes all education programs in HEW; the largest component of cutback is for reduction in library construction and services ($138 million), impact area aid ($143 million) and "educational development" ($53 million). Actually, Federal education budget has been reduced by an additional $2.52 billion, with projection that a $2.53 billion educational revenue sharing bill will pass Congress this year	208

Human Welfare—Continued	*1974 budget reduction in millions*
Public Assistance—Includes all Federal welfare assistance programs in HEW, with proposed reductions occuring largely in maintenance assistance and social services	$1,237
Office of Economic Opportunity—An agency to research and reduce incidence of poverty. Agency abolished with some functions transferred to other Departments	390
Water Pollution Control—Of $11 billion legally appropriated by Clean Water Act of 1972 to clean up nation's waterways, approximately $6 billion is being impounded over 2 years	3,000
Manpower Programs—To encourage on the job and classroom training, summer jobs for youth, vocational rehabilitation, subsidies for those hiring the hard-core unemployed, and public service employment	499
Housing Subsidies—To help fulfill the 1949 Housing Act's pledge of "a decent home and suitable living environment for every American family." The 1974 budget suspends new commitments under the housing subsidy program	305
Housing Projects—No new projects approved for urban renewal, model cities, open space, neighborhood facilities and rehabilitation and public facility loans (saving projected by 1975 budget)	745
Community Relations Service—To provide assistance to communities trying to resolve racial disputes	4

I. Corporate welfare—subsidies and waste:	*Annual cost in millions*
Merchant Marine Subsidies—Includes both construction subsidies and operational subsidies, which make up difference in costs between American carriers and equivalent outlays on foreign vessels	$460
Air Carrier Payments—To cover any operating losses by air carriers for specific air transportation services	66
Government Guaranteed Loans—The underwriting of specific private loans, such as Lockheed's $250 million loan; the subsidy for the private firm is the difference between what it pays for the loans with a government guarantee and what it would pay without such a guarantee	n/a
Government-Owned Property Used by Private Contractors—Use of defense facilities by private firms either for production of defense equipment (for which they pay no rent) or for commercial production (for which they pay a small amount of rent). As of June 1970, $14.6 billion worth of government property so held by defense contractors	n/a
Export-Import Bank—Low cost loans to encourage corporations to trade abroad (depending on prevailing interest rates; fiscal year 1971 estimates)	65–169
Defense Procurement—Totals some $40 billion annually. Yet due to noncompetitive, nonadvertised bidding, sole source negotiating, and "cost-plus" contracts, there have been huge cost overruns severely taxing the public treasury. One study by the Joint Economic Committee found that 45 weapons systems had increased in projected costs by $7 billion from June, 1970 to June, 1971 (estimated)	7,000
Drug Procurement—HEW expenditures for drugs, largely for medicare and medicaid, was $1.5 billion in 1972. Because purchase is often by brand (not generic) name and not by centralized procedures, the Government is overpaying drug firms by approximately half, according to the data of HEW economists	750
Patents—The Federal Government spends over $15 billion annually for research and development with most resulting patents being granted royalty-free to private firms. In many other countries the Government retains title and sublicenses these patents at reasonable royalties to private industry, thereby recouping a substantial part of Government R. & D. expenditures	n/a

But merely listing corporate subsidies understates the problem. For one can control the federal budget either by limiting expenditures or by raising revenues. Thus, the following corporate welfare list (based on "Estimates of Federal Tax Expenditures" prepared in 1971 by the staffs of the Treasury Department and the Joint Committee on Internal Revenue Taxation) reflects the lost revenues due to the indirect (and usually invisible) subsidies attributable to certain tax preferences.

II. Corporate "Tax Expenditures":	*Cost in millions (1971)*
Deferral of income of controlled foreign subsidiaries	$165
Excess of percentage over cost depletion	785
Investment tax credit (over next decade expected to increase to an average of $4,500—$4.5 billion annually)	1,495
Accelerated Depreciation (over next decade expected to increase to $3.5 billion annually)	600
Depreciation on buildings (other than rental housing) in excess of straight-line	320
Capital Gains: Corporations (other than farming and timber and excluding individuals)	380
Domestic International Sales—Corporation (DISC) (in effect an exemption of one-half of all export profits) (approximately)	400
Expensing of exploration and development costs	260
Western Hemisphere Trade Corporation	75
Timber: Capital Gain treatment for certain income	125
Bad debt reserves of financial institutions in excess of actual	400
Exemption of interest on State and local debt (difference between federal corporate revenue loss and interest savings to state and local governments)	485

It is true that there is waste and poor administration in many federal programs, human resource ones included, that might justify paring down or phasing out. What is troubling, however, is the pattern of belt-tightening toward social service programs but inattention to corporate subsidies. The President's search "into every nook and cranny of the bureaucracy" does not seem to include this obvious area of waste (not to mention the fact of a defense budget increased by $4.2 billion during peacetime). While human needs in this society are so clearly unmet, all too often corporate paternalism, as Franklin Roosevelt once said of a proposed tax bill, "provide[s] relief not for the needy but for the greedy."

If, as outgoing HEW Deputy John Veneman said at the HEW budget briefing, "there is a conscious decision by this administration to identify those programs which have fulfilled their purpose already or cannot fulfill those purposes," why is this fiscal standard not also rigorously applied to programs which forgive tax payments and dispense corporate emoluments? If "throwing dollars at problems" can be wasteful in human resource problems, why aren't the billions generously accorded the maritime, drug, and defense industries included in the current budget belt-tightening? If President Nixon defends human resource cuts by observing that Congress "gets enormous pressure from special interests to spend our money," why is mention omitted of the classic special interests—those with the political power to increase the corporate dole? One wonders why this administration is never critical of corporations at the public till. The cost to taxpayers of wasteful corporate welfare far exceeds the cost of wasteful human welfare, as comparison of the lists above clearly indicate. (For example, all the HEW cuts listed, for health and education, equal the merchant marine subsidies alone; and the total tax breaks for corporations above, once ADR and DISC mature, totals $11.4 billion.) It seems an understatement to conclude a double standard is being employed in the current "battle of the budget": frugality for needy people, extravagance for corporate interests.

CREDIT UNION NATIONAL ASSOCIATION, INC.

The more than 23,000 Federally and State chartered credit unions of the United States and their 26 million members represented by the Credit Union National Association are pleased that the goal of checking inflation is a central theme in the 1973 Economic Report of the President.

Inflation has had a dramatic effect on the one of four American families that belong to the Nation's credit unions. No other economic force curently threatens their well-being more directly.

These families—and the more than one million persons who annually join them in credit unions—are in precisely that economic stratum most susceptible to rising prices and eroding dollars. The credit union family member, though generally blessed with stable employment, makes only an average income of $7,500 a year. He faces the problem of maintaining a rising standard of living, while at the same time paying off a mortagage on the family home, handling heavy installment debt, and saving to educate his children and to assure the promise of a secure future. Few of these families have much in liquid assets. Their average savings are low. And over 50 percent of them carry consumer indebtedness.

Their economic circumstances have prompted them to band together into the credit unions of the 50 states, the District of Columbia and Puerto Rico. Through their non-profit credit cooperatives, credit union members pool their savings and make low-cost self-help loans to each other. In this they have enjoyed phenomenal success under the governance of democratically elected officials, all of whom by law are volunteers chosen by their credit unions' member-owners.

These families now see their savings eroded by inflation and their dollars depreciate in value. In other words, because of inflation, the credit union family that saves could eventually penalize itself.

Therefore, the Administration's vigorous steps to control inflation are encouraging to the members of the credit union. Through reduction of the Nation's ground forces in Indochina, its new economic policy of wage-price-rent controls, balanced by expansionary monetary and fiscal policy, reduced taxes, and accelerated government expenditures, the Administration guided the American economy to a more reasonable posture.

As pointed out in the Economic Report, the results were dramatically successful. In 1972, the Nation's total output rose 7½ percent—one of the largest one-year increases in the past 25 years; consumer prices increased only a little more than 3 percent from 1971 to 1972—a tremendous improvement over the runaway inflation of 6 percent annually in 1969; and the number of people at work rose by 2.3 million—the largest one-year increase in 25 years, yet over 5 percent remained unemployed.

This spectacular turn-around in the economy aided credit unions and other savings institutions. Credit union members added $3 billion to their savings, bringing their liquidity pool since 1969 to $5.4 billion, an amount that will enable them to continue to serve their members forcefully at least in the near future.

Still, as the Nation moves into 1973, credit union members see National economic problems grounded in the past yet to be solved, problems that they believe continue to threaten their financial welfare. The United States' position in International trade has not improved; the dollar has been devalued twice in the past 14 months; food prices have risen astronomically; the Federal deficit has not been reduced; domestic programs that benefited the classes served by credit unions have been sharply reduced—and additional inflation during 1973 and beyond is expected.

The short-term economic policies that brought the Nation a prosperous 1972 and the promise of a good 1973 have failed to convince credit union members to change their economic behavior and act with confidence in the future. Instead of participating in the expanding economy by financing new purchases put off by the 1969–1971 recession, as one would expect them to do, credit union members continue to save more than they borrow. They are hesitant to commit themselves to the 36 to 48 month loan, the bread and butter loan of the credit union movement.

Since data on credit union members' financial behavior indicate they will continue to save, and since doing so results in the final analysis in continued shrinking of their assets by inflation, credit unions will need new savings vehicles to help the Nation check the inflation that withers away the people's ability to aid themselves through thrift. They need savings instruments that will provide their members with an equity in the Nation's growth, rather than just a demand on eroding time deposits.

Too, credit unions will need a central bank to assure liquidity against any credit crunch similar to that of 1969. Credit unions' liquidity pool of $5.4 billion will enable them to meet the loan needs of their membership in the near future. Nonetheless, now is the time to prepare against the eventualities of an uncertain future, rather than to wait imprudently until circumstances dictate urgent action.

Even with these new savings and loan tools to enable them to contribute still more significantly to the Nation, credit unions see the need for continued vigorous National leadership in the steerage of the economy, if the Nation is to look with confidence from today to distant tomorrows. Credit union members wonder whether the time has come to reduce the Nation's spending to its ability to raise taxes, rather than to finance planned deficits through monetary inflation.

Credit union members ask, too, whether the time has come to discuss one of the principal problems of the modern United States' economy: That the Nation is now a service economy that imports many of its consumer goods and is no longer the world's leading producer and exporter.

As long as we have a service economy, credit unions wonder whether talk in the Economic Report of increased wages brought about by increased productivity is to the point. The Economic Report gives no indication whether the service direction of the economy will continue to shrink the Nation's ability to produce and to sell abroad. A system that produces the kinds of goods that will be purchased makes more sense to credit unions than a system of wage and price controls or of higher tariff barriers at the expense of our trading partners.

Short-term economic policies, such as wage-price controls, will not instill in credit union members the confidence in the future that changes behavior from hoarding against uncertain times to spending and enjoying the fruits of the present. Only long-term policies that deal with the fundamental cause of continually spiraling food and medical costs and of the dollar crises abroad will change this economic behavior.

Credit unions, therefore, welcome the President's statement that the system of wage and price controls of 1972 "is not the best system for 1973" and that they should be substantially modified. Notwithstanding the desire of the American people to have firm controls in the President's New Economic Policy, credit union leaders believe the working forces of a free market are best for the American people. Credit unions believe that only a free economy can increase credit union services.

It should be noted that credit unions have played a significant role not only in our own Nation, but in some 42 countries throughout the world. As a partner with the Agency for International Development (AID), we have provided technical assistance in bringing credit union services to developing nations in Latin America, Africa, and Asia. This activity has already stimulated over a half billion dollars of small credit which never existed before—a factor which will have an ultimate favorable impact upon our own economy.

One final note. Credit unions are pleased that the Annual Report of the Council of Economic Advisors submitted to the Congress with the Economic Report of the President provides the American public with more information on the American woman and credit. Among credit union members more households are headed by women. Credit unions hope that National programs can be undertaken to increase the availability of credit to female heads of households and female partners in households. Women have encountered too many difficulties in obtaining credit. And this section on women should be expanded to include other minorities and their difficulties in participating fully in a credit economy.

The 250,000 men and women credit union volunteers who give so selflessly of themselves as elected officials in the credit union movement will continue to support the President and Congress for the strength of the Nation and her people. They will continue to work with the Congress and the state legislatures on the great amount of legislation that will modernize credit unions to continue their forceful contributions to America.

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FEDERAL STATISTICS USERS' CONFERENCE

By JOHN H. AIKEN, *Executive Director*

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

FSUC is an association comprising 189 organizations generally classified as business firms, labor unions, nonprofit research organizations, State and local governments, and trade associations. These members have a common interest in encouraging the development of adequate, timely and reliable information from Federal statistical programs.

A continuing concern of FSUC is the need for improvements in economic statistics. We believe there is a constant need for continuously reexamining the economic data that make up our statistical base and for identifying areas where improvements are required. There is also the need to allocate sufficient reasources to meet the growing demands for economic data and to improve their quality.

The 1974 statistical budget for economic programs amount to $174.8 million which is an increase of $8.0 million, or 4.8 percent, over 1973. In contrast, the 1974 statistical budget for social and demographic statistics amounts to $137.8 million, an increase of $14.2 million, or 11.5 percent, over 1973. The principal increases for economic programs are for improved price, wage, and productivity statistics, retail sales and inventory data; traffic safety statistics; and the industrial directory project of the Census Bureau.

In the period 1970 to 1974 the budget for economic statistics increased from $118.2 million to $174.8, or by 48 percent. This increase, of course, includes salary increases during the period (which reflect in part adjustments for price increases) and thus does not represent the actual extent to which new or expanded programs have been unedrtaken. In the same period, programs for social and demographic statistics increased from $50.7 million to $137.8 million, a growth of 172 percent. As a percent of the total current statistical budget, economic programs account for only 55.9 percent in 1974 as compared with 70 percent in 1970.

We are pleased to call your attention to a major undertaking by the Office of Management and Budget regarding the national income accounts. OMB has appointed a special Review Committee that will review proposed improvements in the national income accounts to be made over a five-year period. We wholeheartedly support this review. On the other hand, this suggests that there might be other areas relating to economic statistics that might deserve similar treatment.

Another issue of major concern to FSUC is the proposal of the Department of Commerce to postpone the 1974 Census of Agriculture until 1977 and then combine it with the 1977 economic censuses. As we understand it, the decision to postpone the 1974 Census of Agriculture was a unilateral decision made by the Department of Commerce. Statistics users were not consulted in advance to determine their views or their needs. We do not know to what extent, if any, other government agencies were consulted prior to the decision. The Bureau of the Census has an Advisory Committee on Agriculture Statistics. That Committee was not consulted in advance of this decision. The fact that the recommendation is contained in the 1974 budget request of the Department of Commerce indicates that it is supported by the Office of Management and Budget. Cost was obviously a major factor in this decision. The 1974 Census of Agriculture is estimated to cost $28 million, spread out over a five-year period. In fiscal 1973, funds totaling $1,360,000 were appropriated to initiate planning for the 1974 Census of Agriculture. Those funds are to be used to plan the transition, and all work on the 1974 Census has halted. However, legislation must be submitted to change the timing of the census of agriculture. If the proposed legislation does not pass, then the 1974 Census of Agriculture will suffer a severe set-back.

The 1974 Census of Agriculture is a major statistical program and the decision to postpone it until 1977 is of such importance that it could have a serious impact on the many users of these data. Undoubtedly, the decision was not made in a vacuum; there may have been some consultation. However, in our opinion, this action represents another instance of a Federal agency decision regarding a major statistical program where other government agencies and statistics are informed of the decision "after the fact." This type of action puts all interested persons and organizations at an extreme disadvantage with few, if any, opportunities for review and discussion of the merits of the proposed change. In our opinion, this is an inadequate procedure for making decisions of this magnitude. It would seem that some guidelines or criteria should be established to permit extensive consultation with government agencies and other interested persons and organizations prior to making *major* changes in vital statistical programs. The rationale for changes should be explained and certainly a broad cross-section of views should be obtained. If a logical and reasonable rationale for making changes in major statistical programs is explained, understood, and generally agreed to, in advance, by a wide range of interested parties, this would strengthen the position of the recommending agency in obtaining approval. If differences of opinion occur, perhaps reasonable compromises or alternatives might be agreed upon. In any case, there would undoubtedly be a better informed public, and the grey area of doubt would, in most cases, be eliminated.

Recently, we sent the Chairman of the Joint Economic Committee a copy of a "Report and Recommendations of the Federal Statistics Users' Conference on The Problem of Timeliness in the Distribution of Economic and Statistical Reports by the Government Printing Office." Our Report examines, in a detailed manner, the nature and extent of the difficulties which statistics users are experiencing in obtaining publications ordered from the GPO. Particular emphasis is given to the importance of "timeliness" in both the "release" and "distribution" of statistical reports as essential elements to the efficient and successful operation of the Federal statistical system .The Report was prepared with the intention of making a constructive contribution to an examination of this critical situation. Our Report has been sent to officials at the Government Printing Office, the Chairman of the Joint Committee on Printing, and to the Chairmen of other Congressional committees concerned with government operations and/or the Federal statistical system. The responses received thus far indicate that we have promoted a general awareness of the urgency of the matter and that steps are being taken to deal with the problem.

An issue of major concern to users as well as producers of Federal statistics is that relating to the need for maintaining the professional integrity of Federal statistics. During the past two years the integrity of the Federal statistical system has come into question. There is growing concern that the Federal statistical system may become politicized to the extent that political expediency may override the canons of professionalism and objectivity which have long characterized the major statistical agencies of the U.S. Government. Because of this concern, FSUC joined with the American Statistical Association in the appointment of a special committee in early 1972. That Committee was charged with the responsibility of drawing up a statement reaffirming the need for a Federal statistical system of unquestioned integrity and to develop policy recommendations concerning procedures designed to protect the integrity of the Federal statistical system. The Report has been approved by the Board of Directors of ASA and the Board of Trustees of FSUC. A copy of the Report was sent to the Chairman of the Joint Economic Committee on February 27, 1973.

It is our belief that implementation of the Committee's recommendations regarding form of organization, appointments, and rules of conduct will reduce opportunities for political interference and control and are essential to assure a high level of public confidence in the Federal statistical system. It is our hope that this Report will make a constructive contribution to the government's ongoing efforts to strengthen and improve the Federal statistical program.

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

LEGISLATIVE ACTION COMMITTEE OF THE MINISTERS-LAYMEN VOTER REGISTRATION COMMITTEE, DADE COUNTY, FLA.

By Joseph Bongiovanni, *Chairman*

National Economic Growth Act

Our association includes leaders of all segments of our community banded together to seek solutions to our common problems. We are actively supporting and promoting a national economic growth act as an answer to many problems, including unemployment, inflation, and high taxes.

Section 2 of the 1946 Employment Act reads "To promote free competitive enterprise and the general welfare * * * there will be afforded useful employment opportunities including self-employment, for those able, willing, and seeking to work."

There is absolutely nothing in the above quote about accepting 3½ to 4 percent unemployment rate as full employment. Yet both political parties seem to have succumbed to this inhumane theory possibly because their best efforts were unable to find a solution.

Another inhumane theory expressed by many members of both political parties is that unemployment equals less inflation.

For the above reasons we urged the Republican National Convention's Platform Committee to do away with these inhumane theories and proceeded to disprove them with charts and statistics as per attached appendix A.

Another theory related to the inflation problem is the claim that interest rates follow inflation rates. Please note from attached appendix B, letter to Mr. Ezra Solomon, Council of Economic Advisers, how we disprove this theory through statistics attached to letter.

Actually high interest rates are the greatest cause of inflation. Not many people know that $146 billion interest was paid into our total economy in order to produce the 1971 gross national product. Add to these figures the hidden finance charges; and the illegally paid high interest charges * * * and the sum total dwarfs the war and crime costs.

But your committee cannot blame the administration, or the Fed, for this usurious situation. All Congress need do is to follow the Constitution, article 1, section 8, which reads "Congress shall have power to coin money, and regulate the value thereof." Further section 10 also forbids the States to legislate in this field.

Now getting back to the seemingly insoluble unemployment problem; our proposed legislation takes up the problem, when—in effect—after our private, and public, enterprise economic forces have been in play * * * yet we still have continuing economic pressures upsetting our economy, as shown in the chart on page 7 in our blue cover booklet, appendix E. Also note in same chart how the economy is kept in balance through priority use of money and credit for guaranteed bank loans.

This should not be confused with priority use of tax money, which includes tax incentives to stimulate employment * * * and yet we still have tremendous unemployment. No wonder Governor Wallace and many congressional leaders are insisting on closing these loopholes. Enactment of our proposal will make it possible to eliminate these unjust tax benefits and thus reduce taxes; for we subscribe to the good old American theory that a profit incentive is sufficient unto itself. Our NEGA will open up this economic incentive to all peoples * * * which is really what President Johnson was striving for. And with county and regional economic committees of concerned citizens as overseers, then this also fits in with President Nixon's desires for a local society with change that works. What an opportunity to bring the aspirations of these three great men together in these urgent national goals.

The booklet explains how priority use of money and credit does not—repat, does not call for an increase in our money supply * * * for we leave this chore to the money managers of the Fed. However we do point out in the chart on page 8 how the GNP increase during 1972 could have absorbed the NEGA loan requirements.

Needless to say that with this direct attack on the cancer in our economic body, then the whole economic body will improve * * * meaning that all unemployed need be employed through our NEGA program—for the major economic producers will hire more people to increase their goods and services because of demand generated by the entry of the have nots into the economic mainstream.

Please note that we recommend that the Department of Labor administer this program as we eventually can eliminate unemployment compensation in the future.

In order to cut down on the number of local committees, we are also changing the dimension to include county or U.S. Representative district, whichever is larger.

There are no tax requirements for the loan funds * * * but there are for the regional economic committee and staff. Also for manpower, management and on-the-job training if not already available. Older citizens will join in any of these training programs where they have expertise * * * with pay.

We feel that only about 10 percent of present Federal cost should suffice for funds to operate these local committees, et cetera, per above * * * as NEGA will eventually replace many programs now in operation.

Many bankers have expressed their willingness to cooperate as long as regional economic committees will have jurisdiction over the management, manpower and on-the-job training programs.

Another change we will call for are immediate 100 percent loans for those sponsoring groups who will employ exoffenders, and others * * * as described in item C; item No. 4; and section 3.1 to 3.4 in attached Appendix C which covers proposed State legislation submitted to the State of Florida.

There are provisions herein which make it possible to eliminate underemployment, and in effect help guarantee an annual living wage; as long ago sought after by Father Chas. E. Coughlin, the radio priest of the big depression days.

At various meetings we have heard many mayors, county executives, and State Governors * * * explain the need for a planned economic growth. Our NEGA plan takes care of such urgent need.

Perhaps in the beginning it appeared that we had only harsh words for the present administration. However please note question 8, page 4, which shows we feel all past Congresses have failed to locate the key to the solution. As a matter of fact the mayor of Indianapolis, a keynote speaker at the past Republican Convention, has commended our plan to the administration, per letter appendix D attached.

Further we have received encouragement from a member of the Republican National Committee; and some administration people are making a serious study of this proposal.

In short, and in conclusion, as per question 27, page 11, this proposal will bring conservatives and liberals together from both political parties.

Capital Goods Review

MACHINERY and ALLIED PRODUCTS INSTITUTE

No. 91 1200 EIGHTEENTH STREET, N.W., WASHINGTON, D.C., 20036 JANUARY 1973

CAPITAL FORMATION, PRODUCTIVE INVESTMENT, AND TAX REFORM

We are now well along in the expansion phase of an economic cycle, and it appears that the economy has gathered sufficient momentum so that the outlook for the short-term future continues to be encouraging. The combination of growth, modest progress against inflation, and an improving situation for the dollar provides the necessary framework for higher levels of capital spending. Equally important, there are reasons for expecting a high and sustained demand for business capital investment over the longer run. These reasons include (1) a favorable relationship between equipment prices and labor costs, (2) technological progress, (3) an increased rate of growth in the labor force,[1] and (4) substantial antipollution expenditures. This in turn bodes well for the economy. There never has been a period of sustained economic growth that wasn't accompanied by a strong growth in capital investment. It is a major economic sparkplug that creates jobs and the income needed for a business expansion. Further, it is a key source of increases in man-hour productivity which makes possible higher average real wage rates.

ACCENTUATING THE POSITIVE

While there appears to be solid support for increased capital spending in the future, a nagging question—and real problem—remains; namely, how is the investment to be financed? There are two principal ways (not mutually exclusive) to increase the supply of capital funds:

1. To create a sizable surplus in the budget of the federal government which would make additional funds available in the capital market through the retirement of government obligations.
2. To change the tax code to increase the internal funds (i.e., retained earnings and depreciation) of the corporate system. As business is largely dependent[2] for its investment in plant and equipment on internal sources, low profits and/or inadequate capital consumption allowances slow growth. Further, even when the timing of the capital allowances is theoretically sound, when depreciation is based on historical costs (as is presently the case), the replacement costs are inadequate.

As to the first of these means—federal budget surpluses—one can hardly count on this approach, at least for the near term. The pertinent question then is, where do we stand with respect to the internal funds of corporations?

Profits

With the recent expansion of business, profits have increased and retained earnings have improved significantly. After-tax corporate profits for nonfinancial corporations (after IVA)[3] are expected to reach roughly $34 billion in the fourth quarter of 1972 (as compared to $28.9 billion in the first quarter) while there will be but limited increases in dividend payments, due in large part to the voluntary federal guidelines on dividends.

Capital Consumption Allowances

However the major component of internal funds is capital consumption allowances, which normally

[1] The growth rate in the private labor force was only 0.8 percent per annum during 1948-62, but it accelerated to 1.6 percent per annum during 1962-71, and is projected by BLS to rise by 1.7 percent per annum between 1971 and 1980.

[2] Since 1965, corporations have financed heavily for capital expenditures (long debt and stock issues), and will have to continue to do so to meet present proportions.

[3] Inventory valuation adjustment.

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MACHINERY & ALLIED PRODUCTS INSTITUTE AND ITS AFFILIATED ORGANIZATION, COUNCIL FOR TECHNOLOGICAL ADVANCEMENT ARE ENGAGED IN RESEARCH IN THE ECONOMICS OF CAPITAL GOODS (THE FACILITIES OF PRODUCTION, DISTRIBUTION, TRANSPORTATION COMMUNICATION AND COMMERCE), IN ADVANCING THE TECHNOLOGY AND FURTHERING THE ECONOMIC PROGRESS OF THE UNITED STATES

account for two-thirds or more of the total. Here, some important steps were taken in 1971; namely, a tax depreciation policy change (the introduction of the Asset Depreciation Range (ADR) system, and the enactment of a related investment allowance (the 7 percent Investment Tax Credit (ITC)). These measures improved cash flow and provided an additional incentive to purchase equipment. As to the latter, in terms of its effect on the after-tax return on an asset, the 7 percent investment credit on equipment with a 12-year service life increases the return by 3 percentage points. (These measures are discussed in greater detail later on.) Historical experience, as well as common sense, tells us that when firms have sufficient resources and an incentive in the form of the increase in cash flow and prospective higher returns, they will increase their capital investments. Further, competition, both domestic and international, will help to ensure this result.

Summary

In sum, the combination of improved business conditions, the new depreciation system and the investment tax credit goes a long way toward making possible achievement of the capital investment requirements noted earlier.

LET'S ELIMINATE THE NEGATIVE

While it would be pleasant to bask in this state of euphoria, there are several ominous signs which seriously threaten the longer-range outlook for the supply of capital funds.

Profit Margins

If one of our goals is to achieve a desired rate of economic growth, profits perform a function indispensable to the success of this undertaking. As we have seen, they play an important role in providing industry with the capital it needs to grow—both through giving people the incentive to invest and, more directly, as a source of investment funds.

Currently, a great deal of attention is being given to the fact that total aggregate profits have reached new highs. This must be put in perspective. First, an increase in profits and profit margins is one of the characteristics which typify a recovery period. While, as noted earlier, after-tax corporate profits for nonfinancial corporations (after IVA) are expected to reach some $34 billion in the fourth quarter of 1972, this is well below previous highs even without an adjustment for the intervening inflation. Further, it is significant that the profit share of nonfinancial corporate value added has *not* risen as rapidly as typically occurs in the early years of a business expansion. Second, and more importantly, profit margins[4] have deteriorated rapidly in recent years. For this purpose we will compare pretax corporate profits with the value added for nonfinancial corporations. (See Chart 1.)

It is at once obvious that profit margins for the nonfinancial corporate sector have experienced a generally declining trend throughout the postwar period. While profit margins typically rise in the early stages of a period of expansion, they have only partly recouped the preceding declines. As a result, profit margins have been ratcheting downward in recent years and reached a new low in the postwar period in the fourth quarter of 1970. While they began to recover in 1971, there is no evidence to indicate that profit margins will once again reach the levels typical of the earlier years of the period.

It is revealing to pursue the matter further to see what has happened to the other shares of the value added by nonfinancial corporations. (See Chart 2.)

As can quickly be seen, the declining share of corporate profits primarily is accounted for by the increasing share of "capital consumption allowances." This increase is attributable only in minor part to the liberalization of depreciation allowances which has taken place since the late 1940s.[5] In major part it is due to the substantial increase in both the physical volume and price level of capital equipment. One measure of this is the amount of fixed investment per worker in the private economy. This figure was $5,500 in 1948 and $15,500 in 1968, and is approximately $20,000 today.

The only other component to increase significantly was "net interest." This was due to the greater amount of debt held by corporations and higher interest rates.

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[4]Here defined as a percentage of value added.

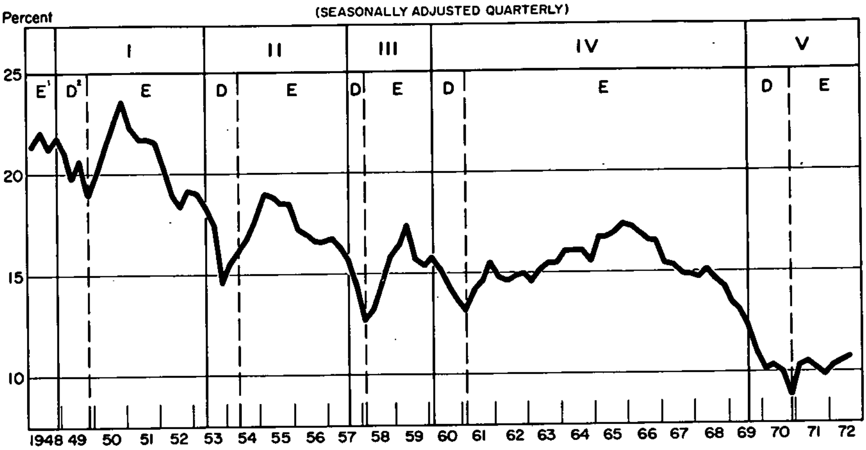
[5]Capital consumption allowances *after* adjustment to eliminate the effect of changes in the tax depreciation laws and regulations show a pattern of movement closely similar to the unadjusted series; however, the decline in adjusted profits is not then quite as steep.

Capital Goods Review

CHART 1

Pretax Profits[a] of Nonfinancial Corporations as a Percentage of Value Added 1948-1972

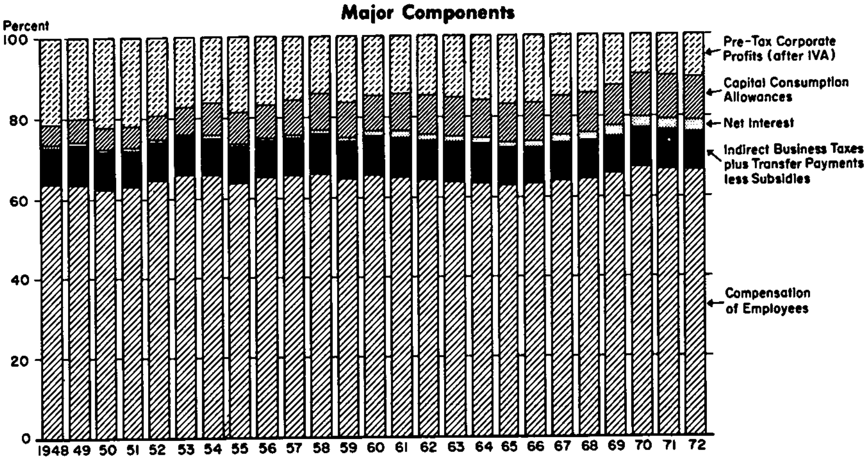
(SEASONALLY ADJUSTED QUARTERLY)



[a]After inventory valuation adjustment.
[1]E is cyclical expansion.
[2]D is cyclical decline.
Source: U.S. Department of Commerce.

CHART 2

The Percentage of Gross Corporate Product (Value Added) Accounted for by Major Components



Source: U.S. Department of Commerce.

"Compensation of employees" deserves special mention. This is of course by far the largest component. While its share of the total increased but slightly over the period covered, employees have, obviously, benefited from maintaining the same share of a much larger pie. Looked at another way, the share of corporate profits has absorbed the cost of providing employees with the additional, modern equipment which makes it possible for them to enjoy a higher standard of living than otherwise would have been possible. In this connection it must be remembered that capital input as well as labor input plays a vital role and must be rewarded.

Tax Reform

Unfortunately the term "tax reform" is clothed in sufficient delphic ambiguity so that it means highly different (and at times contradictory) things to different people. These include such not always consistent objectives as: reduced taxes and increased revenue, elimination of loopholes and provision of incentives, greater simplicity and less inequity. Fortunately our task is not to choose among these, but only to point out the effects of certain proposals affecting capital investment.

Our starting point is simple: we seek those policies necessary to create and maintain a strong industrial base. Thus, our interest lies in how certain tax policies and programs affect the efficiency and growth of the economy. Recent tax proposals having such an impact include the following: reduction of the investment tax credit, repeal of ADR depreciation, limitation of the foreign tax credit, current taxation of income of foreign subsidiaries, repeal of the DISC and WHTC, and increasing the tax on, and the holding period for, capital gains. Of this array of anticapital proposals, we will restrict our comments at this time to two of the concepts involved which we have discussed earlier in this *Review*, the Asset Depreciation Range (ADR) system and the Investment Tax Credit (ITC).

The ADR and ITC

Purpose.—In essence, the ADR and ITC are vital to economic health in that they help to provide the wherewithal and incentive to continued growth of the nation's productive capacity and the modernization and replacement of its existing equipment. In so doing they help to assure that the economy can:

1. Provide the goods necessary to meet its domestic needs—civilian and defense—and, in so doing, combat inflation;
2. Provide the additional jobs and equipment required by an expanding labor force;
3. Provide wage increases based on increasing productivity without inducing price increases;
4. Fulfill our international obligations; and
5. Meet the competition for world markets and thus contribute to the solution of our balance-of-payments problem.

Adequacy.—This raises the question of the adequacy of ADR and ITC. One measure of this is to compare the capital costs of machinery and equipment in various countries after an adjustment is made for income tax provisions (corporate income tax, depreciation allowances, and tax credits). (Table 1.)

As can be seen, absent ADR and the ITC, capital costs in the United States would be greater than every other country listed. Even with ADR and the 7 percent investment credit (the present situation), capital costs in the United States as influenced by income tax policies (86.2) are above those of all the countries listed other than Canada, the Netherlands, and France.[6] Most importantly, they are substantially above our two strongest competitor countries—Japan and West Germany.

Permanency.—Our past experience and current calls for "flexible adjustment" of the ITC warrant comment. To make its proper contribution to the performance of the tasks set out above, the ITC should be—as it was originally intended to be—a permanent part of our tax structure. Proposals to convert the ITC to meet the requirements of a countercyclical tool—i.e., on an on-again, off-again basis—would run the risk of sacrificing its effectiveness in fulfilling the goals for which it is designed. Further, it simply is not an appropriate device for economic control purposes. A review of the questions of fairness, administrative feasibility, timing, and effectiveness all justify this conclusion.[7]

[6] Since the information for Table I was compiled, the United Kingdom and Canada have further liberalized their income tax policies with respect to capital allowances.

[7] See "The Investment Credit as an Economic Control Device," *Capital Goods Review*, No. 67, September 1966.

TABLE 1

Comparative Capital Costs of Manufacturing Machinery and Equipment as Influenced by Income Tax Policies: Corporation Income Tax Rates, Depreciation Allowances, and Investment Allowances and Credits; Major Industrial Countries, 1971

Country	Comparative Cost of Capital (U.S., 1970=100)
United Kingdom	79.1
Japan	81.1
Italy	81.9
West Germany	82.8
Sweden	83.0
Belgium	84.7
France	89.7
The Netherlands	94.1
Canada	97.2
United States (1970)	100.0
U.S. with ADR	95.6
plus 5% investment credit[a]	88.9
plus 7% investment credit[a]	86.2
plus 10% investment credit[a]	82.1
U.S. with ADR, less modified first-year convention	96.6
plus 5% investment credit	89.8
plus 7% investment credit	87.1
plus 10% investment credit	83.0
U.S. without ADR	
but with 5% investment credit	93.2
but with 7% investment credit	90.5
but with 10% investment credit	86.4

[a]Effective credit assumed to be unaffected by income limitation for purposes of international comparisons.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis.

CONCLUSION

High and sustained economic growth requires substantial capital formation. Not only will there be enlarged corporate requirements for outside funds, but the aggregate demand will be greatly expanded by other claimants—unincorporated business, the housing industry, consumers, and governments. While it is difficult to express national goals in terms of specific dollar costs, the National Planning Association (NPA) has undertaken such an effort.[8] In estimating the costs of attaining "national goal standards" in 1980 for such areas as private consumption, urban development, national defense, social welfare, health, education, transportation, etc., NPA has included a figure for the amount of fixed investment that would be required to meet *all* these goals. It is $208.8 billion (in 1969 dollars) or an increase of 112 percent over 1969. However, NPA's figure for *projected* expenditures in 1980 under current trends is $156.1 billion, an increase of 58 percent over 1969. This is not to suggest, nor of course does NPA, that we will come close to attaining all the national goal standards. It does point up the magnitude of the problem in terms of the resources required to meet our explosive social goals.

This clearly is no time to further handicap capital formation. Yet if the downward trend in profit margins continues, it will both reduce funds for investment and seriously impair the incentive for additional and modernized facilities. The same is true for any adverse action with respect to the accelerated depreciation methods and the investment tax credit.

[8]*Goals, Priorities, and Dollars—The Next Decade,* Leonard A. Lecht, The Free Press, New York, 1966. This citation refers to the published study. The more recent data cited above were presented informally by Mr. Lecht at a recent meeting of the National Economists Club.

NATIONAL AD HOC HOUSING COALITION

By Robert W. Maffin, *Chairman*

On behalf of the National Ad Hoc Housing Coalition, I want to express our appreciation for this opportunity to comment on the *Economic Report of the President* as it relates to the economic issues affecting housing and the redevelopment and development of urban areas. The National Ad Hoc Housing Coalition is a group of over 70 national organizations who support the continuation of national housing efforts, especially for low and moderate income families. A complete list of organizations participating in the Coalition is attached at the end of this letter. *We request that this statement be made part of the Record of your hearings on the Economic Report.*

The "housing industry" is one of the most important components of our economy and has been traditionally viewed as such by the national government. The construction of new housing, the rehabilitation, modernization and conservation of the existing housing stock, the provision of related public and private supporting facilities and the redevelopment and development of urban land directly affect the strength of the American economy and contribute to its growth. For example, the construction segment of the economy employs over five million people and represents eleven percent of our gross national product. During calendar year 1972, total outlays for residential construction alone amounted to nearly 54 billion dollars, representing 4.7 percent of the gross national product.

Yet, the "housing industry" is a vulnerable component of the economy; it requires a steady supply of mortgage credit and is in constant competition with alternative sources of investment which involve less risk and more liquidity. Moreover, the industry is particularly sensitive to economic cycles: expansive during growth periods, retractive in recessions. It is for these reasons that the national government has developed an affirmative policy to assist the housing industry, especially during the past 40 years. The economic strength of housing is directly related to this governmental policy.

There have been, however, some disturbing recent actions taken by the Administration which jeopardize this national policy: an eighteen month moratorium on new federally-assisted housing and the President's Fiscal Year 1974 Budget which proposes to terminate all community development programs on June 30, 1973. There are two major points that we wish to make in this statement.

First, the current Administration views low and moderate income housing programs and community development programs as solely social programs. We take issue with this position; these programs are integral to the national economy, as demonstrated in national housing acts.

Second, the original intention of relating the *Annual Report on Housing Goals* to the annual *Economic Report* is not working. The current moratorium and the proposed termination of community development programs will block the achievement of the 1968 goals. New links and a better understanding must be developed between housing policy and economic policy.

National Housing Policy

For over 40 years the national government has followed an aggressive policy of assisting in increasing the demand for housing and the supply of mortgage credit. A variety of mechanisms have been used, five of which are discussed below.

First, the government has reduced the risk of mortgage financing by underwriting credit risks through the various mortgage insurance and guarantee programs of the Federal Housing Administration, the Farmers Home Administration and the Veterans' Administration. These programs resulted in reducing the interest rate on mortgages, lowering down payments and lengthening the repayment time, thus enabling millions of American families to purchase homes or to move into new rental units. They have also served as guides to the private sector to develop similar arrangements to reduce risk. Demand for housing has thereby been increased, permitting the economic expansion of the housing industry.

Second, national policy has attempted to attract capital to the mortgage market to maintain a steady stream of mortgage credit, thus keeping interest rates down. While past policy in this area has not been totally successful as was evidenced during 1965 and 1969, a series of new devices developed in the past few years have assisted in stabilizing interest rates. These include: the Government National Mortgage Association's (GNMA) mortgage—backed securities program; GNMA's "tandem plan" to reduce discounts; secondary market purchases of mortgages by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation; and an aggressive policy of the Federal Home Loan Bank Board to assist savings and loan associations attract funds.

Third, the government also provides direct funds for use in housing construction, usually in markets where private credit is not available at reasonable interest rates. The most common type of this activity occurs in rural areas through direct loan programs of the Farmers Home Administration and the Veterans' Administration. Prior to 1968, a greater volume of this assistance was provided through the Section 202 Elderly Housing Program and the FHA Section 221(d)(3) program. Both of these programs have been terminated by the Administration and were replaced by the FHA Section 236 Rental Assistance program.

Fourth, the government has adopted a series of tax incentives to encourage private investment in institutions which provide mortgage funds, thus increasing the supply of mortgage credit. Likewise, the present system of permitting a deduction for mortgage interest paid by a homeowner, has likewise increased the demand for housing.

Finally, the government has sought to assist that portion of the market not served by the private sector. A variety of subsidy programs has been enacted to assist low and moderate income families find adequate, livable housing: public housing, FHA Section 235 homeownership assistance, rent supplements and FHA 236 rental assistance being the major programs today. Yet, it must be made clear that these programs were enacted to accomplish two goals: to strengthen the economic position of housing and at the same time, to assist low and moderate income families attain safe and decent shelter. These are not solely social programs, they are integral to our overall housing/economic policy.

Mr. Chairman, we submit that neither the *Economic Report of the President* nor various other actions of this Administration give full recognition to this fact. These housing programs to assist low and moderate income families are now viewed as social programs which can be postponed during the inflationary cycle we are now experiencing. Thus, the Administration's announced moratorium of new housing commitments is, in our estimation, contrary to national policy. We contend that the opposite is true: a healthy economy requires a healthy housing industry; and an affirmative national policy to accomplish the latter is necessary.

One example of the integral relationship of national policy to the strength of the housing industry is documented in the *Economic Report*. The unprecedented strength of housing starts, which reached nearly a 2.4 million level last year is due, in part, to the impact of these federally-assisted programs for low and moderate income families. As the *Report* shows, in 1972, 13½ percent of the private housing units started were federally-subsidized programs. In 1971 the figure was 200 percent and in 1970—28 percent.

Mr. Chairman, I think it is necessary to review our national housing policy, as articulated in the Housing Act of 1949 and reaffirmed in the Housing and Urban Development Act of 1968. These declarations of policy clearly show that the two goals—assisting low and moderate income families and assisting the housing industry—were intertwined in the establishment of federal assistance for housing and community development.

Section 2 of the Housing Act of 1949, the basic policy statement to justify assisted-housing and community development programs, reads: "The Congress hereby declares that the general welfare and security of the Nation and the health and living standards of its people require housing production and related community development sufficient to remedy the serious housing shortage, the elimination of substandard or other inadequate housing through the clearance of slums and blighted areas, and the realization as soon as feasible of *the goal of a decent home and suitable living environment for every American family*, thus contributing to the development and redevelopment of communities and to the advancement of the growth, wealth, and security of the Nation. The Congress further declares that such production is necessary *to enable the housing industry to make its full contribution toward an economy of maximum employment, production and purchasing power*." (Emphasis added.) Clearly the two purposes are spelled out in this declaration.

The 1968 Act, which enacted new housing programs, noted that the goal of a decent home and suitable living environment remained unmet, and declared in Section 2 ". . . the highest priority and emphasis should be given to meeting the housing needs of those families for which the national goal has not become a reality; and in carrying out of such programs there should be the fullest practicable utilization of the resources and capabilities of private enterprise and of individual self-help techniques."

National Housing Goals; National Housing Policy Disrupted

Mr. Chairman, as you well know, the Congress was not content in merely reaffirming the goal, but established a series of programs to provide by 1978 an increase in the housing supply of 26 million units of which 6 million would be of low and moderate income families. The achievement of this goal was given a top priority.

What has happened to this national policy? In January, a complete 18 month moratorium was announced on all new housing commitments for federally-assisted programs and this was accompanied by the impoundment of all Congressionally-approved contract authority for these programs. This was followed by the submission of the President's Budget for Fiscal Year 1974 wherein he proposes to terminate the related community development programs (urban renewal, model cities, neighborhood facilities, water and sewer grants, Section 312 rehabilitation loans, and open space grants) on June 30, 1973 and replace them, in part, one year later with a special revenue sharing scheme. Current Fiscal Year appropriations have also been impounded. (See Table 1 for total housing and community development impoundments.) It is our opinion that these steps negate a portion of our national housing policy, a policy with a tradition of bipartisan support, and will cause serious economic ramifications as their impact is felt.

Table 1.—*Amount of FY 1973 appropriated funds and congressionally-approved contract authority currently impounded*

I—Appropriated funds for community development and other HUD programs impounded	
Water and sewer grants	$400, 175, 000
Section 312 rehabilitation loan fund [1]	72, 320, 000
Nonprofit sponsor loans and grants	6, 686, 000
Open space grants	50, 050, 000
Public facility loans [1]	20, 000, 000
Interstate land sales protection program	2, 341, 000
Subtotal	551, 572, 000
II—Congressionally approved contract authority withheld	
Section 235 homeownership	221, 000, 000
Section 236 rental assistance	171, 500, 000
Rent supplements	38, 600, 000
College housing	10, 200, 000
Subotal	441, 300, 000
III—Farmers Home Administration funds impounded	
Rural water and waste disposal grants	120, 000, 000
Housing for domestic farm labor	2, 947, 000
Mutual and self-help housing	832, 000
Rural housing insurance funds	133, 000, 000
Subtotal	256, 779, 000
Total	1, 249, 651, 000

[1] Includes balance available from loan repayment.

The effects of the housing moratorium, for example, include: a reduction in new housing commitments; an expected leveling off of housing starts; an impoundment of available contract authority; a severe set-back in reaching the 1968 housing goals; and a loss of economic activity and jobs.

New commitments reduced.—Because of the 18-month moratorium on new commitments for HUD housing assistance programs that began on January 5, 1973 and is reflected in the proposed fiscal year 1974 budget, there will be the following relative reductions in new activity. (See Table 2.)

TABLE 2.—NEW UNIT RESERVATIONS AND COMMITMENTS, HUD-ASSISTED HOUSING UNITS: 1972-74

Program	Fiscal year 1972	Fiscal year 1973 (estimated)	1974 (estimated)
Public housing:			
New or rehabilitated	90,352	36,000	21,700
Existing without rehabilitation	10,510	10,000	8,100
Total	100,862	46,000	[1] 29,000
Rent supplements:			
Market rate	16,386	8,800	
Piggback	(25,998)	(20,000)	
Rental housing (sec. 236)	157,541	100,100	
Homeownership (sec. 235):			
New or rehabilitated	140,525	31,900	
Existing without rehabilitation	11,610	8,200	
Total	152,135	40,100	
Rehabilitation loans and grants	7,930	8,742	
Grand total	434,854	203,742	[1] 29,800

[1] Reflects previous commitments which for technical and processing reasons cannot be contracted until fiscal year 1974.

The level of new commitments will drop from 426,924 units in FY 1972 to 29,800 units in FY 1974—a reduction of 93 percent in activity.

The level of new commitments in FY 1973 will drop from an anticipated level of 500,800 units in the original FY 1973 budget to 195,000 units in the adjusted budget—a drop of 62 percent.

Construction starts leveled off.—Because of housing units already committed before the moratorium of January 5, 1973 (units under preliminary loan contract in public housing or with approved feasibility in FHA-assisted programs), there will be a continuing level of new construction starts of 232,400 units in fiscal year 1974. This is a slight reduction from the 259,100 units anticipated for FY 1973 but a reduction of 27 percent from the level of 322.025 new housing starts in FY 1972. It will drop off drastically in fiscal year 1975 because of no new commitments in FY 1974.

Housing authorizations unused.—The moratorium on new commitments will leave unused substantial amounts of contract authorization for the rent supplement and Sections 235 and 236 programs—in total for these three programs, 436.1 million dollars, which could produce some 485,500 new housing units for low- and moderate-income families. There will be no unused authority in the public housing program; it will require further Congressional authorization if new commitments are to be made.

Housing goals set back.—The January 5 moratorium on new commitments, added to an already slowed-down pace of new activity resulting in lower numbers of construction starts, will place the HUD-assisted housing programs 45 percent behind the goals set for these programs by the end of fiscal year 1974, as projected in the original 1968 housing goals. By the end of FY 1974, (the sixth year for the 10-year goals) the original goals for HUD-assisted programs projected half of the 6 million subsidized units for the 10-year period; based on FY 1974 budget projections, production will fall 45 percent behind this goal. The most serious goal gaps are in rent supplements (72 percent gap) and public housing (55 percent gap), both of which serve the lowest-income families. Only four years remain (through fiscal year 1978) to make up these deficits. (See Table 3.)

TABLE 3.—PROGRESS TOWARD 1968 HOUSING GOALS FOR LOW- AND MODERATE-INCOME FAMILIES UNDER HUD PROGRAMS

[In dwelling units, starts and rehabilitation, estimated through fiscal year 1974]

HUD programs	Original goals 1969–74	Actual housing units 1969–73	Estimated housing units fiscal 1974	Gap in goals progress: Units behind goal	Gap in goals progress: Percent behind goal
Public housing	995,000	386,499	60,000	−548,501	55
Sec. 235 (homeownership)	695,000	400,883	17,100	−277,017	39
Sec. 236 (plus other rentals)	865,000	517,921	136,600	−210,479	24
Rent supplements	360,000	80,463	19,400	−260,137	72
Rehabilitation loans and grants	135,000	53,865	6,855	−74,280	55
Total	3,050,000	1,439,631	239,955	−1,370,414	45

Source: For original housing goals: hearings before the subcommittee on housing and Urban Affairs, March 1968, submission by the Department of Housing and Urban Development, pt. 2, table 1-c. p 1325. For actual starts: fiscal years 1969 through 1971, "President's Fourth Annual Report on National Housing Goals, 1972," pp. 44–45. For estimated housing starts: fiscal years 1972, 1973, and 1974, Budget "Highlight Tables, Fiscal Year 1974," HUD, Jan. 29, 1973, table 9.

Economic activity and jobs lost.—The suspension of the HUD housing assistance programs (the failure to utilize the available contract authority in Sections 235 and 236 programs) will have an economic impact related to new housing starts spread over FY 1973, 1974, and 1975. In total it will result in a loss of 7.5 billion dollars in new housing construction activity, with a total economic impact, including related facilities and services, of 19.3 billion dollars. There is an estimated loss of 2.2 million man-years of employment. (See Table 4.)

TABLE 4.—ECONOMIC IMPACT OF SUSPENSION OF NEW ACTIVITY IN HUD HOUSING ASSISTANCE PROGRAMS, FY 1973 AND 1974[1]

	Housing starts possibly with unutilized contract authority as of June 30, 1973[2]	Total cost (in millions of dollars)
I—Construction cost:		
Sec. 235 (single-family homeownership):		
Improvement: $15,200	260,000	3,952.0
Land improvement: $2,500	260,000	650.0
Sec. 236 (multifamily rental):		
Improvement: $13,500	190,500	2,571.8
Land improvement: $1,700	190,500	323.9
Public housing (no unutilized authority)		
Total construction cost		7,497.7

	Per unit cost	Number of units	Total cost (in millions of dollars)
II—Community facilities to support housing:			
Sec. 235 (single-family)	$3,000	260,000	780.0
Sec. 236 (multifamily)	1,500	190,500	285.8
Additional direct expenses	250	450,500	112.6
Durable goods and services	500	450,500	25.3
Total community facilities			1,403.7
Total housing and supporting facilities cost (sum of I and II)			8,901.4
III—Multiplier effect: Total direct expenditures[3]			
IV—Related services:[4]			
Real estate taxes:			
Sec. 235	420	260,000	109.2
Sec. 236	400	190,500	76.2
Interest:			
Sec. 235	1,578	260,000	410.3
Sec. 236	357	190,500	258.5
Insurance: Sec. 235	60	260,000	15.6
Heat and utilities: Sec. 235	360	260,000	93.6
Maintenance and repairs: Sec. 235	168	260,000	43.7
Annual operating expenses on multifamily units: Sec. 236	2,562	190,500	488.1
Total related services			1,495.2
Total dollar impact (I, II, III, and IV)			19,298.0
V—Impact on Employment[3]			

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

[2] Part of the economic impact from unutilized authority will come in the fiscal year ending June 30, 1973, because of cutbacks in projected construction starts in fiscal year 1973. The sec. 235 construction starts were reduced by 105,500 units over the original fiscal year 1973 budget: the sec. 236 starts were reduced by 87,800 units over the original budget. Public housing starts were reduced 20,000 units over the original projections in fiscal year 1973 but will be placed under contract in fiscal year 1974.

[3] I and II ($7,497.7+$1,403.7): 8,901.4×2=17,802.8.

[4] Based on a factor of 115 workers employed for 1 year for each 1 million dollars spent on all construction and related facilities and services.

	Total man-years lost (million)
Total Dollar Impact ($19.298.0 × 115)	2.2

In conclusion, Mr. Chairman, we wish to summarize the points made in this statement. Housing policy, as detailed in the Housing Act of 1949 and the Housing and Urban Development Act of 1968, is a key link in national economic policy. The low and moderate income housing program are major components of this housing policy. The moratorium on new housing commitments and the proposed termination of community development programs will have serious ramifications on economic policy.

Thank you again for this opportunity to submit this statement. If you have any questions please do not hesitate in contacting me.

ORGANIZATIONS PARTICIPATING IN THE NATIONAL AD HOC HOUSING COALITION

AFL–CIO.
American Friends Service Committee.
American Institute of Architects.
American Institute of Housing Consultants.
American Institute of Planners.
American Public Health Association.
American Baptist Convention—Division of Social Concern.
American Society of Consulting Planners.
American Urban Coalition.
Center for Community Change.
Center for National Policy Review.
Center for Responsive Law.
Christian Science Committee.
Council of Housing Producers.
Foundation for Cooperative Housing.
Friends Committee on National Legislation.
Gerontological Society.
Housing Development Corporation.
Institute for Government Assisted Housing.
Interreligious Coalition for Housing.
Interstate Research Associates.
Jesuit Convention.
Joint Center for Political Studies.
Leadership Conference on Civil Rights.
League of New Community Developers.
League of Women Voters of the U.S.
Maryland Coalition on National Priorities.
Model Cities Housing Development Corporation.
National Association for the Advancement of Colored People.
National Association for Building Manufacturers.
National Association for Home Builders.
National Association of Housing Cooperatives, Inc.
National Association of Housing and Redevelopment Officials.
National Association of Minority Contractors.
National Association of Real Estate Brokers, Inc.
National Board of the YWCA.
National Committee Against Discrimination in Housing.
National Council on the Aging.
National Education Association.

National Council of Jewish Women.
National Council of Senior Citizens.
National Corporation for Housing Partnerships.
National Farmers Union.
National Federation of Settlements and Neighborhood Centers.
National Forest Products Association.
National Housing Conference.
National Housing Rehabilitation Association.
National Parks and Conservation Association.
National People's Action on Housing.
National Realty Committee, Inc.
National Retired Teachers Association.
American Association of Retired Persons.
National Conference on Catholic Charities.
National Recreation and Park Association.
National Rural Electric Cooperative Association.
National Rural Housing Coalition.
National Spanish Speaking Housing Development Corporation.
National Tenants Information Service.
National Tenants Organization.
National Urban Coalition.
National Urban League.
National Wildlife Federation.
Neighbors Organized for Action in Housing, Inc.
Nonprofit Housing Center.
Opportunity Funding Corporation.
The Producer's Council.
Section 23 Leased Housing Association.
Southwest Council of La Raza.
United Methodist Church and Society.
United Mortgage Bankers of America, Inc.
Urban Environment Conference.
United Federation of State and County Municipal Employees.

NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

By GROVER W. ENSLEY, *Executive Vice President*

The President indicated in his *Economic Report* that "the general prediction is that 1973 will be another very good year for the American economy." The economic forecast presented in the accompanying *Annual Report* of the Council of Economic Advisers called for continued strong overall expansion in 1973, with a 6-¾ per cent rise in real GNP, and a decline in the unemployment rate to 4-½ per cent by year-end. The rate of inflation was expected to decline further, to 3 per cent for the year as a whole, bringing the increase in consumer prices to a 2-½ per cent annual rate by the end of 1973. Realization of these projections would be a major accomplishment for the economy and for federal economic policy.

The Council's projections were close to those made earlier by many private economic forecasters. Recent dramatic economic and financial developments, however, have caused considerable concern and have led many private observers to reconsider their earlier views of 1973 prospects—particularly with respect to the rate of inflation and the stability of financial market conditions. Among these developments are: the continued turmoil in international money markets; the introduction of Phase III amid doubts as to the effectiveness of the new, more voluntary system of wage-price restraints; recent sharp increases in wholesale prices of both food and industrial commodities; acceleration in economic expansion and the increased possibility of intensified demand-pull inflation; and sharp increases in short-term interest rates.

These disquieting developments underscore the importance of strict federal budgetary controls and vigorous enforcement of wage-price restraints by the Administration. In this regard, the National Association of Mutual Savings Banks has repeatedly indicated its strong support for efforts to restrain federal expenditures and limit budget deficits. The NAMSB 1973 forecast last December also warned against "the premature dismantling of wage-price controls (which would) generate renewed inflationary pressures and expectations." Controls have not been dismantled. The ultimate impact of Phase III restraints remains uncertain, however, and will depend heavily on business-labor cooperation and effective federal action in the event of violations.

Continued international monetary uncertainties and a more inflation-prone economy at home raise the possibility of a more restrictive Federal Reserve monetary policy posture in the months ahead. A less accommodative policy was, of course, to be expected as the economy approached full employment levels. The chief danger is that, once again, monetary policy will shoulder a disproportionately heavy burden in fighting inflation because of inadequate federal fiscal and income policies. This could only lead to sharp reductions in thrift institution savings and mortgage flows and threaten continued economic recovery.

That a less favorable climate for savings bank deposit flows has recently emerged is apparent. Preliminary data indicate that deposit growth at savings banks in February fell to $5.9 billion at seasonally-adjusted annual rates. This was well below the $12.0 billion growth rate experienced in January and the $9.9 billion increase registered in 1972 as a whole. We do not anticipate massive disintermediation in 1973. Nevertheless, a definite slowdown in savings bank deposit flows has occurred, amid growing signs of weakening savings market conditions.

The recent decline in savings bank deposit flows reemphasizes the continued long-run vulnerability of mortgage-oriented thrift institutions and the housing sector to cyclical interest rate changes. As long as their powers and services remain narrowly restricted, thrift institutions will be subject to sharp and excessive swings in savings flows. As in the past, this will contribute to the feast-or-famine pattern of private mortgage credit flows, and to the need for periodic, massive expansion of federal support for housing.

The need to strengthen the nation's system of mortgage-oriented thrift institutions, within a context of overall financial reform, was recognized by the President's Commission on Financial Structure and Regulation. The President's *Economic Report* and the Council's *Annual Report* did not mention the Commission's recommendations or discuss financial market prospects in detail. Hopefully, this does not reflect a lack of recognition of the crucial importance or relative stability in financial market conditions to the short-run performance of the economy, or of the long-run need for comprehensive reform of the financial structure.

Our industry is gratified, therefore, by recent public statements indicating that the Administration will soon transmit to the Congress comprehensive legislative proposals developed from the Commission's recommendations. The latest statement to this effect was made by Mr. James E. Smith, Deputy Under Secretary of the Treasury, in testimony on H.R. 4070 presented on March 15 before the Subcommittee on Bank Supervision and Insurance of the House Committee on Banking and Currency. This bill would extend existing federal authority for regulating deposit interest rates. H.R. 4070 would also, in effect, ban the NOW account service offered by savings banks in Massachusetts and New Hampshire and bring non-FDIC-insured savings banks in Massachusetts under federal rate control authority.

In his testimony, Mr. Smith said that the Administration is concluding its policy reivew of a comprehensive set of legislative recommendations on the structure and regulation of deposit institutions. The Administration hopes to be able to announce these recommendations in "narrative form" by early April, with the transmittal of draft legislation to the Congress to follow by early June. Against this background, Mr. Smith said that the Administration believes that the simple extension of existing deposit interest rate ceiling authority is the appropriate approach at this time, and that the issues raised by the other provisions of H.R. 4070 are better included in the broad discussion on the nation's financial structure which will result from the Administration's upcoming recommendations. The savings bank industry supports this approach.

The need for comprehensive structural reform of our nation's financial system is long overdue. The President's Commission on Financial Structure and Regulation has provided the blueprint for such reform. We urge expeditious action by the Congress to consider and enact appropriate implementing legislation.

NATIONAL FARMERS UNION, EXCERPTS FROM 1973 POLICY

Preamble

We, the members of the Farmers Union, are dedicated to the preservation of the democratic ideals expressed in the Constitution of the United States.

We will safeguard representative government and resist authoritarianism in all its forms.

Realization of democratic ideals requires citizen participation in the processes of government and the institutions of our society. We believe in government by law. The checks and balances resulting from the division of government powers are essential.

Basic freedoms must be assured and preserved. These include freedom of thought, freedom of speech, freedom of religion, freedom of the secret ballot, freedom to organize, and freedom to petition for redress of grievances.

A goal of government must be to expand the rights of individual citizens. Physical resources should serve the needs of people. Our Nation's land and resource policy must be based on family ownership and management of farms.

The principles expressed in this Preamble are the guidelines for the Policy Statement that follows:

National Economic, Social, and Foreign Policy

A. Economic Policies

1. FULL EMPLOYMENT ECONOMY

The Employment Act of 1946, which sets forth the national policy directed toward a goal of a full employment economy, should be implemented and the President's Council of Economic Advisers should utilize existing authority to carry out the purposes of the Act.

2. MONETARY POLICY

We have long supported wage and price controls as a means of controlling inflation. The failures of high interest-tight money policies are now evident to almost everyone. To control inflation, we favor continued use of direct governmental controls. In efforts to reduce unemployment, we will continue to oppose tax write-offs to major manufacturers. We favor tax incentives for consumers, family farmers, and small businesses.

We ask the national Administration and Congress to take the following actions:

a. Approval of legislation to abolish the Open Market Committee;

b. Reconstitution of the Federal Reserve Board to include representation of agriculture, small business, and labor;

c. Reconstitution of the law making the Federal Reserve Board responsible to the Congress;

d. Establishment of ceilings on interest rates at 2 percent above the prime rate;

e. Designing of fiscal and monetary policies to expand the money supply in proportion to the expansion of the economy to bring about low interest rates and ample credit;

f. Limits and control of credit, including installment buying, by increasing down payments in lieu of raising interest rates;

g. Excess profits tax on corporations; and

h. Price controls on farm commodities should not apply at less than full parity price.

3. FEDERAL TAXATION

Oil and mineral interests have secured depletion allowances on the premise that such funds are needed for exploration of new deposits. Therefore, all funds so allowable should be placed in trust with the United States Treasurer for a period of five years, allocated to the credit of the payee. During the five years, any payee shall, upon proof of his efforts at exploratory work, be allowed to draw his allotment.

We urge the Congress to continue the task of tax revision begun in the Tax Reform Act by further actions to close income tax loopholes and assure that the system more accurately reflects ability to pay. These amendments should include:

a. Tightening of the tax-loss farming provision to limit this tax advantage for off-farm investors;

b. Tax advantages should be ended for non-farm interests that are now able to change ordinary income into capital gains by investing in agriculture;

c. Preventing foundations, trusts, and churches from escaping taxation when engaging in commercial profit-making activity.

d. Increasing the personal income tax exemption to $1,200;

e. Imposing excess profits taxes upon suppliers of military and defense equipment and materials; and

f. Closing tax loopholes of the wealthy to minimize the tax load of those in lower income brackets.

4. REVENUE SHARING

We acknowledge that the system of progressive taxation at the federal level is superior to the system of taxation in the states. In an effort to adopt at state levels a system of taxation based on income as contrasted to property, Farmers Union is seeking state tax reform. As states adopt tax reform measures, a better alternative to revenue sharing is improved programs of federal grants-in-aid to states and federal-state cost-sharing, especially in supplementing property taxes which are increasing due to increasing costs of financing educational programs.

5. NATIONAL SALES TAX

We oppose enactment of any federal "value-added" tax. The "value-added" tax is a hidden sales tax, which will hit hardest poor people with the least ability to pay. We strongly oppose any substitution of the "value-added" tax for corporate income taxes.

6. INHERITANCE TAXES

Because of the inflated dollar value of land and property which continues to rob each generation of any inheritance their parents may have earned for them, the federal inheritance taxes should be raised from the present $60,000 deduction to $100,000.

The Farmers Union should launch an educational program to help show farm families how they can help preserve their years of toil by wills, gifts, living trusts, and insurance; this educational process to contain probate procedures.

7. CONTROL MONOPOLY

The concentration of ownership of the Nation's resources and wealth—both vertically and horizontally—threatens family agriculture, small businesses and, ultimately, consumers. Antitrust laws must be strengthened and vigorously enforced.

The Packers and Stockyards Act must be improved to assure farmers freedom from unfair competition and monopolistic oppression. Congress should enact legislation strengthening the authority of the Secretary of Agriculture to enforce the Packers and Stockyards Act, and provide effective penalties for violation and provisions for recovery of damages by farmers. Those responsible for enforcement of the Act—in cooperation with the Justice Department and Federal Trade Commission—should expand their efforts to deal with monopolistic control and manipulation of prices, while continuing to deal effectively with deception and fraud.

Under the false label "free enterprise," chain stores and large food processors have rendered inoperative the law of supply and demand, controlling 85 percent of food sold at retail. Chain stores are administering prices paid to farmers and ranchers as well as prices charged to customers. To stop this destructive trend, we ask vigorous enforcement of the antitrust laws, together with mandatory jail sentences and large fines for those convicted.

8. ENCOURAGE SMALL BUSINESS

Farmers have increasingly closer economic and social interrelationships with service and professional people and businessmen in our local marketing centers. Farmers Union supports every legitimate legislative aim of small business to protect itself from the further encroachment of monopolistic big business.

Government contracts should be awarded on the basis of competitive bids and small businesses should be provided the special services required to be on an equal opportunity basis to bid on such contracts. Unnecessarily detailed specifications which discriminate against bona fide bidders should be dispensed with.

We favor expansion of loan authority and strengthening of the Small Business Administration.

9. COMMUNICATIONS

We urge Congress and the Federal Communications Commission to reject proposals which would decrease, impair, or destroy radio and television farm news and other services of importance to farmers, and to support the adoption of legislation and FCC policies which encourage sound technical standards which will safeguard and improve radio and television service now available to farmers and residents in rural areas.

The Farmers Union demands that our government adhere to a strict interpretation of the First Amendment.

We oppose the Administration's proposed revision of radio and television station licensing periods. We feel that this, in conjunction with the proposal to hold local stations responsible for network programming, could be a form of government censorship.

We call on the Federal Communications Commission to concern itself with the growth of cable television which might result in program deterioration or a monopoly in information sources.

10. TRANSPORTATION

Expansion and modernization of our entire land, air, and water transportation system should be encouraged to maintain maximum services at reasonable rates. We urge creation of a Transportation Authority to bring about a nationwide transportation plan so that all segments of our national transportation system can be meshed together to the best advantage of the Nation's interests.

We support effective rate regulation of railroads and other common carriers. We urge a detailed investigation of each company in the railroad industry, to determine the exact disposition of capital by individual companies. We support legislation which would require railroads and other carriers to reduce freight rates on agricultural commodities.

The announced intent of the Nation's railroads to discontinue service on at least 50 percent of their branch lines should be opposed most vigorously by the Interstate Commerce Commission. If railroads insist on abandoning lines and the Congress and the Interstate Commerce Commission refuse to assist in retaining service, the only remaining alternative will be to nationalize the railroads. Rail rate increases should be granted only when railroads improve performance and service.

We favor continuation of the bulk exemption for agricultural commodities moving on water. State boundary barriers to interstate transportation should be eliminated. We favor that the Commodity Credit Corporation should not transport grain during harvest to release transportation facilities, including box cars.

Farmers who cannot deliver grain called in by the Commodity Credit Corporation because of transportation tie-ups should be paid storage for the time the grain is held past delivery date, and should not be held liable for deteriorating grain quality.

We support a strong American Merchant Marine to assure not only regular and dependable shipping for the Nation, but to provide transportation for American Agricultural commodities in international trade to enhance income opportunities for our farm and ranch people.

Cost of programs needed to permit the American Merchant Marine to compete for shipping should be borne by the Nation as a whole. We continue to support cargo preference on Food for Peace shipments. However, we oppose cargo preference on commercial sales.

11. PUBLIC ATOMIC POWER

Legislation should be enacted to insure that new sources of atomic energy will be developed more judiciously to guarantee environmental balance and to benefit all at the lowest possible cost.

The Atomic Energy Commission should strengthen and speed up development of atomic power through stronger federal programs, including construction of needed demonstration and development plants.

We urge the enactment of legislation which would make possible the participation of cooperative and public bodies in both public and private atomic electric power programs.

We deplore the policy of the Atomic Energy Commission which uses a technicality of the law to avoid licensing of non-profit bodies to build atomic energy plants.

Agricultural Policy

A. Parity

We reaffirm our basic commitment to the 1910–14 price parity standard for farm commodities to give farmers their fair share of national income.

B. Family Farm

A "family farm" is an agricultural production unit where the family furnishes its own capital and management, takes the economic risk, and provides most of the labor (peak seasons excepted).

1. WHY PRESERVE THE FAMILY FARM

The family farm is the keystone of our highly successful agricultural system. The interest and welfare of the Nation is increasingly related to preservation of a family-farm pattern of agriculture.

Studies indicate that large-scale (including corporate) farms are not more efficient than family farms. Competitive advantages that large-scale and corporate farms can have over family farms include access to adequate operating capital and the ability to shift earnings from non-farm business into farming to avoid payment of interest and taxes and to take tax losses on farming operations. On the other hand, when the management of a farm is taken away from those who supply the managements, labor, and capital, there is loss of initiative, skill, and prudent judgment which have made possible the efficiency and abundant production of our family-farm agriculture.

The efficiency criterion, moreover, is insufficient to judge which pattern of agriculture is most consistent with the overall interests of America. A number of interests and groups suffer ill effects from corporate (non-family farm) agriculture and the migration to the cities of farm families: (1) Non-metropolitan communities lose families engaged in agriculture and their taxes which support schools, libraries, and other rural institutions; (2) main street businesses (banks, farm implement dealerships, etc.) dependent on the purchasing power of farm families face bankruptcy due to volume out-of-state buying—a common practice of corporate farms; (3) consumers will experience higher, "administered" food prices due to the concentration of market power in corporate agriculture; (4) urban areas face increased demands for housing, sewage disposal, welfare, and other service programs due to overcrowding; and (5) environmental protection for the entire Nation can best be maintained through the preservation of family-type farm operators.

2. WHY PUBLIC POLICY SHOULD BE USED TO PRESERVE FAMILY-FARM AGRICULTURE

The United States in 1973 has a "mixed" economy, in which the free market has been modified and circumvented in various ways by corporate structure for businesses, by tariffs and import restrictions, by laws for fair trade pricing and fair competition, by exclusive franchises and an assured return on investment for the utilities, by restriction of entry into certain trades and professions, and by collective bargaining for workers. The independent family farmer stands virtually alone as the textbook example of free competition in the United States economy.

We reaffirm the National Farmers Union's position that federal governmental policies and programs are essential to protect family farmers against the hazards of the marketplace where almost everyone else, except the farmer, is protected. The power of public policy must be used to sustain the independent farmer in an economy which is otherwise strongly organized—in which most other production is planned, most marketings are rationed, and most prices and profits are administered.

C. New Farm Program

The "set-aside" program of the Administration should be redirected in order to prevent over-production of grains and other commodities, accompanied by low prices which gravely threaten the future of family farming. Unless a change of program direction takes place, corporate takeover of agriculture will result. This will not be good for farm families or the consumer.

Farm legislation should commit the Nation to the preservation and strengthening of the family farm.

The federal farm program should provide assurance of 100 percent of parity return (combination of price support loan and payments) to producers of all agricultural commodities, up to a level consistent with a fully adequate family farm operation. Supply management programs should be employed when necessary.

Price support loan floors should be no less than 75 percent of parity.

Farmers Union has traditionally taken the position that the effectiveness of price support programs is irrevocably tied to a workable program of supply management. Commodity programs designed to balance supply with demand will lower costs to the government and raise incomes to producers.

Legislation should provide workable combinations of farm income improvement methods such as, but not limited to: nonrecourse price support loans, surplus diversion purchases, farm income improvement payments, export payments, lightweight livestock marketing premiums during times of surplus production when it is clearly evident that the surplus is driving market prices down, and orderly marketing practices through marketing orders and purchase agreements negotiated by producer-controlled marketing committees.

We support the enactment of a graduated formula of limitation of payments calculated commodity by commodity, at levels consistent with assuring full parity of income to family farm operators, taking into consideration the percentage of total income the commodity producer can expect to receive from production payments.

In the interest of furthering worthy national goals, new farm legislation should provide:

(1) Assurance to consumers of a plentiful and steady supply of food, feed grains, and fiber.

(2) Preservation of an economically viable farm and rural America, including main street businesses, through improving opportunity for families to farm, and increased income-earning opportunities.

(3) Strengthening of the family-farm pattern of agriculture and a national commitment to stop out-migration from farm and rural areas to overcrowded city and urban areas.

(4) Expanded markets for industrial products assuring more jobs for labor.

(5) A climate for greater international cooperation between nations concerning trade agreements and the resolving of conflicts in policies between farm programs and international trade in agricultural commodities. Such cooperation would result in greatly expanded opportunity for mutually advantageous trade between major agricultural producing nations.

(6) Greatly enhanced opportunity to protect the environment through conservation of land resources.

D. Domestic Marketing Policies

The Federal governmental price support and supply management programs—when they are designed to help farmers to prevent oversupply of particular commodities—can afford a basic framework of protection for farmers in the marketplace. However, even when supply and demand of farm products are in relatively good balance, the weak bargaining position of farmers in the market prevents them from obtaining fair prices and income. Farmers need additional and improved mechanisms and institutions for direct and positive influence in the marketplace.

1. IMPROVED MARKETING MECHANISMS

National Farmers Union calls upon the Congress in 1973 to strengthen the Marketing Agreements Act of 1937 to extend marketing order authority to all commodities and to further amend the Act to: (1) provide for bargaining between elected producer committees and handlers for adequate prices as well as other terms of sale; (2) direct the Secretary of Agriculture to administer market supply control programs, when and where necessary, subject to approval by a majority of the producers concerned; (3) authorize pooling of sale proceeds.

Market orders have proven their worth in milk, fruit, vegetables, and tree nuts. Placing market order authority with these improvements within reach of all producers is an urgently needed first step toward greater producer marketing power.

National Farmers Union also reaffirms its support for enabling legislation to establish a National Agricultural Relations Board with authority to bring farmers together with processors for the purpose of bargaining over prices received by farmers for their produce. Farmers need and are entitled to a firm legal procedure which will enable them to manage the production and marketing of their products. Such legislation should protect farmers from antitrust action.

E. Administration of Farm Programs

1. PRODUCTION BASES, ALLOTMENTS, AND QUOTAS

Production bases, allotments, and quotas for individual commodities should be allocated to states, counties, and farm families on a recent five-year history by farmer-elected committees of farmers so that each state, county, and farm or ranch will receive its fair share.

Adjustments of bases, quotas, or allotments should be consistent with the objective of strengthening the family farm structure of agriculture with adequate minimums for individual farms below which there should be no further reduction. No entity engaged in farming, directly or indirectly, shall be allowed to break out native grass land or wooded land and receive immediate or future benefits of crop base history, price supports or allotments on crops raised on such land.

Priority should be given to families entering farming and hardship cases where additional quotas or allotments are needed to make a fully sufficient family farm unit.

Protection should be afforded individual farm units from encroachment by larger factory-type operations. Adjustments of quotas and allotments should be managed in such a way as to assure that they are not subject to becoming a part of vertically integrated production, processing, and marketing units.

Released acreage and/or quotas should not be moved over county and state lines if there is need for additional acreage and/or quotas on family-type farms in the county or state affected.

Marketing quotas should be expressed in terms of commodity units such as bushels and pounds where approved by producers.

Acreage allotments based on crop history, soil classification, conservation practices, tillable acres, and other factors should be used either singly or in combination with bushelage and poundage quotas where preferred by producers.

Sale and lease of marketing quotas and acreage allotments can destroy rural communities through further loss of farm families. We oppose legislation or administrative action to expand sale and lease of production rights and to weaken the traditional role of Agricultural Stabilization and Conservation Service committees in administering such transfers.

2. FARMER-ELECTED COMMITTEES

Preservation and strengthening of the farmer-elected committee system is strongly supported by Farmers Union. Administration by these committees of farm programs, including the Rural Environmental Assistance Program, is fully consistent with Farmers Union's efforts to protect the future of family farmers. We will oppose efforts to erode the integrity and independence of these committees and continue to support their continuance in every agricultural county in the United States.

3. FOOD AND FIBER RESERVES

We support the establishment of a national food and fiber reserve, embracing the principle of an ever-normal granary, to assure that our domestic food and fiber needs and commitments overseas can be met in any emergency. Commodities stored under this reserve policy should include, but not be limited to: Wheat, feed grains, rice, cotton, peanuts, milk products, edible fats and oils, and soybeans.

Use of these reserves should be limited to international or domestic emergency disaster and relief purposes and the cost should be charged to appropriate agencies such as Defense or Welfare, and no release of these reserve stocks should be permitted into commercial markets at less than 100 percent of parity price.

4. ON-FARM STORAGE

We favor expanding the lending operations of the Agricultural Stabilization and Conservation Service to build on-farm grain storage and handling facilities. Loans should be provided to (1) cover full costs of all component parts needed to complete storage, drying, and handling facilities; (2) bear low interest; and (3) be repaid over a period up to five full crop years. Individual farm storage capacities financed under such loans should be at the discretion of the farmer-borrower.

Government-owned bins, if offered for sale or lease, should be offered for sale only to farmers and to farmer cooperatives at a rate or at prices reflecting their depreciated value.

5. TRANSPORTATION BOTTLENECKS

We commend the U.S. Senate for passage of Senate Resolution 59, which is designed to alleviate problems of farm marketing resulting from transportation bottlenecks. The Resolution calls for a halt on sales of CCC grain until the transportation problems are resolved, and for farmers at their option to reseal wheat and feed grains from 1970, 1971, and 1972 crops at least until normal marketing and transportation channels are open to them. We call upon the Administration to implement these provisions without delay.

F. Federal Crop Insurance

Improvement and expansion of this program should be continued until it is available to family farmers on an equal basis in every county in the United States for all crops.

All administrative and operating expenses should be paid through direct federal appropriations. To protect producers in high risk areas, we urge that provision be made for federal funds to supplement premium income in those years when disastrous conditions threaten actuarial soundness of the program, withdrawal from the area, or denial of insurance to producers in subsequent years.

Farmers should be given priority in the employment of sales personnel. Selling the insurance through banks and other institutions where conflict of interest may exist should be stopped.

In administering rules for the writing of separate insurance unit agreements on two or more farming tracts operated under one ownership or management, the question of whether a certain mileage distance be required between such units should be left to the discretion of the states, as at present.

G. Farm Labor

The National Labor Relations Act should be extended to hired workers on corporation farms and other farms which employ enough hired help to be subject to the federal minimum wage provisions applicable to agricultural workers.

We support the Minimum Wage Act of 1966 which exempts farmers who hire an equivalent of seven or less farm workers annually. It is essential that the goal of 100 percent of parity for family farms be achieved in order to be able to pay wages that will attract skilled farm workers.

Legislative provisions should be strengthened regarding wage rates, health, safety, and housing conditions for domestic migratory farm labor, and for education of the children of migrant families.

We urge governmental recruitment and on-the-job training programs for farm workers.

We support a strictly supervised program to permit the legal immigration of Mexican Nationals to work as seasonal employees on family farms as on-the-farm trainees. The program must not jeopardize the jobs of domestic workers. It must assure the imported workers no less than the national minimum wage, adequate housing, and safe transportation.

H. Research and Promotion Programs

We oppose any federally authorized commodity research and promotion programs unless the legislation on which the program is based provides for (1) initial approval by a producer referendum on a one-producer, one-vote basis; (2) any board established to administer the program must be composed solely of producers who derive most of their income from farming; (3) a periodic referendum of producers to approve continuation of any such program.

I. Grain Warehouse Insurance Protection

We urge the establishment of a federal depositing grain warehouse insurance corporation to guarantee that farmers are protected up to $50,000 for grain stored or delivered to commercial grain warehouses. Further, we propose that the Congress appropriate the necessary funds to create the corporation. Protection would be available to producers through elevators that file annual financial statements which the U.S. Department of Agriculture accepts. We believe this is necessary to replace present inadequate bonding of dealers and warehousemen.

J. Miscellaneous

Congress should enact increased opportunities to expand and improve farm marketing services, information on safe use of agricultural chemicals, regulation of commodity exchanges, and economic research services of thhe U.S. Department of Agriculture and the Food and Drug Administration. Legislation should be adopted to require nationwide purity, quality, and sanitation standards, and nutritional labeling for both domestically produced and imported food products. Uniform standards should also provide for content labeling of feed, indicating digestible nutrients. Other processed farm products, such as seed, chemicals, and available plant food in fertilizers should be labeled uniformly.

Present research programs to discover new, economic, industrial and other uses for agricultural products and to develop new crops and livestock products should be immediately expanded with federal financial assistance to encourage industry and farm cooperatives to undertake initial development of new processes and pilot plant operations.

We recommend further research on the feasibility of the use of grain alcohol being blended with gasoline, as a substitute for lead in motor fuels. Initial indications are tha such a blend could substantially reduce automobile pollutants and expand markets for grain.

K. Cooperatives

The most successful program of rural development in our Nation's history has been written by our cooperative movement.

The farmer-owned cooperative is an effective institution through which the farmer can reduce his costs of production and increase the income from his produce. Therefore, governmental policies should be designed to give bona fide farmer-owned cooperatives the key role in assembling, processing, retailing, and handling farm commodities.

1. TEAMWORK OF COOPERATIVES AND FARMERS UNION

Mutual advantage and benefits accrue to the Farmers Union membership organization and the farm cooperatives when the membership organization maintains a strong educational program on behalf of cooperatives and when the cooperatives, in turn, contribute educational funds to the Farmers Union for this purpose, and also foster membership stability through a dues check-off. We commend those cooperatives that do so, and we urge our members to give their loyalty and patronage to these institutions.

Farmers Union cooperatives and other cooperatives supported by our members are urged to maintain their aims and operating policies consistent with the income-improvement programs of National Farmers Union.

2. TAXATION OF COOPERATIVES

We affirm our position that the net savings of a cooperative, when distributed within pre-existing agreements with patrons, are the property of the patron and not income of the cooperative. We regard it as unprecedented and discriminatory for the government to stipulate by law or regulations the time and manner of returning cooperative patronage earnings or refunds. Such action is an invasion of the right of patrons to conduct the business of their cooperatives by democratic process and in accordance with the articles and bylaws of their associations. We oppose the provision in the law which requires a written consent agreement by the patron authorizing investment in the cooperative.

Farmers Union members and organizations should make clear to the general public the tax position of cooperatives and thus combat the efforts of the National Tax Equality Association and similar groups to destroy cooperatives by imposing punitive taxation.

L. Corporation Farming

Farmers Union support legislation to require corporations to divest themselves of agricultural production interests if they have assets of $3 million or more, or capital investments of $1 million or more, in non-farm business. Such legislation should exempt farmer-owned cooperatives and associations who meet the conditions of the Capper-Volstead Act and/or the Agricultural Marketing Agreements Act.

M. Reorganization of the United States Department of Agriculture

We oppose the Administration's reorganization proposal that would strip the U.S. Department of Agriculture of "non-farm" programs and functions. Human, economic, natural, and community resources in rural America are administratively inseparable. Agricultural programs and other programs that serve people and rural areas are closely related and are often administered through single agencies and field offices within the U.S. Department of Agriculture.

We recommend that farm and rural programs, including rural electrification, housing, water and waste disposal, and soil conservation be kept in the Department of Agriculture where they can be closely coordinated with farm commodity and credit programs.

N. Credit Policies and Programs

Credit is money extended based upon the ability to repay. It is not a substitute for parity farm prices and income. Nevertheless, access to adequate credit at reasonable costs is essential if family farmers are to operate effectively and competitively. Government policies and programs should be designed to assure an adequate flow of credit to independent farmers.

1. FARMERS HOME LOANS

We recommend at least $1 billion be made available for operating loans and $1 billion to finance purchases of farms by young farmers through the Farmers Home Administration. A young farmer investment program should be established under the Farmers Home Administration, with the Federal Government insuring commercial loans made available to all young farmers for entry into farming or expansion of the capacity of their farming units. The Federal Government should pay the difference between the 3-percent interest rates and the existing rate as it does in the educational or renewal loan programs.

We recommend establishment of a program to enable retiring farmers to sell their farms in lump sum or deferred payments at fair appraised values to a land transfer agency financed and supervised by the Farmers Home Administration. Such property should be made available on long-term payment schedules at low rates of interest to young farmers. This program, with proper safeguards, would help preserve the family-farm pattern of agriculture by permitting transfer of farm land from one generation to the next.

We recommend that the limit on farm operating loans should be advanced from $50,000 to $75,000. However, the raising of loan limits should be accomplished by substantial increases in funds available for this purpose so that the result will not be the serving of fewer farmers. The goal must be to extend the program, not restrict it. We further urge that no debts other than those owed to Farmers Home Administration be considered at the $75,000 level.

We recommend that the limit on farm ownership loans be increased from $100,000 to $150,000.

We will oppose the assessing of fees to cover costs of Farmers Home Administration loans. These loans are made to those who cannot get credit elsewhere, and the assessment of fees would further aggravate the problems the loans are designed to help solve.

We recommend that the Farmers Home Administration be authorized to extend its authority by amendment of the Consolidated Farmers Home Administration Act of 1961 to include cooperatives now doing business and others wanting to go into cooperative endeavors, who are unable to obtain funds under the present requirements.

We urge continuation of a disaster loan program, administered by the Secretary of Agriculture, and available only to family farmers who have suffered a disaster. Disaster loans should be at low interest rates, and have a repayment period of 10 years.

2. COOPERATIVE FARM CREDIT

We recognize that the cooperative system is dependent on the Nation's money markets for its supply of loan funds and is thus largely unable to control factors that determine interest rates and the supply of money. Nevertheless, we urge that the system, at all levels, strive to ease the credit squeeze and reduce the current high rates of interest being charged farmers.

The farm credit banks should develop additional sources of loan funds to assure a plentiful supply of credit to farmers at the lowest possible rates. In this endeavor, steps should be taken to make farm credit securities readily available to individual farmers so they might invest savings in their own cooperative credit system.

We urge the Production Credit Associations to avail themselves of existing statutes which permit allocation of earnings on interest paid by the borrower.

MARCH 13, 1973.

To: Chairman W. R. Poage and Members of the House Agriculture Committee.
From: Tony T. Dechant, President, National Farmers Union.

This morning the delegates to our national convention, meeting in Omaha, Nebraska, approved as a special order of business the following resolution on REA 2 percent loans and instructed me to forward the resolution to you:

"National Farmers Union, meeting in annual convention at Omaha, Nebraska, March 13, urges full restoration of the REA Direct 2 Percent Loan Program for Rural Electrics and Telephones, as it operated prior to December 29, 1972.

"We reiterate our plea for enactment of H.R. 2276 (S. 394), to require the Administration to carry out the REA 2 Percent Loan Program at the full level of funding appropriated by Congress.

"We strongly urge the House Agriculture Committee to approve and report H.R. 2276 without amendment and without further delay, so that this essential program can be restored on the earliest possible date."

Sincerely,

TONY T. DECHANT.

Enclosure.

STATEMENT OF NATIONAL FARMERS UNION, UNANIMOUSLY ADOPTED BY DELEGATES TO THE 71ST ANNUAL CONVENTION IN REGARD TO DAIRY PRICE SUPPORT PROGRAM, SUBMITTED TO THE SENATE COMMITTEE ON AGRICULTURE AND FORESTRY, MARCH 14, 1973

We call upon the Congress to establish price supports for manufacturing milk at not less than 90 percent of parity for the marketing year beginning April 1, 1973.

The action announced by the Nixon Administration on March 8 will reduce by about 25 cents per 100 pounds the prices farmers receive for milk. This economic blow comes in the face of severe difficulties confronting dairymen in their efforts to maintain milk production and it jeopardizes the adequacy of milk supplies for the Nation.

The dairy situation is well summarized in the following paragraph released by the Outlook and Situation Board of the U.S. Department of Agriculture two days before the unwise decision to reduce milk prices was announced by the Secretary's office:

"Washington, March 6—Milk Production may decline a little this year, following 3 years of increase. Sharply higher feed prices along with poor quality roughage and short feed supplies in several key areas are reducing milk output in early 1973. Herd culling is also increasing. Some additional dairy farmers may be turning to other occupations. Milk output per cow in January was up less than 1 percent from a year earlier, compared with a rise of 2½ percent for all of 1972. Milk cow numbers declined 1.4 percent this January compared with 1.1 percent average drop in 1972."

The cut in milk prices will result in dairymen selling dairy cattle at an accelerated rate. Further aggravating the depletion of dairy cattle numbers are unfavorable weather and crop conditions and the relatively favorable level of cattle prices. This will, in all probability, lead to shortages of milk in the United States in the months and years ahead and to extreme instability in milk prices, milk and dairy product supplies, and employment in the milk processing and manufacturing industries. This is not good for anyone—neither farmers, nor consumers nor the workers and rural communities that depend economically upon the dairy industry.

In contrast, the increase in the support level that we advocate will increase milk prices moderately above current levels. More importantly, it will give to dairy farmers the incentive and encouragement that is needed to maintain their herds and milk producing capability through the next few months of exceptionally high food costs and, in many cases, direct economic losses, until a new crop of feed restores milk production costs to more nearly normal proportions.

REMARKS OF REUBEN L. JOHNSON, DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION, TO NATIONAL AGRICULTURAL OUTLOOK CONFERENCE, FEBRUARY 21, 1973

There are beginning to be signs which point up the Administration's policy direction concerning the future of commodity programs for wheat, feed grains and cotton programs.

Increasing demand for the grains and soybeans resulting from unprecedented sales brought on by *temporary* climactic factors mainly in Russia, have established a favorable climate for farm program opponents to step up the huckstering of their fee market philosophy. There is grave danger that farmers may be deluded into accepting the persuasions of those who have traditionally been the enemy of farmers.

This week, in an executive session with the Senate Agriculture Committee, Assistant Secretary of Agriculture Brunthaver flushed out the general framework of the President's statement. As best I can determine what the Assistant Secretary told the Committee, he embraced the policy of dividing present payments made to farmers in the wheat, feed grain and cotton programs into two parts: (1) those payments relating to buying land out of production; (2) those payments relating to supplementing income. The Administration, he said, wants to phase out over a period of three years—before the end of the Nixon Administration's term of office—all payments ascertained to be a supplement to income. The Administration's farm program, he said, would basically be one of retiring land and making payments only required for that purpose. The method of arriving at the amount of acres to be retired was vaguely described by the Assistant Secretary, but it appears that at some point in the three year phase out period, all present production bases and allotments would be abandoned.

The program is not new as you have already recognized. It's merely a retread of the Benson Farm Bureau soil bank.

The price support level, Assistant Secretary Brunthaver said, would be based on world market price levels in order to continue to seek outlet of more U.S. agricultural production.

Assistant Secretary Brunthaver obviously reflected the views of Secretary Butz which, incidentally, were those of Secretary Ezra Taft Benson too when he explained to the Committee more efficient production is the Administration's goal.

The Administration's program is tailormade to favor corporate farm expansion and to force out the family-type commercial farmer. Those of you who recall the farm policies and programs of Secretary Ezra Taft Benson will see the similarities in the program details and its objective of putting a greater economic squeeze on the commercial family farms.

Farmers Union led the fight and many times was the only effective adversary among farm organizations of Secretary Ezra Taft Benson's "soil bank". A similar crisis to that of the fifties faces those who support Farmers Union views. If there is a difference, it is that present day farm program wreckers are seemingly more determined to end government farm programs. Therefore, a great effort is required if we are to succeed again as we did in the fifties to get Congress to turn back the Butz-Benson policies.

Let us look briefly at a few facts that we can use in leading such a fight:

> The U.S. population is now roughly 210 million people. By 1980 our population is expected to increase to 235 million, an increase of about 12%. With an inelastic demand for food, it's not expected that consumption will increase much more than that dictated by an increase in the population growth. Obviously, there will be some commodities that will be consumed in larger and some in lesser quantities than at the present time, but by 1980 our domestic food consumption should roughly be about 112% of the consumption we have today.
>
> The export demand for feed grains, and soybeans in particular, will continue to increase. But the farmer, as President Tony Dechant recently

stated, should not be left with the prospect that export market requirements will replace the need for intelligent supply and management programs. Supply management programs together with price support loans will continue to be needed to protect the farmer from depressed market prices which result from too much production in a given year. That year may well be 1973.

The production potential of U.S. agriculture is awsome.

Since 1950, we have reduced the acreage in the major crops we produce by 11 percent. In 1972 we produced roughly 38 percent more food and fiber than in 1950. The productivity of American agriculture brought about by increasing technology, is certain to increase. Crop yields per acre in normal years will continue to increase. The years in which there was a corn blight and an unprecedented export demand are not normal years. Such years do not create the kind of normal circumstances on which to predicate the future of commodity program policies.

For example, since 1950 in most of the years, except the two which were marked by the corn blight and heavy export demand, it has been necessary to keep 50–60 million acres of readily available cropland out of production. While it is highly advantageous to continue to produce for expanding export and domestic market, past experience would dictate that we should not abandon effective rifle-shot supply management and price protection programs.

Economist Orval Krause, in this connection, in the 1971 Year Book of Agriculture says "it now appears that there is still great technological potential, and that farm production will increase in the foreseeable future as fast as our population. *Thus we will not need additional land for agriculture.*" If time permitted, I could relate examples of how technology has grown. But that story is a familiar one to all of you here.

David Culver of USDA's Economic Research Service, based on the technology inputs into agriculture has concluded in a paper to be presented next week at USDA's Outlook Conference in Washington, that the need for cropland would run about the same as recent years or perhaps a little higher. If the rate of population slows to one percent or less, as now seems reasonable, cropland use could decline from recent levels.

In January 1971, a Conservation Needs Inventory compiled by the Soil Conservation Service showed available cropland acreage at 438 million—19.3 percent of the total land of the Nation. Last year 195 million acres were planted to 59 principal crops. Thus, 143 million acres of available cropland was not needed and not used last year for these 59 principal crops.

To further illustrate the awesome potential for agricultural production in the Nation, this Conservation Need Inventory classified another 193 million acres of land as suitable for production of cultivated crops. Add this 193 million acres to the 143 million acres of cropland not used in 1972 and the total is 336 million acres of excess land that could be brought into production. Admittedly, the profitability of converting these 438 million acres of cropland into production would depend upon the price a farmer could receive and the nature of the land, to mention the two chief factors.

In the program which this Administration will apparently try to talk Congress into enacting, there are two policy thrusts that must be of concern to farmers:

(1) The obvious intent to maintain disaster price support levels relying on the marketplace to stimulate the prices that the farmer must receive if he is to get an adequate return on his investment and earn a decent income. The assurance that the market will give price protection is, to put it mildly, subject to question. And,

(2) The obvious further forced out-migration from farm to cities that would result from this kind of a farm program.

In past years, Farmers Union has testified against the massive land retirement approach to supply management on the basis that its cost would be excessive. Since the program attempts to take cropland out of production, the shotgun approach, there is slippage not only in the balancing of supply and demand, but in the determination of the cost of the program.

A further concern of farmers should be that the Secretary of Agriculture, in his whirl of recent announcements, has opened the way to bringing back this year 40 million acres of the 60 million acres that have been deferred from production in recent years under government supply management programs. Let us assume that the floodgate of production that bringing these acres back into production will, at the end of one or two years, not be needed. It would then be necessary to make payment to farmers for the retirement of these acres—if the Administration's farm program proposals should be accepted by Congress.

Further, there is approximately another 40 to 50 million acres that are potential productive acres now in hay, forage and other crops that would have to be included in any massive land retirement program and with little effect on the balancing of supply with demand.

Potentially, it would be a reasonable assumption to conclude that more acres could be subject to payment for retirement since, as I have indicated, up to 336 million of potential cultivatable acres are available in excess of current need. But there is a driving determination on the part of the free market advocates of which the Secretary of Agriculture, Mr. Butz, is a typical example, to force farmers into a free market situation—a free market situation which no other sector of the economy would tolerate.

The thrust of the Administration's program is simple. It's a program for the international grain trade cartels, the processors, the packers, the millers and others who make up the chain of processing and marketing from the farm gate to the chainstore. It's not worthy of even serious consideration by the Senate and House Agriculture Committees.

Farmers Union's legislative effort, and challenge, therefore, is to admonish every member of the Congress not to be deluded into the dangerous thinking that the Administration's farm program can be justified in the short run of tolerable price and marketing conditions—that we must not look merely at the short run, but at the longer run.

Farmers Union will ask Congress to give consideration to longer-range considerations and in particular to whether the Administration's program has the elements essential to helping farmers toward the goal of fair, reasonable and stable price and income levels that will protect the future of the commercial family farmer, and that will provide the consumer an ample supply of food and fiber at stable and reasonable costs.

STATEMENT OF ELTON L. BERCK, PRESIDENT OF NEBRASKA FARMERS UNION, MEMBER OF THE BOARD OF DIRECTORS OF NATIONAL FARMERS UNION, PRESENTED TO THE SENATE AGRICULTURE COMMITTEE, FEBRUARY 27, 1973

Mr. Chairman and Members of the Committee, it is a great privilege for Farmers Union to again be given the opportunity to appear before this distinguished Committee to present views concerning the future of such important programs as were dealt with in the Agriculture Act of 1970.

I commend you, Mr. Chairman, for broadening the hearings to include other programs—as environmental protection, consumer protection, food stamp and child nutrition programs and rural development. Farmers Union traditionally has been concerned with a broad range of national issues and programs, including all those which the Committee is concerned with in these hearings.

In keeping with the Chairman's request that testimony be heard from genuine "dirt farmers" I have accompanying me here today four young farmers who are members of National Farmers Union and who are in Washington this week as participants in a Fly-In made up of 130 young farm men and women. I respectfully ask your permission to permit these young farmers to make brief statements following my general presentation after which we would be happy to submit to your questions.

The present situation facing the Nation's farm families can best be described as one of a general crisis. This crisis has resulted from the termination of essential farm programs, a subject to which this Committee has already devoted its attention in public hearings and in your Executive meetings. But the crisis extends beyond those actions which would deny farmers the benefits of such programs as REAP, 2% REA loans, disaster credit, special rural housing loans and rural waste and water loans and grants.

I am referring to the future relationship between farmers and their government. The development and administration of commodity programs is of great importance to Farmers Union members and to all farmers for that matter. We are deeply concerned, for example, that in the President's reference to agriculture in his State of the Union message on Natural Resources and The Environment, he indicated a major departure from the supply-management and price support programs which have given farmers some measure of protection in the marketing of their produce.

The supply management tools afforded farmers in all farm legislation enacted by Congress since 1938 would be denied them if, as the President indicated, the allotments and bases for wheat, feed grains and cotton were to be abandoned. Elimination of the dairy price support system would bankrupt dairy farmers.

We are concerned too by the statement of the President which indicates that direct payments would be made only in the amounts necessary to compensate farmers for withholding unneeded land from production. The Administration's farm program recommendations, as we understand them from various sources including the briefings with the staff of the Senate and House Agriculture Committee, lie in the direction of a massive "soil bank" retirement plan reminiscent of the era of former Agriculture Secretary Ezra Taft Benson.

As this Committee is well aware, Congress has rejected on a number of occasions that type of a supply-management program in favor of a more direct and effective means to providing farmers with legal sanctions to prevent overproduction and the depressed market conditions which inevitably result.

The Administration has announced changes in the wheat and feed grains programs for 1973 which will release 40–45 million acres of the 50–60 million acres that have been kept out of production in recent years under the farm laws passed by Congress. The Administration has taken other actions that are designed to depress farm prices. They are: (1) failure to provide for grain reseal, (2) opening up acreage removed from corn production to grazing and haying, (3) releasing from CCC inventory commodity stocks into the open market, and (4) removal of restrictions on meat imports. When viewed in the context of the Administration's future farm program proposals, these actions are of special concern to Farmers Union.

Farmers Union supports a farm program which provides needed supplies of food and fiber to meet domestic needs and to meet export requirements. But we want to produce these needed supplies under conditions that will strengthen the proven family farm system of agriculture. Our goal should also be to preserve an economically viable farm and rural America, including Main Street businesses, through improving opportunity for families to farm profitably and to increase income earning opportunities for non-farm residents. We do not see a massive "soil bank" program coupled with disaster price supports as a means to meeting these objectives.

We, therefore, urge the Committee to consider improvements to existing farm laws which I will briefly refer to as follows:

(1) PRICE SUPPORTS

In the effort to assure that adequate production will be provided to meet needs at home and abroad, the Administration has relaxed supply management provisions in effect for wheat, feed grains and cotton this crop year.

If export requirement levels this year do not come up to the Administration expectations, a severe drop in market prices for these commodities could result. To protect farmers from depressed market prices, we urge that the Committee establish in new farm legislation higher price support levels. Considering the level of current market prices, the attempts made in the last Congress to raise price support levels of feed grains and wheat can now be looked upon as right and proper.

We believe the increasing of price support levels in new farm legislation would be right and proper. We, therefore, recommend, as has President Tony Dechant in recent weeks, that price support levels for wheat be increased to $2.00 a bushel, for corn to $1.30 a bushel, for grain sorghum to $2.20 cwt. and for cotton to 36¢ per pound.

(2) SUPPLY MANAGEMENT

The supply management provisions under the set-aside were relaxed as compared with the provisions in the 1965 Farm Act. Many farmers welcomed the opportunity to plant additional acres. But fully allotted farms receive little benefit while others with land resources were provided more favorable opportunity to expand production. The bigger the land holder, the greater the benefit.

Farmer acceptance of the set-aside program in large measure was due to the high level of funding—the highest level in history. The reductions of payments already announced for 1973 apparently will be further reduced in subsequent years if the Administration's farm program proposals should win approval in Congress.

These changes are not winning favor with farmers and if excess production should result this year because of Administrative changes in the 1972 Farm

Program, there would be wide-spread farmer dissatisfaction with the Administration's handling of farm program matters.

The ways and means to strengthen supply-management provisions of farm laws are under study by our organization and will be a subject of discussion at our national convention to be held in Omaha, Nebraska March 11–14.

At this stage in the consideration of farm legislation, we would urge the Committee to recognize the need for an effective means of balancing production with need.

(3) STRATEGIC RESERVE

It continues to be our position that a reserve embracing the provisions of an ever normal granary is needed to assure that our domestic food and fiber needs and commitments overseas can be met in any emergency. The establishment of such a reserve could prove helpful in the administration of supply-management programs in ways that would move toward a closer balance between production and need than would be possible in the absence of such a reserve.

(4) FOOD STAMP, FOOD FOR PEACE

Farmers Union favors strengthening of the food stamp and commodity distribution programs. These programs can at the same time expand the effective demand for food products, and assure that adequate nutrition is provided to needy people in the United States.

Farmers Union is concerned that commodity shipments under P.L. 480 have deteriorated to a low level. Total P.L. 480 shipments in 1971 amounted to approximately $1 billion, or only 13% of the $7.7 billion total agricultural exports in 1971—the lowest percentage since Food for Peace began in 1955.

(5) RURAL DEVELOPMENT

Farmers Union strongly supported enactment of the Rural Development Act of 1972, a major initiative which came from this Committee, and we oppose the current efforts by the Administration to distort the Congressional intent of this Act with respect to REA loans and other programs. We support strengthening of Rural Development programs this year, including full funding of the 1972 Act as intended by this Committee and Congress.

We have recognized, as has the Committee, the need for permanent commodity programs. Farmers are handicapped by not being able to make long range plans. While we would favor permanent extension of legislation affecting future commodity programs, we will support a five year extension as provided in S. 517.

It is our intention to make additional and more specific recommendations during the course of the Committee's consideration of future farm legislation. As I have indicated, Farmers Union holds its annual convention March 11–14.

Mr. Chairman, at this time I would like to ask the farmer witnesses who accompany me here today to comment.

NATIONAL FEDERATION OF INDEPENDENT BUSINESS

By WILSON S. JOHNSON, *President*

I am honored by your invitation of February 12 to file with the Joint Economic Committee observations on the state of small business, in connection with your hearings on recommendations by the President in his Economic Report of January 1973.

In this connection I would point out that the sector which the Federation represents through its 330,000 member firms—smaller, independent enterprise—plays a most important role in our economy. According to governmental estimates it accounts for 37 percent of our Gross National Product, and provides about 60 percent of the jobs in our private, non-agricultural sector.

It is for this reason that I am greatly concerned over legislative trends of the past seven or more years, in what has become the age of consumerism, environmentalism, health and safety, social concern, and so on. Certainly we as a nation have an obligation to address ourselves to those problems which affect the national good, which must and can be considered and which cannot be solved privately. At the same time we should not—as seemingly we have done—blind ourselves to the fact that each of those programs carries a price tag, the cost of which is more often than not prohibitive to affected smaller, independent businesses, or perhaps more directly, anti-small business. Let us consider just one of these programs, the Occupational Safety and Health Act of 1970.

Under this law small businessmen are required to comply with Federal safety and health standards. They are subject to inspection without advance notice, and to fine for violations without a chance to come into compliance. They have found it practically impossible to secure information on the regulations involved, and securing information, in many cases have found the regulations too complex for understanding. Perhaps more importantly is the factor of direct cost.

For instance, in a survey this year we are questioning our members about the impact of OSHA. Among the first 10,000 respondents 8 percent report having been subjected to a Labor Department inspection. Of this group 35 percent report that they have been found in violation, at an average cost in fines and equipment and work-site changes of approximately $9000 each. Now, $9000 may seem a minimal sum to those in Government accustomed to dealing in the hundreds of billions of dollars annually, but to the small contractor, the small manufacturer, and the corner merchant, operating in the truly competitive free enterprise sector and grossing perhaps $75,000–$250,000 per year, it is a major burden, especially in view of the facts that perhaps 70 percent of his gross new investment must come from internal sources and that these sources are under a relentless squeeze from high levels of taxation.

What I have pointed out here might apply equally in the Wholesale Meat Act, the Egg Products Act, in the case of the ever-increasing Federal Minimum Wage, Social Security increases, and so forth.

It is also for this reason that I am concerned over the failure of the government to strengthen the antitrust laws which safeguard freedom of small business opportunity. For instance, over the years large manufacturers have become involved increasingly in a practice known as dual distribution. In this practice in many instances these manufacturers compete directly at retail with their independent outlets, and in this practice they many times sell at retail at prices near or below the cost of their independent outlets. Were these manufacture-owned outlets in fact independently owned outlets, the discriminations they enjoy might be reached through the strictures of the Robinson-Patman Act. Yet they are beyond this law because of a Federal Trade Commission 1954 interpretation which holds them secure against legal action. And this is only one area in which these important laws fail small business.

Finally, it is for this reason that I am concerned over the failure of the Congress to accord small business the attention and action it deserves and needs by providing the Small Business Committees of Senate and House with legislative power. With the increasing complexity of broad issues being presented for consideration by Congressional Committees it seems to me that specific small business concerns are being lost in the shuffle. Perhaps this is one of the reasons why so many of the laws seem to bear disproportionately on the small business sector. In this connection I would call your attention to remarks on this subject by Senator Ted Stevens of Alaska on January 4 of this year upon his introduction of S. Res. 38, a bill which would equip the Senate Small Business Committee with legislative power, which remarks have equal applicability in the House. Also in this connection I would like to compliment the Small Business Administration for its increased activity in its advocacy role.

From the foregoing it is easy to recognize my concern that those in government are not giving the needs of the small business sector the attention which these needs deserve. It is my hope that your Joint Committee will be able in some way and to some extent, redirect the course of governmental action so that small business opportunities in the future may become more secure than they are today.

[The remarks by Hon. Ted Stevens referred to in the text follow:]

Mr. STEVENS. Mr. President I submit for appropriate reference a resolution designed to give to the Select Committee on Small Business, the authority necessary for it to receive bills and resolutions relating to the problems of small business and to report bills and resolutions to the Senate for its consideration.

Mr. President, as a Senator from a small state, I know first hand the importance that small business has to millions of Americans. In thousands of small communities throughout this country, small business constitutes the very backbone of community existence.

On the other hand, Mr. President, small business also constitutes the economic backbone for our larger urban areas.

In our highly technologically advanced society, we sometimes think of business only in terms of General Motors, General Electric, or other large well known corporations. Big business certainly is important to the nation's economic well-being, but small business continues to be the most important factor in our overall economy. There are nearly 5 million small businesses in this country. These small businesses, which constitute 95% of the total number of businesses in the country, provide employment for over 30 million Americans. Both in rural and urban areas, small businesses furnish a livelihood for nearly 60% of the population and provide direct employment for 40% of the population.

Mr. President, at the present time most of the small business legislation offered in the Senate is considered by the Small Business Subcommittee of the Committee on Banking, Housing and Urban Affairs. Over the years that Committee has had a distinguished record of protecting the interests of small business. The resolution I am introducing today is in no way intended to diminish or criticize the hard work and dedication of the Small Business Subcommittee of that Committee.

However, Mr. President, if we in this 93rd Congress are to be dedicated to streamlining the legislative process on a more functional basis, we must realize that the problems of small business have little relationship to the problems of banking, housing or urban affairs. All of us want our country to grow and prosper without the scourge of inflation. Such growth and prosperity depends in large measure on the health, effectiveness and responsiveness of the nearly 5 million small businesses which form the backbone of our economy.

Now is the time, Mr. President, for we in the Senate to give a higher priority to the small businesses in this nation. I sincerely hope that in organizing this 93rd Congress we in the Senate will adopt the resolution I am introducing today. This resolution does not establish a new standing committee, but it does give a higher priority to the needs of small business and greatly increases the efficiency of the Senate.

NATIONAL LEAGUE OF INSURED SAVINGS ASSOCIATIONS

The Economic Outlook

Economic activity in 1973 will continue on the broadly upward plane which characterized the remarkable expansion of economic activity during the past year. 1972 produced a $101 billion increase in gross national product. Percentagewise the increase was 9.7%—the largest since the 15% jump in 1951 which was spurred by the Korean war buildup. Unemployment decreased from 6% to 5%, while the physical output of goods and services rose 7.6%.

The current business cycle's strong upward thrust is being propelled by freely spending consumers, enlarged investments by business in new plant and equipment, a decided pickup in inventory accumulation, sustained state and local government spending, as well as a surprisingly high level of housing starts. Personal income continues to increase at a healthy $6 billion monthly—the average for last year. Moreover, consumer confidence remains ebullient for the near term, notwithstanding the rising concern over retail prices, especially food.

Retail spending in January was running 12% higher than the comparable month last year. During all of 1972 consumer spending increased by over $56 billion, a percentage jump of 8.5%. Eliminating price increases produced a real spending increase of 6%. Considering the fact that over-withholding of personal income taxes reduced actual money flows into consumers hands, the spending rise was remarkable.

Business is raising its capital expenditures by some 13% over last year's outlays. In 1972, business investment in new plant and equipment increased $7.33 billion, a percentage rise of 8.9%. This year's expenditures are programmed to reach $100.0 billion, a dollar increase of $11.5 billion.

Throughout all of last year and again in January of this year, the housing industry continued to make shambles of fairly widespread forecasts of contraction in newly started units. Last year 2,355,000 housing units were started. In January, the annualized level of starts reached 2,468,000 units.

In view of the fact that permits issued this January declined to 2,185,000 from 2,377,000 in December, the high January start level may indicate that an unusually large number of government subsidized units were put into the construction stage in order to protect commitments already approved.

Inventory accumulation was quite modest last year. The increase of $5.5 billion was small in relation to the level of sales. For the present year inventories are expected to be augmented by $12.5 billion. One structural element that will add to inventory investment this year is the increased demand for heavy equipment with long production lead times. Inventory accumulation tends to increase when sustained heavy consumer spending coincides with substantially increased business capital outlays in the advanced stages of the business cycle. At such times, and the present is one, the labor, money and raw goods that go into final sales face greater competition from demands generated to satisfy production capital needs.

The preceding recital of extremely favorable barometers of economic activity for the current years is not intended to mask areas of concern, both domestic and international, which not only are likely to arise during the course of the year, but which have already surfaced in some areas although the new year is still in its infancy.

Areas of Concern in 1973

Some of the problems so apparent during the second half of the last decade may again take center stage before the current year is over. The unholy triad of (1) rising prices, (2) higher interest rates, (3) and international currency crises may imperil the length and stability of the current business recovery.

The rise in wholesale prices in December, January and February are cause for serious concern. The sharp increases in wholesale food prices in December and January antedated the Phase III voluntary control announcement. In February higher prices for non-food items contributed substantially to the push in the wholesale index. These price actions are reviving inflationary fears. They are resurrecting concern that the rapid price rises, in food and rents especially, will result in wage contract settlements large enough to ratchet prices further upward. It did not take long for the January 13.2% and the December 19.2% seasonally adjusted annual increases in the wholesale price index to filter into the consumer's pocketbook. The January rise of 6% in the consumer price index was sufficient to justify growing concerns that demand push on costs already evident would be further buttressed by undesirable wage boosts.

The international dollar crises which has raged since the end of January has yet to be settled notwithstanding the further 10% devaluation of the dollar, a 3% revaluation of the mark, a six nation European currency float against the dollar, and scattered individual nation floats and two-tier arrangements. The moderation in U.S. off-shore spending associated with the cessation of military activities in VietNam had no real effect upon the dollar's posture abroad.

Hardly any amount of cautious official comment can conceal the fact that the 20.62% devaluation of the dollar (in terms of gold—as high as 30% against other currencies) in the short period since December 1971, mirrored deep and disturbing concern regarding the dollar's relationship with the rest of the industrial nations and potential impacts upon world trade. It would be shortsighted to think that our balance of payments problems will be solved solely by the restoration of a positive trade balance. The latter is a goal to be achieved, of course. And as soon as possible. However, as long as the world is short of capital and other nations are desirous of increasing their standards of living, American capital is likely to be attracted off-shore to harvest greater returns than are available locally. Only a non-loophole capital control system can prevent such flows from occurring—a two tier system which frees capital flows associated with trade from other money movements.

Monetary and Fiscal Policies

With a booming domestic economy and a deeply unsettled international currency climate, it is imperative that all arms of government cooperate in the adoption and implementation of prudent fiscal and monetary policies if we are to avoid the booms and recessions that have characterized the past thirty years as well as the inflation that has been so virulent since 1965.

The Congress is responsible for fiscal policy—the collection of revenues and the expenditures of departments and agencies. No one will argue that the present system of budgetary decision making is not without major imperfections. In an ordinary year several of the major appropriation bills are not even enacted until the fiscal year is half over. One major improvement that the Congress can make in its fiscal procedures would be to change the federal fiscal year to a calendar year basis. Then the Congress would have 12 months instead of 6 months to work on its appropriation bills. This procedure would also be beneficial in enabling the Congress to overview the entire fiscal operation and hopefully establish budget goals more in keeping with the changing needs of the economy. The recent decision of the Congress to establish a Joint Study Committee on Budget Control certainly is a step in the right direction.

Of more pressing concern are the levels of government expenditures during the current and next fiscal years. With a broadly based expansive economy generating tremendous demands for credit it will be necessary to moderate the size of federal credit claims if inflation is to be avoided, the recovery protracted, and interest rates kept within tolerable levels. Prudent federal budget outlays will do much to allay inflationary fears as well as moderate pressures on interest rates.

Monetary policy has recently been substantially less expansive than in 1971 and 1972. And rightly so. While the over 8% growth in the money supply was probably too much last year, its objective of refueling the economy on a sharply upward plane was achieved as the date enumerated at the start of this statement amply illustrates.

Now, however, conditions call for a more restrictive monetary policy—one attuned to sustaining current levels rather than overfueling the economic boiler. Obviously the real growth of the economy will slow during the year to a rate closer to the long term 4% growth rate. The 7.6% real growth rate of 1972 is neither advisable nor sustainable. This suggests that a growth in the money supply in the range of 4% to 6% would accommodate desirable credit expansion in 1973 without engendering undesirable credit inflation.

The monetary managers may well have difficulty in keeping the monetary aggregates from periodic wide fluctuations this year due to the enormous dollar flow resulting from the currency crises already experienced, let alone those that may arise subsequently. However pressures arising from such sources should not obscure the need for moderation in the expansion of the domestic money supply.

INTEREST RATE LEVELS IN 1973

Interest rates have increased since the beginning of the year and are likely to continue so. Short term market rates have risen sharply from December to mid-March while long term rates have fluctuated upward within a fairly narrow range. Two increases in the discount rate, similar increases in the prime rate, a current level of over 7% in the federal funds rate, and Bank CDs hitting Regulation Q ceilings for maturities beyond 90 days indicate that short term interest rates are likely to rise further. The 90 days Treasury bill will likely reach 6.50% by mid-year.

It is unlikely that long term interest rates will exceed 8% this year. Some moderate upward adjustment from current levels are likely for rates on mortgages and corporate bonds. The upward adjustments in these rates will be due in part to reactions to the increase in short rates and to moderation in the net savings inflows into thrift institutions and commercial banks.

While it is expected that savings inflows in savings and loan associations will moderate this year, disintermediation of the kind experienced in 1966 and 1969 is not expected to reoccur. Savings gains, including interest credited, of from 10% to 12% are projected for the current year. This would amount to gross savings gains of from $21 billion to $25 billion—compared to the record of $33 billion last year. Some contraction in housing starts as the year progresses and recourse to Federal Home Loan Bank advances, as well as FNMA mortgage purchases, should contribute to an adequacy of housing credit for the year.

These estimates for increases in savings balances for the current year are based upon the premises that Regulation Q ceilings on savings rates are extended with the current differentials remaining applicable, and that fiscal and monetary policies are conducted in a manner designed to lessen actual as well as expectational inflationary pressures.

The nation's savings and loan associations have made an extremely important contribution to the economic recovery of the past two years. During that period they made $91 billion of mortgage loans and were the principal financier of the record 4½ million new housing units commenced during the period. At the beginning of this year these institutions had on their books commitments to lend $18 billion—an amount equal to one year's portfolio runoff. That amount of commitments is also a record.

The present high level of commitments to make mortgage loans clearly etches the importance of reasonable and prudent fiscal and monetary policies in assuring an adequate flow of funds to the residential mortgage market. While housing starts are expected to total slightly over 2,000,000 units—a reduction of 300,000 from last year's record production—price inflation in housing costs will require about the same amount of mortgage funds to finance the lower level of starts.

A combination of imprudent fiscal and monetary policies would place serious deterrents upon housing credit flows. Institutions with heavy commitments already on their books would become increasingly cautious about acquiring additional commitments if the market levels of interest rates made significant inroads upon new savings flows. The consequence, of course, would be a larger contraction in housing starts than is warranted under prevailing demand requirements.

1973 is a year which should be devoted to policy adoptions and implementations designed to assure a sustainable continuation of the current economic expansion.

NATIONAL URBAN COALITION

By Sol M. Linowitz, *Chairman*

The Metropolitan Development Agency

The Metropolitan Development Agency funded by the federal government but politically accountable on a metropolitan, area-wide basis could work in tandem with the National Development Bank as developed in the National Development Bank Act of 1971.

A metropolitan agency would not supplant general purpose local government but would give both central city and suburban residents an opportunity to bring about economic and social stabilization. It is recommended that a very limited number of metropolitan development agencies be chartered and those agencies be chartered in a select number of areas to enable the National Development Bank to provide maximum funding which in turn would provide a maximum social and ecnomic impact in the designated areas.

This federally chartered agency would be empowered with the responsibility of acquiring and developing land for neighborhood redevelopment, industrial centers, low-income and middle income housing and related community facilities, and for the prevention of abandonment of central cities. The purchased property would be financed through private capital by issuing special purpose indebtness backed by the National Development Bank. The Metropolitan Development Agency would have additional powers to engage in physicial and social planning with access to resources for social services through the National Development Bank.

In my opinion, the Metropolitan Development Agency is excellent tool for marshalling private investment for the revitalization of our cities.

The President's Moratorium on Low- and Moderate-Income Housing

The Housing Moratorium announced on January 8th by Secretary George Romney affects the following subsidized housing programs:

(1) 235—Low Income Homeownership Program;
(2) 236—Multifamily Rental Program;
(3) Rent Supplement; and
(4) Public Housing.

In addition, several other programs that relate to housing and community development were terminated: College Housing, Model Cities, Neighborhood Facilities, Open Space Land, Water and Sewer Facilities, Urban Renewal Rehabilitation Loans, Community Development

Training and Fellowships and Supplementary Grants for New Communities.

Impounded funds in the field of housing and commnuity development, during Fiscal Year 1973, will amount to $991 million and constitute approximately 16 percent of HUD's total available budget authority.

In Fiscal Year 1974 impoundments will exceed $1 billion and rise to at least 21 percent of total HUD funds available for new commitments.

Almost $400 million of the total monies which will be impounded in Fiscal Year 1974—involving some 450,500 housing units for lower income families—relate to the section 235 home ownership program and the section 236 rental assistance program.

It has been estimated that the economic impact for these two programs alone will exceed $19 billion and result in an estimated loss of 2.2 million man-years of employment. These figures do not include an assessment of the economic or employment impact relating to the impoundment of funds for rent supplements, water and sewer facilities, rehabilitation loans, college housing, non-profit sponsor assistance, public housing modernization, model cities, neighborhood facilities, urban renewal, community development training and fellowships, supplementary grants for new communities, open space land or public facility loans. The impoundment of funds in those areas of activity far exceed the level for the two programs mentioned above; thus, the moratorium total impact on our economy in terms of dollars and jobs lost will be multiples of the $19 billion cost figure and the 2.2 million job figure.[1]

The level of new commitments for HUD-assisted housing programs will drop from 426,924 units in the FY 1972 to 29,800 units in FY 1974.

It is also important to note that requested appropriations for HUD will drop from $4,291,308,000 in FY 1973 to an estimated $2,684,-303,000 in FY 1974.

At the same time, by the end of FY 1974, HUD-assisted housing programs will be 45% behind goals set forth in the Housing and Urban Development Act of 1968. By the end of that fiscal year—the sixth year of the ten year period during which six million new or rehabilitated units were to have been produced for low and moderate income families—slightly over half of the three million units anticipated will actually be ready. The public housing program will be 55 percent behind projected goals; and rent supplement programs lag approximately 72% behind projected goals.

Substantial members of workmen and contracts, many of them minority groups, will be forced to seek other employment. Revitalization of core decaying inner-city neighborhoods will not take place.

The cost in human terms cannot begin to be explained. The hopes and aspirations of vast numbers of elderly persons, workers, homeowners, and others have again been clouded.

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[1] The computations above were taken from the statement to the Senate Judiciary Committee on Separation of Powers by Mr. Robert Maffin, Chairman of the National Ad Hoc Coalition. See attached tables.

ATTACHMENT 1

ECONOMIC IMPACT OF THE SUSPENSION OF NEW ACTIVITY IN HUD HOUSING ASSISTANCE PROGRAMS, FISCAL YEAR 1973 AND FISCAL YEAR 1974 [1]

	Housing starts possible with contract authority as of June 30, 1973 [2]		Total cost (in millions of dollars)
I—Construction cost:			
Sec. 235 (single family homeownership):			
Improvement—$15,200	260,000		$3,952.0
Land improvement—$2,500	260,000		650.0
Sec. 236 (multi-family rental):			
Improvement—$13,500	190,500		2,571.8
Land improvement—$1,700	190,500		323.9
Public housing (no unutilized authority)			
Total construction cost			7,497.7
II—Community facilities to support housing:	Per unit cost	Number of units	Total cost (in millions)
Sec. 235 (single family)	$3,000	260,000	$780.0
Sec. 236 (multi-family)	1,500	190,500	285.8
Additional direct expenses	250	450,500	112.6
Durable goods and services	500	450,500	225.3
Total community facilities			1,403.7
III—Multiplier affect:			
Total direct expenditures (I & II)	8,901.4	2	17,802.8
IV—Related services:			
Real estate taxes:			
Sec. 235	420	260,000	109.2
Sec. 236	400	190,500	76.2
Interest:			
Sec. 235	1,578	260,000	410.3
Sec. 236	1,357	190,500	258.5
Insurance: sec. 235	60	260,000	15.6
Heat and utilities: Sec. 235	360	260,000	93.6
Maintenance and repairs: Sec. 235	168	260,000	43.7
Annual operating expenses on multi-family units: Sec. 236	2,562	190,500	488.1
Total related services			1,495.2
Total dollar impact (I, II, III and IV)			19,298.0
V. Impact on employment [3]			

[1] Based on factors supplied by Dr. Michael Sumichrast, National Association of Home Builders.
[2] Part of the economic impact from unutilized authority will come in fiscal year 1973 ending June 30, 1973, because of cut-backs in projects construction starts in fiscal year 1973. The sec. 235 construction starts were reduced by 105,500 units over the original fiscal year 1973 budget; the sec. 236 starts were reduced by 87,800 units over the original budget. Public housing starts were reduced 20,000 units over the original projections in fiscal year 1973, but will be placed under contract in fiscal year 1974.
[3] Based on a factor of 115 workers employed for 1 year for each $1,000,000 spent on all construction and related facilities and services.

	Total man-years lost (million)
Total dollar impact ($19,298.0×115)	2.2

ATTACHMENT 2

PROGRESS TOWARD 1968 HOUSING GOALS FOR LOW AND MODERATE INCOME FAMILIES UNDER HUD PROGRAMS

[In dwelling units, starts and rehabilitation, estimated through fiscal year 1974]

HUD program	Original goals 1969–74	Actual housing units 1969–73	Estimated housing units, fiscal 1974	Gap in goals progress (units/percent behind goal)
Public housing	995,000	386,499	60,000	−548,501 (55)
Sec. 235 (homeownership)	695,000	400,883	17,100	−277,017 (39)
Sec. 236 (plus other rentals)	865,000	517,921	136,600	−210,479 (24)
Rent supplements	360,000	80,463	19,400	−260,137 (72)
Rehab loans and grants	135,000	53,865	6,855	−74,280 (55)
Total	3,050,000	1,439,631	239,955	−1,370,414 (4)

Source: For original housing goals: Hearings before the Subcommittee on Housing and Urban Affairs of the Senate Committee on Banking, Housing and Urban Affairs, March 1968, submission by the Department of HUD, pt. 2, table 1–c, p. 1325; for actual starts, fiscal years 1969 through 1971, "President's Fourth Annual Report on National Housing Goals," 1972, pp. 44–45; for estimated housing starts, fiscal years 1972, 1973 and 1974, Budget Highlight Tables, fiscal year 1974, Department of HUD, Jan. 29, 1973, table 9.

NEW YORK CHAMBER OF COMMERCE*

The New York Chamber of Commerce is honored and pleased to submit for the first time a statement for the record of the Joint Economic Committee's hearings. The New York Chamber of Commerce is the oldest Chamber in the United States, having been founded in 1768, eight years before our independence. The New York Chamber's membership is comprised of approximately 1,150 individual business and professional men and women as well as over 250 of our leading corporations. New York is the headquarters for many of our largest national and multi-national companies, the center of our nation's leading and financial and investment institutions and historically it has also been the focal point of our international trade and commerce. Accordingly, our membership is broadly representative of these vital areas of our nation's business community.

The nation must make a transition toward a sustainable growth pattern. Our recommendations are aimed at achieving such an orderly transition.

After nearly a year and a half of well balanced growth during which encouraging progress was made toward moderating the rapid uptrend in costs and prices, the American economy is once again threatened with overheating and a resurgence of inflation. The pace of business activity has picked up considerable momentum in recent months—much more than was generally anticipated. This is indicated not only by the accelerating demands for goods and services, but by the mounting backlogs of factory orders, lengthening delivery times, and increased labor turnover. Moreover, prices of industrial raw materials have advanced sharply since the start of the year. And there has been a discernable slowing of the growth in industrial productivity as both less experienced workers and less efficient plant and equipment have come into production, which further suggests that the economy is coming under increasing pressure.

Less Fiscal Stimulus.—One requisite is less expansionary fiscal policy; at a time when private demands for goods and services are climbing rapidly and the margin of slack productive resources can no longer be considered comfortable, Government spending should be cut back to make room. Fortunately, the Administration has already moved to curb the soaring Federal expenditures, which clearly had gotten out of control in recent years. Its determination to hold total spending to $250 billion in the current fiscal year and to limit the rise in outlays in fiscal 1974 to about 7½% above this figure is to be commended. Although fiscal policy this year does not promise to be as restrictive as the prospective economic environment would warrant, and while there are legitimate grounds for debate as to the proper

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

spending priorities for Government programs, the decision to rein in the Federal expenditures is certainly a step in the right direction.

Slowing down the growth of Federal spending for any sustained period, however, can be achieved only with the cooperation of Congress. The devices that the Administration is currently using to hold down expenditures—the impounding and apportioning of funds and the employment of the Presidential veto—are only makeshift expedients and do not provide a permanent solution to the proper conduct of Federal fiscal policy. Indeed, the resort to such devices has already seriously hampered working relations between the President and Congress. It is therefore imperative that Congress assume greater responsibility for attaining more effective control over the budgetary process and see to it that an adequate program is developed to assure that appropriations and expenditures are kept in line with anticipated revenues. To this end, meaningful recommendations are needed from the new Joint Committee on Budget Control established last year by Congress, and swift action should follow such recommendations.

Less Monetary Stimulus.—If fiscal policy is to play its role effectively, it must be buttressed by monetary policy. The vigorous thrust of business activity and the threat that inflationary pressures—and expectations—will intensify in the months ahead point to the need for active credit restraint. Appropriately, the Federal Reserve recently has turned more restrictive, although the move was somewhat late in coming. Since the start of the year, conditions in the money market have been permitted to tighten, and the Federal Reserve is striving to curb the alarmingly rapid growth of the money supply and other monetary aggregates. The monetary authorities should persist in their efforts to slow the expansion of credit, for international as well as for domestic reasons. Even so, concern persists over the future course of monetary policy and makes itself felt in continuing uneasiness in the financial markets both here and abroad.

Importantly contributing to the uneasiness is the pressure which has been brought to bear to prevent bank lending rates for business credit from rising in line with other market interest rates. This has been taken as an indication that monetary policy will not be forcefully utilized in the fight against inflation, and it is interpreted also as a lack of understanding of the rationing function that interest rates perform in helping to stabilize the economy. Experience has shown that attempts to control interest rates impair the orderly functioning of the credit markets by distorting credit flows. The action to limit and delay increases in the "prime rate" has overstimulated loan demand at the commercial banks and has probably raised open market rates more rapidly than would otherwise have been the case. Over the longer term, the Federal Reserve should be urged to moderate the swings from extreme restraint to excessive ease characteristic of the past several years.

Phase III.—In view of the acceleration of the business advance and the sizable number of major labor negoitations in prospect this year, the timing of the shift to Phase III may reasonably be questioned. Nevertheless, the most effective weapons in the fight against inflation are fiscal and monetary policy especially when "demand pull" inflation is again emerging. The new price and wage control program can play a useful supporting role, by serving as a temporary restraining influence on the making of both wage and price decisions in the months ahead. Yet, the decision to move to a program of less mandataory wage and price controls is to be endorsed as a positive step toward the restoration of freely functioning markets. The Phase II rules and procedures were beginning to introduce serious distortions and inequities into the economy. The Administration is also to be commended for the steps taken to increase the domestic supply of farm products, which should make a significant contribution toward slowing the rise of food prices later in the year, as well as eliminate some of the distortions which have developed over the years in the agricultural sector.

An Orderly International Financial and Trading System.—In addition to the inflationary threat at home a clear and present danger to the stability of international and financial and trading relationships has developed. It is evident that the second devaluation of the dollar within a 14-month span has not yet succeeded in restoring confidence in existing exchange rate relationships.

The United States has a just case in emphasizing that exchange rate changes unaccompanied by trade liberalization abroad may be insufficient to restore balance of payments equilibrium. At the moment, however, there is a danger of overreaction to the existing difficulties. It should be noted that the trade improvements from exchange rate changes cannot be expected to show up quickly. During 1972, the strong cyclical advance of the economy stimulated imports beyond their normal uptrend. As the economy moves toward more sustainable growth rates and as the effects of the second devaluation are added to those of the first, the current account will change in our favor.

Very strong demands upon foreign countries for unilateral trade concessions and threats of import surcharges and/or quotas should be a last alternative to attempts at constructive cooperation. There is a two-fold danger from such strong demands. In the first place, the U.S. runs the risk of foreign retaliatory action, including the possibility that exclusionary trade blocks may be formed, or existing ones be strengthened. In the second place, protectionist attitudes and actions in this country may get out of control to the severe detriment of the American consumer and the national aim of greater price stability.

The Administration has put forward a reasonable blueprint of international monetary reform without denying the negotiability of the plan. The reform proposal rests upon the basis of "symmetrical" obligations of creditor and debtor nations for the re-establishment of balance of payments equilibrium. The international trade question should be viewed as one aspect of such symmetrical obligations, which depend upon mutual accommodation.

MEMBERS OF THE COMMITTEE ON FINANCE AND CURRENCY

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JERRY VOORHIS, FORMER MEMBER OF CONGRESS

Issues of the most far-reaching nature for the future of our country, for the economic opportunities and freedoms of its people—indeed for the perpetuation of our time-tested form of government—are involved in the Economic Report for 1973.

What we have assumed would always be government of, by and for the people is threatened today as has not been the case for more than 100 years, what appears to be developing is government of the people but by and for the interests of the rich and powerful.

This is true governmentally, economically—even socially.

Unless the Congress acts with determination to check it, we are faced with the spectre of government by executive decree for the first time in the nation's history.

Much is at stake.

Unless both the spirit and the letter of the Rural Development Act are observed by both Congress and the Executive, rural America—its people, its culture, its communities, and the survival of its owner-operated farms are all endangered.

The President's arbitrary action in attempting to repeal the heart of the Rural Electrification Act by bringing an end to the low-interest direct loan program is a mortal blow at hundreds of electric cooperatives. If they are forced to pay 5% interest many of them may well be forced to sell out to the power monopoly. In any case the cost of farming will sharply rise, thus forcing up the price of food. Furthermore, the proposal to substitute guaranteed loans from Farmers Home Administration at 5% interest means that Farmers Home must borrow in the open market at 7½ to 8% to secure the necessary funds. The gap between that rate and 5% will constitute a virtual subsidy to the bankers and the government will save little or nothing. Net result is to subsidize financial interest and correspondingly penalize rural America.

Add to this the President's order for discontinuance of disaster loans to farmers, of the soil and water conservation programs and the attempt of the Administration to discontinue the entire price support program and the average American farmer who owns and tills his land faces a grim future. This is so because of the tremendous tax, credit, and other advantages which the industrial corporations have over him when, as is now alarmingly the case, they invade agriculture.

The survival of rural America as we have known it is at stake.

Even as the stock markets enjoy an unhealthy "boom" and production increases we find almost as many workers unemployed as was the case in the trough of the recession of 1970 and 1971. And we find monopoly in both industry and finance fastening its grip more and more tightly upon the economy of our nation.

Interest rates are rising, thus adding to the cost of doing business and this added to monopoly pricing and extravagant spending in the military constitute the three most powerful inflationary forces in the economy. Taken together they render the hope of preventing an accelerating price inflation dim indeed.

Our nation was challenged, only a few years ago, to undertake an all-out "war on poverty". The present administration proposes to abandon that "war"—in fact to turn it quite around into something resembling a war against the poor. As one of America's most penetrating columnists has put it: "The war on poverty is over. The poor lost." Hopefully he may be proven wrong. But only Congress, by determined action can prove him so.

To deal with matters as fundamental as these in adequate detail would require a commentary of inexcusable length. But the issues center in monetary and fiscal policy. And that policy is largely reflected and determined by the federal budget—on its income and its expenditure sides.

So without any great danger of oversimplification it is possible to discuss these issues by reference to the budget proposed by the president, the impounding of funds duly appropriated by the Congress, and certain basic aspects of our monetary system.

The issue between the President and the Majority of Congress is not what we are led to believe it is.

It is not an issue over whether there is to be a limit on spending. Members of Congress have tried to put a ceiling on military spending and the Nixon administration has bitterly opposed them. Most members of Congress will agree to a limit on spending, provided it is imposed by constitutional methods not by presidential fiat.

Neither is it an issue between a president who wants to save money and prevent a tax increase and a Congress that wants to spend money even if it necessitates a tax increase.

It is an issue between a president who wants to spend money on different programs than the ones on which Congress believes it should be spent.

And it is an issue over the kind of taxes through which government revenue is to be raised.

During the four years of the first term of the Nixon Administration the national debt was increased by some $90 billion. Was this due to a "spendthrift" Congress?

It was not.

Congress appropriated in those four years some $20 billion *less* than Mr. Nixon's budgets requested. Many of those reductions were in military expenditures.

Whatever dubious arguments may be advanced, or precedent cited in an attempt to justify a president's *temporary* withholding of funds appropriated by the Congress for the honest purpose of prudent management, certain it is that no valid defense can be made of presidential action in completely abolishing and thus refusing to obey whole laws passed by the Congress or programs in effect under those laws. Such action constitutes nothing less than assumption of legislative powers of the Congress by the Executive and subversion of the Constitution of the United States. Instances where this very thing has happened in the last few months are almost too numerous to mention. But among them are Executive Repeal of the Rural Electrification Act, the Soil Conservation Program, most of the health research, the entire low cost housing program, the School Milk Program, Water and Sewer Grants, Model Cities, Urban Renewal and the Arms Control and Disarmament Agency. Not to mention the virtual abolition of the Office of Equal Opportunity.

This executive assumption of Legislative powers is excused on the false grounds that it is necessary to prevent an increase in taxes and to hold down government spending. This excuse is false for the following reasons. First, these executive actions are taken at the same time that the President asks for a $4 billion increase in military spending despite the hoped-for ending of American involvement in the Vietnam War and despite the supposed Arms Limitation Agreement with the Soviet Union. In addition there is hidden in the budget an amount of $192 million to pay Litton Industries a maximum price for Amphibious Attack Vessels which were originally to cost $1 billion for nine vessels and now are to cost $1.4 billion for only five. And the president of Litton Industries has been appointed director of the Office of Management and Budget! In that position—again unless Congress stops the practice—he will exercise, at the direction of the president, the power to decide what appropriations shall be released promptly for expenditure—including payments to his own company—and what appropriations shall be frozen.

The real issue is not between the President's desire to save money and the insistence of the Congress on spending it. The real issue is whether the taxpayer's money shall be spent on extravagant military projects and the bailing out of military contractors or whether it shall be spent on redevelopment of rual America, education of our children, rehabilitation of the cities, and the better health of the American people.

Related to this issue is that of taxation. The question is not whether taxes generally shall be increased but rather where and for whose benefit special tax privileges shall be allowed to exist. It is the general position of the executive department that there shall be no reform of the present tax systems. Yet that tax system is shot through and through with injustices and loopholes which if corrected could yield far more than enough additional revenue to supply ample funds for the programs the Executive seeks to abolish and to assure that no tax increase need be imposed upon the rank and file of individual taxpayers or upon the basic corporation tax. During the past four years tax concessions amounting to some $10 billion have been given to corporations. Some of these have given positive encouragement to multinational corporations like IT & T to build factories in foreign countries, export the jobs American workers need, and then flood the American market with goods produced abroad at lower cost, all this with benefit to the multi-national corporations but not to either the United States or the country where the factories are located. A reasonable modification of those special concessions should certainly be considered. Unearned income is taxed at an unjustly lower rate than is earned income. Some adjustment of tax burden in this respect could yield other billions. The depletion allowance could be reduced, oil companies required to pay their just share of taxes, and other reforms instituted. In the opinion of Congressman Reuss, one of the ablest Congress members, such reforms could yield at least an additional $9 billion of revenue.

In light of the fact the natonal debt of the American people has been increased by some $90 billion dollars during the four years of Mr. Nixon's first term despite the fact the Congress actually appropriated some $20 billion dollars less than the President requested there is no real question about the need for establishing a firm relationship between revenue and expenditure. The real issue is, first, how revenue can be raised without increasing basic tax burdens and second, what expenditures shall be reduced if reduction is necessary to prevent further deficit financing.

A second excuse for the unconstitutional action of the President in virtually repealing laws of Congress is that he is doing this in order to curb inflation. This too is a false issue.

There are, of course, certain differences between price inflation and monetary inflation and in an economy riddled with monopoly controls as ours is today it's quite possible to get substantial price increases even in the face of monetary deflation, widespread unemployment and low levels of production. This phenomenon was amply demonstrated in the first 2½ years of the Nixon Administration. Without in any way minimizing the tremendous problems that are involved it should nevertheless be clearly understood that as long as great segments of the American economy are subject to monopolistic administered pricing we shall not be able to curb a constant rise in prices. Particularly is this true in such fields as automobiles, utilities, steel and petroleum products where price competition either does not or cannot exist. The basic causes of price inflation are three. First monopoly pricing, second, high interest rates, and third, military and other economically wasteful expenditures.

The budget as presented by the President is both inflationary and deflationary. It is inflationary because it forecasts a further deficit of $16 billion dollars, probably as one of Mr. Nixon's means of preventing tax increase. The classic method of curbing inflation is hardly to present a heavy deficit budget and refuse to increase taxes. The classic method is just the opposite. Namely, to present a budget which is either in balance or which provides a surplus and to increase taxes in order to meet the budget. Since Mr. Nixon does not want to do this he has resorted to the most incredible proposals for the repeal, discontinuance, or slashing of almost every program of the United States government, calculated to benefit average and lower income American families. He proposes to put upon a majority of the American people in the lower income brackets the burden of compensating for his budget deficit, his insistence upon continued military extravagance, and his refusal to institute necessary tax reforms. The budget is inflationary because it calls for military expenditures in excess of $80 billion dollars. This means that $80 billion dollars of purchasing power is proposed to be injected into the economy over against which not a single dime's worth of useful or purchasable commodities will be produced.

On the other hand, for reasons which will already be obvious the budget is deflationary as are other proposals of the Administration. The proposal to abandon the entire program of low cost housing, the cuts in education and research, and the many blows to be struck at the owner-operated farm are all calculated to create unemployment throughout the economy and to reduce the people's purchasing power.

And this is proposed in the face of the facts that food prices increased in the month of January by an unprecedented 2%, the highest in twenty-two years; that the Department of Agriculture itself estimates a 6% rise in food prices for the year as a whole, again the largest increase in some twenty-five years; and that wholesale prices in general advanced at an annual rate of 13% in the month of January. Phase three is not going to prevent inflation. The telephone company has been granted increased rates of $800 billion dollars in the last few months and according to Senator Metcalf the utilities were granted total increases of $2 billion dollars in a three months period even under phase two. What will happen to utility costs to consumers under phase three is not difficult to imagine.

If we really want to prevent inflation military expenditures should be drastically reduced, appropriate to the end of war in Vietnam, tax reforms should be instituted promptly, controls should be placed on interest rates to prevent their escalation and consequent increase in the cost of doing business, the budget deficit should be eliminated and the antitrust laws should be vigorously enforced in order to try to curb the inflationary effect of monopoly pricing.

But in the case of monopoly—or "administered" pricing—enforcement of the antitrust laws will not be enough. Huge conglomerate corporations whose profits are, at present, increasing sharply, are able to finance expansion and the swallowing of smaller competitors by means of "internal financing," that is using their profits for this purpose instead of paying dividends. This device means, in effect, that consumers of their products or services are being compelled to pay for the expansion of these companies' ownership of physical assets—without owning them. Furthermore internal financing, together with their ability to borrow at prime rates gives these giants an overwhelming advantage, which has no necessary relation to efficiency, over their remaining smaller competitors. And monopolistic control becomes greater and greater.

Free enterprise in the United States is fast becoming a thing of the past.

If these monopolistic corporations, controlling as they do the bulk of our economic life, acted according to the rules of classical economics—that is made their profits by increasing production and lower prices as much as they prudently could—it would be a different story.

They do not such thing. Their rule is never to reduce prices—if necessary to maintain or increase profit margins—they curtail production in order to accomplish this.

For all these reasons it is time we began to treat monopolistic corporations in all fields as public utilities—which is fact they are—and to regulate stringently the prices they charge for their goods. Then and only then can we hope to bring about the most basic of all counterinflationary conditions—namely an increase of the volume of production to the point where supply begins to catch up with demand and thus to hold prices down.

It is probable that the outstanding current economic need of the American people is for good homes in good neighborhoods at costs they can afford. The proposal of the Administration to abandon low cost housing and to abolish model cities and urban renewal will make this need far more critical and tragic then it is even now. Had Mr. Nixon proposed to revive Section 202 of the Federal Housing Act and Section 221 D3 Below Market Rate Programs as substitutes for Section 235 and 236 he would have been on defensible ground. But years ago his Administration vitrually discontinued 202 and 221 D3. The reason this was done was basically because of a fundamental fault and lack of logic in the way the federal budget is calculated. Section 202 provides for direct 3% loans for senior citizen housing; Section 221 D3 Below Market Rate provides for 3% loans for housing for families with less than median income. Builders can construct low cost housing if they can get money at 3%. These programs were outstandingly successful when they were in effect. The government suffered not a dollar of loss from their Section 202 programs and very little under 221 D3. Nor did any of the scandalous practices arise under these programs such as have plagued 235 and 236 in some areas. But under present methods of casting up the federal budget the entire amount of loans and investments made by the federal government in a given year are charged in the budget as outright total expense. Thus all the low interest loans made under the two housing programs appeared in the budget as expense items in full in the year when the loans are made. But the much greater commitments under programs like 235 and 236 are deferred as budget items and only the actual expenditures made in the current year are figured as expense items. If we had a capital budget in addition to an income and expense budget it would then be possible to show loans and investments of the federal government in a proper way and to present a true picture of the government's fiscal position. Under these circumstances there would be no logical economic reason why the government of the United States could not operate its capital budget in somewhat the same manner in which commercial banks do business. Loans and investments could be made against fractional reserves and the nation could be freed, at least to some extent, from the budget deficits which now add so alarmingly to our national debt.

Establishment of a capital budget would be one important and long overdue step in reforming the nation's monetary and fiscal practices.

More of that is needed.

For one thing, we need to consign to limbo the erroneous myth that high interest rates are a means of curbing inflation. It takes no more than a 4th grade education to understand that, in an economy where most business is done on credit, high interest rates inflate the cost of doing business. They increase drastically the cost of housing and other construction. They add to farmers' costs of production. They compel every business to raise its prices to cover the additional cost of money as one component of total business costs.

Furthermore, though this is an auxiliary point, high interest rates add to the advantage which huge corporate empires have over smaller business concerns. For the giant enterprises can either use internal financing or borrow at prime rates whereas smaller businesses can seldom do either.

Here are a few facts.

The rates of price increase were small indeed from 1960 to 1965. During those year interest rates were at reasonable levels.

Here are the figures on price inflation in those years.

	Percent
1960 to 1961	1.6
1961 to 1962	0.9
1962 to 1963	1.2
1963 to 1964	1.5
1964 to 1965	1.1

Then in December 1965, over the objections of President Johnson, the Federal Reserve Board raised its rediscount rate from 4 to 4½%, a 12½% boost. The vote for this move was 4 to 3.

From that point on interest rates began to escalate, finally reaching the highest level since the Civil War in the early years of the Nixon Administration.

Here are the figures on rates of price inflation from 1965 through 1970 compared with the approximate rate of interest on government guaranteed loans.

	Rate of inflation (percent)	Interest rate (percent)
1965 to 1966	2.4	5¼
1966 to 1967	3.0	5¾
1967 to 1968	3.7	6¾
1968 to 1969	4.4	7½
1969 to 1970	6.2	8½

In the early months of 1971 the rate of price inflation reached at times an annual rate of as much as 7.2% while interest rates climbed even higher.

It is to be recalled that Congress gave Mr. Nixon power to control interest rates as early as April 1969. He vowed he would never use such power and he never has.

By August 1971 the economic deterioration of the nation could no longer be disregarded by the administration and Mr. Nixon made his sudden surprise complete reversal of every policy he had advocated throughout his political life. All except that he still refused to take any action regarding interest rates. A three months price and wage freeze was instituted, followed in November by what we now know as Phase II.

During those months interest rates declined somewhat, and while price inflation did not decline sharply compared to the 12 months prior to the freeze, it did not continue to increase. Whether this was due to the controls that had been instituted or to the lowering of interest rates may be a matter of speculation. But it is probably significant that the slowing of price inflation took place at a time when interest rates were falling not when they were rising, as the long-held myth would have us believe should be the case.

In the later months of 1972 and noticeably in early 1973 interest rates began to be raised once again. Latest facts about this are first that having originally argued against the bank's raising their rates, the administration then gave in and agreed to higher rates. But second and of greater importance the Federal Reserve acted, a short time ago, to boost its prime rate from 5% to 5½%.

In January 1973 wholesale prices rose, as has already been pointed out, at an annual rate of some 13%.

Yet despite all these facts there are many people—including those who control our monetary and fiscal policies—who still contend that high interest rates are a counter-inflationary device!

The national debt of the American people has been climbing steadily for several decades.

The basic reason for this is that the money of the nation, consists principally of demand bank deposits and those deposits are created on the books of the banks, including the Federal Reserve Banks—only when someone—an individual, a business, or the government—goes into debt.

This is a result of the fractional reserve system of commercial banking which enables banks to create—and lend into circulation—roughly 10 times the amount of money they actually have in hand.

The United States government—despite the constitutional provision which says that "Congress shall coin money and regulate its value"—creates no money at all. We have given away that basic birthright of a sovereign people to the Federal Reserve Banks and the other private commercial banks.

Hence as the economy expands, the only way in which more money can be got into circulation to accommodate that expansion is by an increase in total debt. And more and more, as the years have passed, this has meant increases in the *public* debt. The Nixon Administration has been responsible for adding almost one-fifth of the total national debt to its huge total in a brief four years. And Mr. Nixon now proposes to add another $16 billion in the current fiscal year.

There is a certain deep injustice in the way the government of the United States goes into debt when it runs a deficit.

That injustice does not occur when government securities are sold to investors other than commercial banks or the Federal Reserve. For those other investors do not exercise the incredible privilege of creating the nation's money and thus in effect levying a tax on all the nation.

The injustice does occur when government securities are sold to commercial banks or the Federal Reserve for newly created money in the form of demand bank deposits.

The credit of the United States—or any nation—depends upon two factors: the productivity of the nation's economy and the government's power to tax. As production increases, so do tax revenues, and the nation's credit. It would seem logical, since the right to create money is obviously a basic prerogative of sovereignty, that this increase in the nation's credit should be treated as credit and so accounted for on the books of the Treasury.

But that is not what happens at all. Instead the sovereign government of the United States goes hat in hand to the private banking system and asks it to create the new money that the economy needs.

The banks "buy" the bonds with newly created demand deposit entries on their books-nothing more. It is fountain pen money and it is considerably more inflationary than would be the same amount of dollar bills created by the government.

The deposits the banks create with which to own your debt and mine are backed by nothing except the bonds themselves! In other words, they are backed by the credit of the American people.

What the government has "borrowed" from the banks, what the people must for years pay high interest on, is nothing more nor less than the credit of the nation, which obviously the nation possessed in the first place or the bonds would be no good!

At long last, a few years ago the Federal Reserve made tacit acknowledgment of the facts just stated. As a direct result of logical and relentless agitation by members of Congress led by Congressman Patman, as well as by other competent monetary experts, the Federal Reserve began to pay to the U.S. Treasury a considerable part of its earnings from interest on government securities. This was done without public notice and few people, even today, know that it is being done. It was done, quite obviously, as acknowledgment that the Federal Reserve Banks were acting on the one hand as a national bank of issue, creating the nation's money, but on the other hand charging the nation interest on its own credit—which no true national bank of issue could conceivably, or with any show of justice, dare to do.

When the commercial banks create money, as they do when they acquire government bonds, they levy a tax on every person in the United States. This is so because every new dollar that is created makes every dollar previously in existence worth somewhat less than it was worth before. This is the very heart of inflation.

It is also taxation without representation with a vengeance.

Banks should lend existing money. But, as the Constitution clearly requires, the money (or credit) of the nation should never be created by any private agency, but by an agency of the nation itself. It is the duty of Congress to provide for this by a carefully drawn statute.

The stock in Federal Reserve Banks should be purchased by the government from their present private bank owners. The Federal Reserve should then become our national bank of issue. It should create Reserve Bank Credit as it does now. But that credit should be credited to the United States Treasury, not charged against it and the people as debt. As much such new credit should be created each year as is needed to keep our economy running at or near capacity—and no more than that. A stable price level could result.

Then and only then can we expect to overcome recessions, to put our people to work, and to do this without the danger of—indeed necessity for—the inflation, or the ever increasing debt which are inescapable under the present monetary system.

WAGE CONTROL: THE KEY TO ANTI-INFLATION POLICY

By George Terborgh

Prior to the present program, general wage and price controls had been invoked only in an all-out war (World War II), and in a forced-draft defense buildup (Korea). Major emergencies of this kind entail such a sudden and drastic restructuring of demand that the responsive shifts in production cannot possibly keep up. The result is tremendous pressures on favored areas, with opportunities for huge windfall gains to a lucky few. Under these circumstances the restraint of wages, prices, rents, and interest rates through direct controls, and of profit through excess-profits taxes, may be entirely in order.

This was not the situation in August 1971, however, when the present control program (now in Phase III) was launched. The buildup phase of the Vietnam war was long since over, and the attendant expenditures were declining. The economy was in a recession, with demand patterns normal and the supply situation relaxed. This time controls were imposed, not to cope with the distortions and pressures of a defense buildup, but to combat the inflationary aftermath of a buildup already over.

Notwithstanding this difference in circumstances and objectives, the Administration followed the broad-spectrum approach (except for the excess-profits tax) established by wartime precedents. It authorized the control of wages, prices, rents, interest rates, and even dividends. This was done without any attempt to demonstrate the necessity for such broad coverage. There was no evidence of widespread over-pricing in the American economy: competition was generally intense, with profit margins lower, on the average, than at any time (save in 1970) since World War II.[1] Rental markets were with rare exceptions normally competitive. Interest rates were down from their earlier peak. Aggregate dividend payments had been virtually stable for some time. One factor, and one alone, was behaving badly: wages. The overall average increase in hourly compensation was running in excess of 7 percent a year, and was showing no signs of slowing down.

The Politics of Control

The principal reason for this broad-spectrum coverage was, of course, political. It is an axiom of politics in most Western countries, and certainly in the United States, that any attempt to restrain wages must be accompanied by measures to restrain other forms of income. So firm is this dogma, indeed, that if a politician even suspected that wage control might be applied alone he would banish the thought for

[1] Measured by the ratio of profit, after inventory valuation adjustment, to corporate gross product.

fear of talking in his sleep. Even a hint of such a heresy would be political suicide.

One reason for this political compulsion is evident at a glance. The public is preoccupied with rising *prices*, rather than with the rising *costs* that underlie them. It pays prices *directly* and costs only *indirectly*. Cost inflation therefore generates far less awareness and resentment than price inflation. Indeed, insofar as it involves wages, it may even be regarded favorably. Since everyone likes higher pay for himself, even though it adds to his employer's costs, this liking engenders an indulgence of increases for others. It is extremely difficult to crank up public indignation over wage inflation.

Another reason is moralistic. Wage control is deemed to impose hardship and sacrifice on the affected workers, and to call for matching sacrifices by the recipients of nonlabor income. This equal-sacrifice doctrine is advanced regardless of the comparative position of these other income recipients at the time, and in the absence of evidence that labor as a whole (as distinguished from certain groups of workers) is in fact injured by wage control, in other words, that it is in fact making a "sacrifice." But these evidential omissions do not seriously abate the political impact of the doctrine; it remains a force of the first magnitude.

While political, rather than economic, necessities explain the extensive coverage of the 1971 program, I propose to ignore the three minor controls governing rents, interest rates, and dividends. Rents have already been decontrolled under Phase III. Interest rates are more effectively influenced by the traditional weapons of fiscal and monetary policy than by rate fixing, and it seems probable (though it is still too early to tell) that action under the authority of the Stabilization Act will be confined largely to selective "jawboning" and other informal procedures. As for dividend control, we have never been told what that has to do with anti-inflation policy anyway (restraint of dividend payments curtails the purchasing power of stockholders, but enlarges that of corporations by the same amount). This leaves two major areas of control, *prices* and *wages*, on which I should like to comment further.

I. Limitations of Price Control

I propose to begin, after this introduction, by considering the practical limitations of price control. These arise primarily from the fact that the control of prices turns inevitably into the control of profits.

Controls normally start with a brief freeze period. In this phase, price control is precisely what it purports to be. But when the freeze gives way, as it must, to the process of relief and adjustment, whether by bureaucratic decision or by self-administered formulas, the transition to profit control begins. For the basic criterion of adjustment is the *profit position* of the product, product line, company, or industry covered.[2] This is equally the criterion for pricing new or altered products, custom work, and the output of new companies entering the market without a price history.

The speed of the transition to profit-determined prices depends, of course, on the rate at which unit costs (costs per unit of product)

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[2] The present program is basically a pass-through of cost increases, with the maintenance of existing percentage profit margins, subject to a margin ceiling for each company.

are rising. If the average of these costs were stable, something like half of all prices would either decline or fail to rise, thus escaping restraint. But when the average is rising rapidly, as it must be to trigger an anti-inflation control program, the proportion of prices escaping profit-adjustments goes down, and unless the advance of unit costs is successfully contained by the program, eventually becomes insignificant.

What does this mean for the efficacy of price control as an anti-inflation device? It means, basically, that *its potentialities are limited by the feasibility of profit squeezing* (in the unincorporated sector of business, the squeezing of the joint return to the proprietor's labor and capital). This raises the crucial question: how much squeezability is there?

I intend to examine the question by reference to the corporate sector of the economy. This for two reasons. First, this sector is the only one for which profit (as distinguished from mixed labor-capital income) is available. Second, the unincorporated sector is largely exempt from control anyway. (The exclusion of farmers, and of nonfarm employers with up to 60 workers, leaves most of it out.) Broadly speaking, price control as presently administered is the control of *corporate* prices.

Squeezability of Profit

To what extent, then, can price inflation be restrained by squeezing corporate profit? No one can answer this question precisely, but there is every reason to believe that so far as *aggregate* profit is concerned the potentialities are severely limited.

Prices float above a bed of costs, with a relatively thin margin of profit between. For the decade prior to 1970, this margin (before income tax) averaged around 17 percent of the output (gross product) of the corporate system; for the past 3 years it has averaged less than 13 percent.[3] If this margin were spread evenly, it might permit considerable squeezing without serious consequences, but it is not. There are almost always companies producing at a loss or at a negligible profit, and others with some part of their output at or near the line. This production is highly vulnerable to margin squeezing, a fact that imposes narrow limits on the operation.

If these limits are exceeded, the economic consequences can be severe, and even disastrous. The curtailment or disappearance of high-cost production results in shortages and constrictions of supply. It interrupts the smooth flow of materials, parts, and components so essential to efficient production. It slows the response of supply to increased demand. It leads to rationing and allocation by sellers, with favoritism to established customers, and makes it difficult for new companies to get into business. It generates product deterioration, under-the-counter deals, and black markets. These interferences with the functioning of the economy can easily raise costs (and hence prices) by more than any benefit from the reduction of profit margins.

But these are not the only baneful effects of profit squeezing. It destroys the incentive to efficiency, encouraging waste and loose control of costs. If it is expected to remain in effect beyond a short period,

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[3] These ratios are figured exclusive of gross product and profit originating abroad. Profit is after inventory valuation adjustment.

it retards capital investment, hence the expansion and improvement of productive capacity. The fact is that the behavioral responses are so pervasive and damaging that the price controllers have relatively little leeway within which to work.

A One-Shot Gain

There is another point to be made here. Whatever the potentialities of profit squeezing, it yields basically a *one-shot* benefit. Once the permissible squeeze is accomplished, further gains are miniscule.

Suppose, for example, it is feasible to shrink the overall profit margin on corporate production by 3 percentage points (almost certainly an outside figure) below what it would be, under the given conditions, *in the absence of control.* Barring offset by the diseconomies just referred to, this would reduce the average price charged for this production by 3 percent. But that would be all, save for an insignificant gain from the *maintenance* of the reduction thereafter.[4]

Even if this 3 percent reduction in the average price of corporate output were fully realizable, it would not represent an equal reduction in the general price level, since corporations account for only 55–60 percent of the gross national product. Spread over the whole, the 3 percent would come to less than 2. Even this would overstate the *net* gain, however, for the profit cutback would reduce the yield of the corporate income tax by nearly half as much, and the loss would have to be made up, in the end, by individuals. Clearly, profit squeezing via price control is a feeble and ineffectual weapon of anti-inflation policy.

II. The Problem Is Cost Control

If profit squeezing has such a limited potential, it follows that the real problem is *cost* control, more precisely, the control of *costs per unit of output.*

Over the short run, there is of course considerable variance in the *ratio* of profit margins to these costs. Relative margins normally expand during cyclical recoveries and contract during recessions. In so doing, they contribute *autonomously* (independent of changes in unit costs) to price movements in both directions. But the extent of these swings is limited and over the cycle they wash out.[5] In the long run, the price impact of variations in the *relation* of profit margins to unit costs is peanuts compared with the impact of changes in these costs themselves. Not only are they overwhelmingly the largest component of prices, averaging currently around 87 percent in the corporate sector (93 percent if the income tax is considered a cost); they can go up persistently, year after year, with cumulative effect.

Another point. When *relative* profit margins are stable (as they tend to be except for cyclical variations), a rise in unit costs carries with it a proportional rise in *absolute* margins (stated in dollars). The cost increase is responsible, therefore, not only for its own contribution to price inflation, but for that of the associated profit increases as well.

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[4] This would be 3.5 percent of the subsequent rise in *costs* (assuming the 1970–72 average cost-to-value-added ratio of 87 percent).

[5] Actually, the overall ratio of profit to costs has been drifting irregularly downward over most of the postwar period.

The obvious cure for this situation is to stabilize unit costs. Once this is done, dollar profit margins will stabilize also. *Unit-cost control is the key to anti-inflation policy.*

Cost Control and Wage Control

Labor cost (compensation of employees) runs 75–80 percent of the total cost of corporate production (somewhat less if the income tax is considered a cost). Not only is it overwhelmingly the most important component; the big nonlabor costs, taxes and depreciation, are (and always have been) exempt from direct control. Another such cost, interest, though nominally covered, is a minor factor. For practical purposes, *cost control is wage control.*

The significance of this can hardly be exaggerated. The success of anti-inflation policy depends basically on the success with which *unit labor costs* are restrained. For a variety of reasons (natural disasters, fluctuations in crop yields, changes in import costs, variance in profit margins, etc.), the movement of the general price level can deviate temporarily from the average movement of unit labor costs, but the deviations are likely to be relatively small and short-lived. *The fundamental determinant of price movements remains the trend of these costs.*

III. Prospects for Wage Control

From where we now stand, a year and a half after the inauguration of the control program, it must be said in all honesty that the prospects for wage control are dismal. The reduction over this interval in the rate of advance in average hourly compensation has been pitifully small—from 7.1 percent in the year before controls to 6.6 percent in the year 1972.[6]

Worse still, it is unlikely, for a number of reasons, that the gain will continue. (1) Major collective bargaining agreements negotiated in 1972 showed an average first-year increase (wages and benefits combined) of 8.4 percent. Averaged over the contract life, this and later increases work out at 7.3 percent a year. (2) The labor market is gradually firming up with the expansion of economy. Competition for workers will intensify, with increased upward pressure on wage rates. (3) Phase III of the control program has reaffirmed the "wage standard" of Phase II, 6.2 percent a year (including fringes). If this standard permitted a substantially higher average of actual increases in a relatively slack labor market, what reason is there to believe that its continuance will yield better results hereafter, particularly when enforcement procedures have been relaxed?

In view of these factors, it seems likely that the rate of advance in average hourly compensation will be 7 percent or more during 1973.[7] And unless the wage standard is effectively enforced, it can go higher.

[6] All private nonfarm employees. The year before control is 1970–II to 1971–II; the year 1972, 1971–IV to 1972–IV.

[7] The most recent quarter-to-quarter rise, 1972–III to 1972–IV, was 6.8 percent (seasonally adjusted annual rate). Again the figure relates to private nonfarm employees.

Implications for Inflation

What does this mean for inflation? The answer depends primarily on the rate of productivity gain during the year. It seems most unlikely that the extraordinary rate prevailing during 1972 (over 5 percent) will continue much longer. Gains in this range are characteristic of the earlier stages of economic recoveries but normally taper off toward the long-term average of 3 percent as the movement nears completion. Indeed the gain in the final quarter of 1972, 4.3 percent, suggests that the slippage may have already begun.[8]

As soon as the overall annual rate of productivity gain retreats to the 3 percent level, the expected 7 percent rise in average hourly compensation will generate a 4 percent increase in unit labor costs. This may or may not coincide with the contemporary rate of price inflation, depending on the movements of the short-run variables referred to earlier—profit margins, taxes, farm prices, import costs, etc.—but apart from deviations introduced by such factors the inflation rate will also be 4 percent. *This is the normal rate implicit in the present wage spiral.*

But that is not all. If the economy is allowed to overheat in 1973 or thereafter, average productivity gains will almost certainly go *below* the long-run average, and may even approach zero, as they did in 1969. Under the latter conditions, a 7 percent annual rise in hourly labor costs will mean an implicit inflation rate almost as high. We will be back where we were in 1969, when the consumers' price index rose during the year by 6 percent.[9] If the wage spiral escalates beyond 7 percent a year during the period of overheating, the results can be even worse.

Missed Opportunity

It is unfortunate indeed that our anti-inflation warriors let pass the golden opportunity to slow down the wage spiral while productivity gains were in their cyclically high phase. But they missed the boat. Overall, they made negligible progress during that period. If they attempt to decelerate it hereafter, they will operate in a much less favorable environment. As unit labor costs rise with diminishing productivity gains, and as price increases accelerate in response, their task will become increasingly difficult.

Unfortunately, there is little evidence that the authorities will even try to slow down the present wage spiral; their concern is rather to prevent it from accelerating. Yet they will never cure inflation with hourly labor costs rising 7 percent a year. Nor, I may add, can they long lull the public by projecting rosy price-increase "goals" incompatible with these costs. (The latest being the 2½ percent inflation rate at the end of 1973. Only a lucky break, such as declining farm prices or continued high productivity gains, could make it come true.) Sooner or later, the realities of inflation will have to be faced.

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[8] Gain from the third quarter, seasonally adjusted annual rate. Private nonfarm economy.

[9] December 1968–December 1969. The rise in average hourly compensation during the year was about 7 percent.

Conclusion

It is an understatement to say that the prognosis for wage control under Phase III is discouraging. Even to prevent the present wage spiral from accelerating, two things are essential; the effective cooperation of organized labor, and the maintenance of a reasonably relaxed labor market.

As for the first, the prospects are still unclear. So prepotent is the political and economic power of organized labor, it has become in effect a state within a state, over which the political government has but limited sovereignty. Public policy is based, accordingly, on the avoidance of confrontation, in line with the old maxim, "If you can't lick 'em, join 'em." This means that so far as collective bargaining agreements are concerned wage policy will be pretty much what the leaders of organized labor can be persuaded to support.

The best we can realistically hope for from this setup is the prevention of grossly out-of-line settlements that would set the pattern for a general breach of the present wage standard. But the avoidance of such breakouts would not necessarily assure adherence to the standard. As noted earlier, union settlements in 1972 averaged 7.3 percent, well over the 6.2 prescribed, and the danger is that in the firmer labor markets now developing this average will creep upward from the impact of a multiplicity of settlements that are only *moderately* on the high side.

If this proves to be the result of the collaborative approach to the control of wage costs in the organized sector of employment, it will of course have a powerful impact on wage trends in the unorganized sector. In a relaxed labor market the imitative response to union wage increases tends to lag somewhat, but in a tight market nonunion wages are quite capable of moving ahead on their own. Wage control in such a market is almost prohibitively difficult. It follows that it is essential not only that union settlements be stabilized, but that the labor market in general be kept reasonably relaxed.

Even if both conditions are met, the best we can hope for under Phase III controls is the continuance of the present 7 percent-a-year wage spiral, with the prospect that the rate of price inflation will fluctuate around an average of about 4 percent a year. This is better than a runaway, to be sure, but it is not what our political leaders have been holding out as a goal, nor is it satisfactory to the great majority of the public. But until it becomes politically feasible to *reduce* the wage spiral, not merely to *stabilize* it, this is what we are stuck with. If we fail even to stabilize it, worse is in store.

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