The original documents are located in Box 12, folder "Economy (2)" of the James M. Cannon Files at the Gerald R. Ford Presidential Library.

ack 4/19/75 pm

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

Congressional Relations April 7, 1975

James Cannon,

I've attached two documents concerning the Federal deficit that might be of interest to you.

The first is a March 31 OMB document speculating on the potential deficit and the second is a floor speech by Senate Budget Committee Chairman Muskie.

Robert F. Bonitati

Pat

Deficit file

WHAT WILL BE THE BUDGET DEFICIT?
(in billions)

THE CURRENT ESTIMATE (with tax bill as written)............	$60	
If Congress <u>rejects</u> President's holddown legislation-ADD....	12	
If features of tax bill become permanent-...........ADD....	5	
NEW CONGRESSIONAL SPENDING PROPOSALS.................		$30
POTENTIAL DEFICIT THREAT............................		$100 BILLION

New Congressional Spending Proposals

Anti-recession grants to State and local governments.......................	$5.0
Broadened unemployment compensation benefits................................	4.0
Additional public service jobs...	3.0
Increased public works projects for State and local governments..............	3.0
Increased farm subsidies...	2.2
Additional water pollution control and abatement projects....................	1.9
New housing subsidies..	1.9
Increased urban mass transit and highway projects............................	1.8
Health insurance subsidies for the unemployed................................	1.5
Increased school feeding and related programs................................	1.4
Increased veterans benefits..	0.8
Additional small business loans..	0.4
Other increases in a wide variety of spending programs.......................	3.2

March 31, 1975

Today, however, I wish to focus on this concrete proposal that I believe my colleagues in the Congress as well as the administrations here and in the Soviet Union will agree is in our common interest and in the interest of a more stable strategic balance and a more peaceful world.

THE VLADIVOSTOK CEILING

The ceiling on numbers of strategic delivery systems agreed to at Vladivostok—2,400 on each side—and the level of MIRVed missiles—1,320 on each side—is, in my judgment, far higher than necessary for the security of either side so long as the forces of the two countries are limited on the basis of essential equivalence. Based on past experience and the current high level of Soviet strategic spending, it is necessary to assume that, in the absence of some new development, the Soviets will work at full speed toward the deployment of 2,400 firstline strategic delivery systems and 1,320 new MIRVed missiles over the life of the Vladivostok agreement. Moreover, this force will represent a substantial Soviet advantage in throw weight—an advantage which, depending on the programs they choose to pursue, could eventually show up in the form of a superior number of strategic warheads of a size suitable for high confidence counterforce strategies. Such a destabilizing development along the road to 1985, when an agreement based on the Vladivostok aide memoire would presumably expire, could set in motion understandable anxieties in this country and a movement for compensating steps on our part.

In defense of the fact that the Vladivostok aide memoire does not contain a provision for serious force reductions, the administration has claimed that it was necessary first to establish a ceiling before it could begin negotiations for mutual force reductions; for this reason, it was said, force reductions would have to be deferred until after a SALT II treaty had been negotiated. Despite the surface plausibility of this argument, I believe that it is fundamentally misleading. It is all very well to say that an upper limit must precede reductions; but there is a great danger that the plans flowing from an agreement on an upper limit will seriously complicate the prospects for achieving reductions. If each side moves to plan for a force of 2,400 modernized strategic delivery systems now, it may well prove impossible to negotiate lower levels later. It is far easier to obtain agreement to the phasing out of older, perhaps even obsolete, weapons than it is to obtain agreement to the destruction of weapons that have just been deployed at great expense.

In any event, building a structure for the purpose of tearing it down again is wasteful at best; and, if the new tenants simply refuse to be moved out, such an approach could frustrate the tearing-down process. Would it not be much better if the building never went up in the first place? That is precisely what I am proposing here: that we call a halt to the modernization process for those 700 weapons on each side that are superfluous to our real strategic needs, to give us both the time and opportunity to work toward an agreement in which they will be phased out entirely. At the same time, such a move would enable this country to concentrate on the modernization of its core strategic force.

ADVANTAGES OF THE NEW PROPOSAL

Our experience with the ABM treaty is instructive on this point. The 1972 ABM treaty provided that each country could deploy a second ABM site in addition to the one that each then possessed. However, the limit on the number of missiles permitted at each site was such as to render obsolete the deployment of the permitted second ABM installation. Thus, having first assured the obsolescence of the second ABM site, it became relatively easy to obtain an agreement banning the second site completely. That same logic lies at the heart of my present proposal.

From the point of view of the United States the incorporation of my proposal in a codicil to the SALT II treaty would greatly increase its appeal to the Congress and the American people. By making it plain that we will not have to modernize some 700 older strategic delivery vehicles in order to meet the Vladivostok ceiling with viable, firstline forces, we could anticipate a saving of many tens of billions of dollars. The Soviets could anticipate comparable savings. We have learned from experience that the cost of modernizing a strategic delivery vehicle can, and often does, equal the cost of a new weapon. In my judgment the 10-year system cost of a new or modernized strategic delivery system is likely to approach $100 million—so that an eventual reduction of 700 such weapons ought to yield savings on the order of $70 billion over the next decade.

Also, by identifying now those 700 strategic launchers on either side that could not be modernized, we could go about our strategic force planning with a much more certain sense of what the Soviet strategic forces will look like in the 1980's; and they, for their part, could also plan on a more confident basis. A major destabilizing element—simple uncertainty as to the nature of the other side's future deployments—would be reduced. Serious arms control could proceed much more confidently. Most importantly, apprehension that the Vladivostok ceiling will become a floor will be greatly diminished.

Mr. President, there have been recent expressions of interest on the part of the executive branch in a closer working relationship with the Congress in the area of foreign policy. I welcome these expressions and I very much hope that the administration will consider seriously the proposal I have made here today. I intend to introduce shortly in the Senate an amendment or resolution calling upon the administration to put this proposal to the Soviet Union and to report back on the results of its efforts to gain Soviet acceptance of it.

Much can happen between the declaration of pious hopes now envisioned for a Vladivostok Treaty—words that both sides will enter negotiations on further—limitations and possible reductions—and the actual working-out of a program for phased reductions. After all, the level of missiles on the Soviet side, which was to be temporary as negotiations toward a SALT II Treaty proceeded, has become, predictably a permanent fixture of the Vladivostock aide memoire. Lest we find ourselves like King Canute, ordering the tide to cease when we enter the post-Vladivostok negotiations, we had better take steps now to assure that strategic force reductions have been merely deferred—and not interred.

A final and crucial advantage of the proposal I am putting forth here is that it will enable Members of Congress to gauge how realistic the prospects of future arms reductions are before they are called upon to ratify a treaty embodying the Vladivistok ceilings. To many Members of Congress a ceiling to be followed by reductions may prove acceptable while a ceiling followed by increases, or even a freeze at too high a level, might prove unacceptable. In the difficult task of measuring the treaty that is expected to emerge from the current negotiations, a sense of the future of strategic arms reductions is an essential ingredient.

We can help to turn pieties into probabilities if we undertake, in both our countries, to incorporate a non-modernization provision for 700 strategic delivery systems in a Vladivostok Treaty. We can act now to assure against disappointments later.

Mr. President, I yield the floor.

NO $100 BILLION DEFICIT

Mr. MUSKIE. Mr. President, the morning newspapers report White House estimates that our country faces a $100 billion deficit for next year. I believe the Budget Committee will reject any such deficit.

But to avoid such a deficit will require that Congress and the President agree upon a clear, overall view of where we are today with regard to fiscal 1976 and where we want to go. It will require restraint as we examine our spending priorities.

Congress has its budget for fiscal year 1976 about half done now. Our revenue decisions will have been made when we complete action on the tax conference report.

The votes on spending—which is the other half of budgetmaking—are mostly still ahead of us.

Having in mind the momentum for tax cuts we saw on the Senate floor last week and the pressure for emergency, anti-recession spending programs we feel building, I think it would be wise to take stock.

How much is there left to spend? How much of this spending is already locked in as a result of past decisions? How should the remainder be distributed among our national needs?

Ten years ago our country faced a totally different economic picture. The tax cut and calculated deficits proposed by the Kennedy administration and enacted by the Congress had produced the beginning of an unprecedented prosperity in our country.

The budget was nearly balanced. The country had embarked on an ambitious program to address long unmet needs in our national life, including such reforms as Federal assistance to education and medicare.

The war in Vietnam, which was to drain so much from our country and contribute so mightily to the staggering deficits we have experienced, seemed far away indeed. But even then a very wise man, our distinguished majority leader, MIKE MANSFIELD, cautioned us that we should "stop, look, and listen:" To examine very carefully the spending programs which had been put in place, to make sure they did not exceed our resources to pay for them.

Ten years later, this advice from Senator MANSFIELD is equally applicable to a far different economic picture. We are experiencing the worst economic times since the Great Depression. And we have no assurance things will not get worse. We are told by the President and economic experts that massive deficit spending by the Federal Government is required to pull us out of our Nation's economic tailspin. In the tax cut about to be enacted, we have taken a major step toward that solution. Other very large spending programs proposed to reverse the recession are pending in Congress.

Many of them seem to have gained an express-train-like momentum. What I mean to do today is to echo the sage advice MIKE MANSFIELD gave us a decade ago. It is time to stop, look, and listen.

The fact is that the elbow room is extremely limited if we want to remain within the bounds of what economists tell us is prudent economic policy. The prospective deficit at this point is very close to the $70 billion range the Joint Economic Committee has said is desirable for purposes of economic stimulus.

The revenue picture in fiscal year 1976 will depend on actions taken by the House-Senate Conference on the tax bill (H.R. 2166) and on the course of the economy this year and next. Our current working estimate of revenues for fiscal 1976 is almost $290 billion, depending, of course, on how the economy fares.

On the spending side, we can now see spending amounting to about $358 billion after cutting the President's proposals to the bare bones and without the addition of programs which appear to be well on their way to passage.

I would like to take the Members through an informal table to show them what this $358 billion figure includes. I think they will be surprised to see what it does not include:

Begin with projected outlays for FY 1975 which are unlikely to be cut back for FY 1976, $316.6.

Add increases which are automatic under present law, including prior year commitments, increases in unemployment insurance and other costs due to the recession, and so forth, $29.2.

I ask unanimous consent to include at the end of my statement a table which analyzes that figure.

The PRESIDING OFFICER. Without objection, is so ordered.

(See exhibit 1.)

Mr. MUSKIE. These amounts, Mr. President, which we seem virtually certain to spend, total $345.8 billion:

[In billions]

Now add additional items on which we can still vote but which seem certain of enactment	$12.6
NATIONAL SECURITY	
Remove 5-percent "cap" on military retired pay	+.6
Allowance for inflation in DOD nonpersonnel items	+3.0
PHYSICAL RESOURCES	
Additional energy initiatives (this amount recommended by the President; Senate committees proposed $2.8 billion more; assumes at least $800 million is needed)	+.8
Increased target prices for certain agricultural commodities (enactment highly likely; present target prices do not cover costs and farm prices are declining)	+.5
HUMAN RESOURCES	
Increase for public service jobs and summer youth (President proposes increase of $1.7 billion; highly likely Congress will add further)	+3.0
Remove 5-percent "cap" in social security	+2.6
Remove 5-percent "cap" in Federal employee retirement and disability	+.8
Public assistance legislative changes proposed by President	+1.3

These items total $12.6 billion, Mr. President. So the outlays which are all but certain to appear in the fiscal year 1976 budget come to $358.4 billion, as against our working estimate on revenues of $290 billion, which means we are faced with a deficit of $68.4 billion.

Members should keep in mind the attractive proposals not on the list of almost certain spending. Let me tick off a few of them:

[Fiscal year 1975 outlays in billions]

Rejection of the President's 5-percent cap on Federal pay	+$1.6
Rejection of the President's proposals to increase medicare/medicaid beneficiary cost sharing with States and eliminate adult dental care	+2.0
Rejection of the President's proposals to reduce Federal matching in grants to States for social services	+.5
Overturning of rescissions in health research and training	+.3
The House-passed public works bill	+3.0
The House-passed housing assistance bill	+1.3-2.5
National health insurance, 1st-year cost	+.1-.3
Emergency aid to railroads	+1.6
Countercyclical revenue sharing	+5.0
Continue title I of ESEA and other education programs at levels by making up for inflation	+1.1
More public service employment	+2.5

Those items certainly do not exhaust the possibilities. They total $19 billion to $20 billion.

This list of possible add-ons is merely a sample of the kind of proposals which Congress is going to see before it in the next few months—and among which we are going to have to choose. And there are plenty of other possibilities. The Budget Committee has before it reports from the authorizing committees which, taken together with the President's budget request, would bring total spending in fiscal year 1976 to about $390 billion.

And we are aware of additional proposals which would bring the total to about $410 billion.

So the White House estimate of a $100 billion deficit is not impossible, were we to exercise no restraint whatsoever, but neither is it inevitable.

What these figures mean is that Congress is going to have to exercise great restraint to avoid overshooting the mark, as we try to get our economy moving again.

It is time, I repeat, to stop, look and listen.

I have made this statement today as we are about to depart on our recess and go back to our constituents back home, so that all Members may have this perspective for guidance over that period and as we approach the date of April 15 when Congress must adopt the first concurrent resolution establishing a budgetary and economic policy.

EXHIBIT 1

SELECTED AUTOMATIC INCREASES UNDER PRESENT LAW—FISCAL YEAR 1976

National Security	
Increase DOD civilian and military pay (5%)	+1.[illegible]
Increase military retired pay	+.[illegible]
Military assistance and other requirements, net	+.[illegible]
Physical resources	
Expansion of Federal Highway Program (this is the increase recommended by the President; it is largely due to actions already taken in FY 1975; $1 billion of the total is due to the recent impoundment release)	+1.[illegible]
Mortgage credit and thrift insurance (this amount proposed by the President; it represents financing changes and it is not a major change in program levels; assume it is required)	+1.[illegible]
Increase in HUD Community Development program resulting from higher levels of commitments in FY 1975 most of which have probably been made already ($.9 billion), plus overturn of impoundment ($.1 billion)	+1.[illegible]
Human resources	
Increase medicare/medicaid due to more beneficiaries and higher costs (this amount recommended by President; Senate committees would add $2 billion more by rejecting President's legislative proposals)	+1.[illegible]
Increase social security as proposed by the President	+6.[illegible]
Increase Federal employee retirement and disability programs as proposed by the President	+[illegible]
Increase unemployment insurance (assumes higher unemployment level than President—about 8.5%)	+[illegible]
Increase low rent housing, partly due to recent impoundment overturn	+[illegible]
Increase in public assistance and other income supplements (assumes increase proposed by President, plus recent overturn by Congress of food stamp cost increases, plus higher food stamp estimates due to more beneficiaries)	+3.[illegible]

Underestimate of existing veterans program costs (reported by Veterans Affairs Committee	+.8
General government	
Increased interest on the public debt, including assumption of higher deficit than in President's budget	+4.0
Allowances	
Increase civilian agency pay (5%)	+.6
Total	29.2

Mr. BELLMON. Mr. President, will the Senator yield?

Mr. MUSKIE. I yield to the distinguished Senator from Oklahoma.

Mr. BELLMON. Mr. President, I am pleased to join the distinguished chairman of the Budget Committee, Mr. MUSKIE, in expressing the belief that the Budget Committee will reject the forecast $100 billion deficit for fiscal year 1976. In my opinion, a deficit of this size for fiscal year 1976 would prove to be devastating to our Nation's economy both for the short and long terms.

Mr. President, restored consumer confidence is the key to ending the recession and returning to normal levels of economic activity. Even with Government spending at its present high levels, the impact of spending by the private sector is roughly five times as great as spending by the Federal Government. Therefore, ending the recession depends more upon consumer spending than upon Government spending. A deficit in the $100 billion range would, in my opinion, create consumer concern, cause further retrenchment and produce a negative effect upon unemployment and Treasury revenues.

An excessive deficit could very well demoralize America's private investors thus causing them to postpone plans for plant modernization or for new plant construction. In addition, such a deficit would lay the groundwork for further inflation and bring about an increase in interest rates which would quickly destroy the housing and construction industries. Chairman MUSKIE is wise to counsel Members of the Senate to "stop, look, and listen" before we plunge into 1976 deficit spending of the $100 billion magnitude.

Mr. President, the work of the Budget Committee cannot, at this time, be looked upon as an exact science. There is a strong element of artistry involved as we attempt to anticipate public acceptance of and reaction to the decisions we make. Already there are signs that the economy is stabilizing and that it may soon be making a turn for the better. If this happens, Government revenues should rise, the cost of recession related programs such as unemployment insurance should be reduced and the deficit picture could improve markedly.

Easter recess, which hopefully will begin at the close of business today, will provide Members the opportunity to return to their States and gain current insights into public attitudes. We may find our citizens saying that Congress should follow a path of moderation in terms of Government spending. We may find the beginning of renewed consumer confidence. If that is the case, hopefully, the deficit can be held to even lower figures as the revenue picture improves due to the more normal levels of consumer and private sector spending. If such is the case, Congress would be wise to avoid overstimulation and the danger of reinflating the economy to the dangerous levels of last summer.

I commend Chairman MUSKIE for bringing this matter to the attention of the Senate as we begin our recess. I would like to reemphasize his message that we "stop, look, and listen" during these next 10 days, our collective impressions will serve us well as we begin the serious discussion of the effect of the future of this country.

Mr. NELSON. Mr. President, will the Senator yield?

Mr. MUSKIE. Let me, before yielding express my appreciation to the distinguished Senator from Oklahoma, who is the ranking Republican member of the committee, for his statement and for his excellent work on the Budget Committee.

Let me add this note for my colleagues:

On April 15, the Budget Committee is required, under the terms of the budget reform legislation, to report a concurrent resolution to the Senate. It will include five figures:

First. A ceiling on overall spending.

Second. A ceiling on budgeted items.

Third. A recommended deficit or surplus—in this case it will be a deficit at least in the amount of the President's proposed deficit and probably more, on the basis of the analysis I have given today.

Fourth. The resulting impact on the Federal debt.

Fifth. In addition, in the report, will cover the whole range of the concurrent resolution, there will be indicated, as a result of this year's work program, target ceilings for the 16 functions of the Federal Government.

These will be the Budget Committee's recommendations. The Budget Reform Act provides for 50 hours of debate on these recommendations. It will then be incumbent upon any Member of the Senate to make his impact on the decisions which would finally be made by the Senate with respect to the budget resolution.

So if there are those who challenge the target ceiling or those who challenge the priorities for Government spending, that is the time to do it.

It is for this reason that I give the Senate this inkling of the nature of the challenges that will confront us so that the Senate may consider them over this next recess period.

I am happy to yield to my distinguished colleague from New Mexico (Mr. DOMENICI), who is also a member of the Budget Committee, for a brief comment.

Mr. DOMENICI. I thank the Senator.

Mr. President, I join with the Senator from Oklahoma in commending the distinguished chairman of the Budget Committee for his presentation here today.

I thought during the 3 weeks that we have been hearing from all the experts on what we ought to do, part of that time I wondered if it was right, whether it was the right time, to have a Budget Committee start in business, somewhat frustrated, wondering just how in the world we ought to decide what we ought to be doing.

But as all that work begins to come into fruition, and we find, probably for the first time in the history of the U.S. Senate, this kind of summary of where we are, it appears to me that it is indeed propitious that America, in its sort of unorthodox way last year, adopted a new Budget Reform Act and, as difficult as it is going to be, with a recession just having come out of rampant inflation, with an energy crisis and a chaotic budget system all on top of it, it appears to me that the great good will come out of this.

We are beginning here today, for those who really read what the Senator put down by way of figures, who will have to shudder, because the Senator has been indeed generous when he talks about suggested expenditures that are going to solve America's recession, as proposed by others. We could add $20 billion to the Senator's list of 20 without much difficulty, and there are many who would say, "Why did you not put them in, for they are certainly going to help solve the recession."

But I am delighted that the Senator put some basic ones in, and in the almost rock bottom budget of the President, and then the Senator is telling all those who have the solutions in their committees and by their programs to "Stop, look, and listen."

Mr. President, I say that the road to ruin is paved with good intentions, and we are at a point in time when the temptation to solve the recession by putting new programs in place or adding new billions to those that are there is a serious temptation, because everyone is worried and everyone is quite sure that his program will solve it.

I would like to talk just a moment with our chairman about what some of the economists told us. All of them, when we have a recession, are quick to want to come before us, are they not? They all tell us how to solve the recession, and I think the chairman remembers, after hearing five or six of them, I asked them, "Where is your model for solving inflation," for many had even produced an economic model that they punched out on a machine to solve the recession, and none could produce one to solve inflation.

I asked a number of them, experts, "Is it harder to solve inflation or recession?" And they said:

> From our standpoint, it is a lot easier to give advice on how to stop the recession than it is to stop inflation.

I think the chairman will remember that exchange.

Mr. MUSKIE. That is right. We all of us always perceive it is easier to look back and tell us what happened and why——

Mr. DOMENICI. Precisely.

Mr. MUSKIE. Than it is to follow and project the decision of what is coming.

Mr. DOMENICI. Then I think we can recall our distinguished ranking member, the Senator from Oklahoma, is always asking that very simple question:

Well, can you tell us what we did wrong so we will not do it again?

It seems it is one of the professional attributes that they really cannot quite do that, because things always change that they were not aware of, and they say that it might happen again.

So I conclude, Mr. Chairman, not only by complimenting the Senator, but also by saying I believe there are some good signs out there that we are coming out of the recession—not by leaps and bound, but it is a pretty good indicator. I need not go into it, and they will be in our report, I am sure.

Everyone says, from Arthur Burns to Bill Simon as to the President's budget, that, indeed, we have to have a deficit in 1976—no way to avoid it. They say it is built in right now. It is costing us this and that and the other, one of them being $20 billion a year for unemployment, a program which we all want to see continued as one of those stabilizers that we did not have during the last Great Depression; and the other costs that are built in.

But it seems to me that the American people are also very worried about chronic inflation, and I think they are a little more perceptive than we are. They are writing for some clear signs of stability.

Then the confidence that we want in our consumers, Mr. and Mrs. Average American, and in our private sector, if that confidence comes back, is that we are not going to need the program that people are talking about to further stimulate the economy over and above a tax cut voted in, and the basic bare-boned budget that we are talking about.

So I hope we will not put all those other programs in place out of fear that we are not going to get enough in. I think caution and history indicate that we should do the reverse, that we should put in the minimum and do as Arthur Burns suggested, sit back and take a little look, and if we need some more, put it in, but do not build it in and have a $100 billion deficit, and expect the American people to have confidence in their dollar, in their Government, and their future. If they do not have that they are not going to act as American consumers, and the ripple effect from unemployment will be three times greater in terms of effect than its actual numbers.

So I close by commending the chairman. I am more optimistic than ever that the Budget Committee, under a very difficult law, will have an impact. It starts today, and if we keep on doing our job and getting some to listen we might add a degree of orderliness to what has heretofore been a chaotic process of treating the resources of our Nation by the Congress of the United States for some 20, 25 years.

I thank the chairman for yielding.

Mr. MUSKIE. I thank my good friend from New Mexico for contributing so much to the Budget Committee. I am afraid what my statement today does is simply highlight the difficulty of the choices that lie ahead, and I am not so sure that it resolves the challenge that the Budget Committee faces, but I do appreciate the Senator's comments and his contribution to the work of the committee, and I hope we can make the process work.

Mr. GOLDWATER. Mr. President, I occupied the Chair during the time that the distinguished Senator from Maine (Mr. MUSKIE), chairman of the new Budget Committee, made his report. I have to compliment him on that report. It took a lot of courage to stand up and tell the Senate the truth, and the American people the truth, as to what we might expect. There are several things, Mr. President, which intrigued and frightened me about the financial situation that this country finds itself in from the governmental standpoint.

Today we heard a discussion that indicated that the deficit might not reach $100 billion. That is a good round figure—$100 billion. It has no appeal to me, because if we have a deficit of $5 billion, or $1 billion, we are in trouble. I think we can see very clearly a deficit of $50 billion. I think in the following year, with the built-in increases that we have, we can see a deficit that could exceed $80 billion.

The question that keeps coming to my mind—and I have not heard it answered—is where is this money coming from?

Mr. President, there is not that much money left. The total debt of this country, including Federal debt, State debt, local debt, and our own personal debts is more money than we have. So it gets to be rather simple and arithmatic. The country, if it continues the spending that we are now doing, is going to have to print more money.

This is precisely the reason we are in the trouble we are in now.

This country embarked on increased credit through deficit spending about 20 years ago. In the interim we have increased credit about 400 percent, but we have only increased our productive ability about 28 percent. So we have that great surplus of credit vying for the little increase in goods that we have achieved.

This has not only affected the United States; it is now affecting the entire world. In fact, it is affecting the world to the point that many countries are beginning to take a look at some other currency than the American dollar as a currency on which they are going to peg their own money.

Mr. President, this gets serious. I stated here in the Chamber the other day that I do not believe this country can last 5 years with this continued deficit spending. I have not had one single economist offer any argument against that.

I spoke last Saturday night at a distinguished gathering of economists in New York and I repeated the statement. I was not challenged on it. I do not know any way in the world, Mr. President, that an individual can continue to spend money it does not have, or a government can continue to spend money it does not have, without eventually going bankrupt.

I recall—and I imagine many Members of this body can recall this picture—seeing a picture after World War I of a German woman going to the market to buy a loaf of bread. She was carryin a clothesbasket full of marks.

I talked to a taxi driver in New Yor the other night who worked in German at that time. He was paid a millio marks a day—worth about a dollar an a half.

The question then comes to me: D we want this? Do we Americans want t have this country in bankruptcy?

I recall that last December I voted t support the President's plea to with hold automatic increases of 5.5 percen for Federal employees, and I thought would catch holy Ned when I got hom I had a few people complain about it but, far and away, the great majorit said they stood with me on it.

This is the argument: Would yo rather be working 5 years from now a your present salary or not working at al or working at an inflated salary and hav no welfare to fall back on, no unemploy ment insurance or security, no foo stamps, no social security? I think the are the alternatives that the America people and particularly Congress hav to face up to.

Mr. BUMPERS. Mr. President, will th Senator yield for an observation?

Mr. GOLDWATER. I yield.

Mr. BUMPERS. I heard the disti guished Senator from Arizona mentio the situation in Germany in the 1920' I happen to be sitting here going throug some correspondence from constituent and I would like to read a paragra from a good friend of mine. He says:

> In looking through some of my old me oirs, I found a 10,000 Deutsche mark. I rec that in the early 1920's I bought it from man on a street corner in St. Louis for 1 The purpose of telling you this is our frien in Congress seem to think that there is limit on the national debt and all that have to do is turn on printing presses a print more money. We who lived during t fall of the German Empire, know that mon had no value and that a bushel basket marks wouldn't buy a loaf of bread. I wou be glad to send you this old worn out 10,0 mark bill if you think it might make a impression on some of your friends the who are constantly voting for an increase the national debt limit. I would think o greatest fear is what happens to the value our dollar, 5, 10, or 25 years from now. Ma people my age who have layed back a f dollars for old age and hope to cash them as needed in the years to come may find th the dollar has been so devalued that th cannot live on what they have set aside. is a grave situation and we cannot contin to spend in excess of the monies we take

I thought that might lend some for to the argument of the Senator fro Arizona. It was pure coincidence that was talking about something I was rea ing about.

Mr. GOLDWATER. I thank the Sen tor from Arkansas.

Those are the examples, I have to sa that must be brought home—first Members of Congress, many of whom not seem to understand the Americ economic system, who do not understa the profit system, who have no idea h it works.

I have heard on the floor of the Sena in arguing on behalf of the tax cut, th it will put people to work. I have hea it reported that President Roosev

Dunham has copy.
F.Y.I.
H.

THE WHITE HOUSE

WASHINGTON

April 21, 1975

ECONOMIC AND ENERGY MEETING
April 22, 1975
12:00 Noon
Cabinet Room

From: L. William Seidman LWS

I. PURPOSE

A. To review the current state of the economy.

B. To report on extending the duration of unemployment insurance benefits.

C. ~~To review major upcoming labor negotiations.~~

D. To report on congressional budget committee actions and to discuss Administration strategy.

II. BACKGROUND, PARTICIPANTS, AND PRESS PLAN

A. Background: The Weekly Economic Fact Sheet is attached at Tab A. The Economic Policy Board Weekly Report is attached at Tab B. A paper outlining the Administration's proposal for the extension of unemployment compensation is attached at Tab C. A paper outlining the major upcoming labor negotiations is attached at Tab D.

B. Participants: The Vice President, L. William Seidman, Alan Greenspan, James T. Lynn, John T. Dunlop, Arthur F. Burns, Rogers C. B. Morton, Frank G. Zarb, Stephen Gardner, Donald Rumsfeld, Richard L. Dunham, Robert T. Hartmann, John O. Marsh

C. Press Plan: White House Press Corps Photo Opportunity.

III. AGENDA

A. Review of Current State of the Economy

Alan Greenspan will review the current state of the economy.

B. Extension of Unemployment Insurance Benefits

John Dunlop will report on the proposed extension of unemployment insurance compensation benefits.

C. Review of Major Upcoming Labor Negotiations

John Dunlop will review the major upcoming labor negotiations.

D. Congressional Budget Committee Actions

James Lynn will report on recent congressional budget committee actions and discuss Administration strategy in response.

A

April 21, 1975

WEEKLY ECONOMIC FACT SHEET

Employment and Unemployment

Weekly data point to a continued rise in the rate of insured unemployment since mid-March, when the regular unemployment survey was taken.

Production

Real gross national product declined at a 10.4 percent rate during the first quarter.

Industrial production declined 1 percent in March for the fifth straight monthly decrease. The March decline was considerably less than the monthly decreases of 2-1/2 to 3-1/2 percent that occurred in the four preceding months.

Prices

Wholesale prices of sensitive industrial commodities have been edging up since late January after a steep and irregular decline that began about 1 year ago.

Money and Financial

-- The monetary aggregates continue to expand rapidly. Over the past 2 months the narrowly-defined money supply has risen at an annual rate of about 13 percent.
-- Long and short-term interest rates rose considerably in the week ending April 11.

International

-- The dollar strengthened again last week, continuing the upward trend evident since late February. The rise may have been related to anticipation of higher U.S. and Eurodollar interest rates.

Key Sectors of the Economy

-- The book value of manufacturing and trade inventories declined by $1.5 billion in February after having shown no change in January. Stocks held by manufacturers rose slightly while trade stocks, especially those held by retail motor vehicle dealers declined sharply.
-- Housing starts were about unchanged in March from a slightly upward revised February level. Private starts for the quarter averaged almost 1 million at an annual rate.

WEEKLY ECONOMIC REVIEW

The Commerce Department preliminary estimates of the first quarter gross national product did not contain any major surprises but several significant developments have been confirmed. The rate of inflation declined to an 8 percent annual rate -- sharply below the 14.4 percent rate of the final quarter of 1974 and the actual reduction in inflationary pressures has been considerably more than indicated by the first quarter estimate.

Although production or real GNP declined at a 10.4 percent annual rate final sales, after allowance for inventory changes, were steady following the 11.7 percent rate of decline during the final quarter of last year. With sales holding up and production down sharply a very large amount of inventories was worked off. In real terms total business inventories declined in the first quarter at a seasonally adjusted annual rate of $11 billion compared with the large involuntary $10.9 billion rate of accumulation during the fourth quarter of last year. Inventory investment, as a result, declined by $21.9 billion during the first quarter.

Real consumer expenditures, after allowance for inflation, rose slightly in the first quarter. If final demand continues to hold up we anticipate another large volume of inventory liquidation in the second quarter -- a development which will greatly strengthen the prospects for some significant stabilization in the economic decline during the second quarter and a turnaround during the second half of the year. As the inventory adjustment begins to slow production will be forced upward to the level of final sales.

Quarterly Changes in Real Gross National Product, Inventory Investment and Fiscal Demand

(Seasonally Adjusted Annual Rate)

	Gross National Product		Inventory Change	Final Demand	
	Billions 1958 $	Percent change	Billions 1958 $	Billions 1958 $	Percen change
1973: I	832.8	9.5	7.3	825.5	10.4
II	837.4	2.2	7.8	829.6	2.0
III	840.8	1.6	8.0	832.7	1.5
IV	845.7	2.3	20.0	825.7	-3.3
1974: I	830.5	-7.0	10.6	819.9	-2.8
II	827.1	-1.6	8.2	818.9	- .5
III	823.1	-1.9	5.0	818.1	- .4
IV	804.0	-9.0	10.9	793.1	-11.
1975: I	782.3	-10.4	-11.0	793.3	.

Industrial production declined by 1 percent in March, the smallest monthly decline since last October. The March index would have declined considerably more if not for the fact that automobile production increased by approximately one-fourth after a spectacular decline of 46 percent from October 1974 to February. Although the trend of output is still downward some of the recent indicators suggest that the severest production and employment cutbacks are behind us.

Auto assemblies rose from a seasonally adjusted annual rate of 4.6 million units in February to 5.6 million in March reflecting the improvement in sales associated with the rebate program and the fact that dealers' inventories of new cars have been greatly reduced in recent months. Sales have declined some since the rebate program ended but they are still well above both the production rate and our earlier expectations. In the first 10 days of April, for example, dealer sales of domestic-type cars were at an annual rate of 6.4 million units, which was somewhat better than the rate in the last 20 days of March. With stocks in reasonably good shape and with sales showing signs of stabilizing, prospects for at least a modest second quarter pickup in auto output above the March level seem reasonable.

Other improvements in production during March occurred in clothing, and in mining, where coal production showed substantial increases.

The pickup in clothing could represent the reversal of a protracted downturn which has been responsible for exceptionally large cutbacks in textiles and in basic textile fibres, which are produced by chemical companies. Production of materials of all types fell by 1-1/2 percent in March, which is a large decline but is smaller than the monthly decreases of 3-1/2 to 6 percent that were recorded from November through February. The smaller production decline in materials reflects the fact that manufacturers have been successful in reducing inventories to a level more nearly in line with the rate of sales.

So far there is no evidence that the decline in capital goods is abating. The 2.3 percent decrease in business equipment during March was larger than the February decline. Both the unfavorable trend of new orders for equipment and the lead time of 6 to 9 months between orders and shipments makes a quick turnaround in output in this sector unlikely.

- - - - - - - - -

The substantial decline in inventories in February is a favorable development since it is a prerequisite for a turnaround in production. Where finished stocks are at low levels, any pickup in final sales means a pickup in production. This has already happened in automobiles and a few other sectors seem to be on the verge of such a turnaround. Stocks held by department stores and by furniture and appliance stores declined in February and are down substantially from their levels of 3 months earlier.

- - - - - - - - -

Housing starts during March were at an annual rate of 980 thousand -- approximately the same as during the previous two months. Starts of single family dwellings are rising but starts of multi-family units are still declining. Housing permits, although down slightly from the upward revised level of February, have increased on average during the past two months. The basic factors affecting the housing outlook have improved and even though there is still little compelling evidence to indicate that the housing pickup which we expect is getting underway, we still expect to see more of that evidence soon.

- - - - - - - - -

The various measures of the money supply continued to expand rapidly last week -- continuing the trend that began about two months ago. M_2 which includes demand deposits currency and bank time deposits has risen at a 13 percent annual rate during the past two months. Both short and long-term interest rates rose substantially last week, partly because of the heavy volume of Treasury financing and its anticipated continuation in the months ahead.

B

April 21, 1975

ECONOMIC POLICY BOARD WEEKLY REPORT

Issues Considered by EPB During Week of April 14

1. Review of proposed bill to provide Federal regulation of foreign banks.
   Task Force established to report in 30 days.

2. Review of International Coffee Agreement Working Group discussions.

3. Reviewed status of proposed EDA loan to Todd Shipyards.

4. Review of Farm Bill alternatives.

5. Review of Benefit Payment Programs using unemployment levels as "triggers."

6. Report on the current status of the tanker industry discussions.

7. Review of status of Seatrain Shipyards.

Task Force Status Reports

1. Food Deputies Group

   - House-Senate conferees approved the "Emergency" Farm bill similar to the House version entailing increased 1976 budget outlays of approximately $1.8 billion.
   - Congress expected to start work soon on an omnibus farm bill covering everything from food stamps to grain reserves.
   - World grain production expected to exceed last year by 88 million tons including 60 million tons within the United States.
   - Stock build up around the world expected to be approximately 25 million tons.

Major Upcoming Agenda Items

1. Railroad legislative initiatives.

2. Next steps in the Export Promotion Study.

3. Inflationary effects of the Davis-Bacon Act.

4. Preliminary review of Role of Government in the Economy Study.

5. Preliminary review of Capital Formation and Productivity Study.

C

April 21, 1975

DEPARTMENT OF LABOR PROPOSAL FOR EXTENDING THE DURATION OF UNEMPLOYMENT INSURANCE BENEFITS

The essential elements of the Department of Labor's proposal are:

1. Expansion and extension of benefit payment authority

   (a) For previously covered workers (FSB)

   - Extension of highest 13 week increment of extended benefits (weeks 52-65) from June 30, 1975 through December 31, 1975.
   - Extension of highest 13 week increment of extended benefits and preceding 13 week increment (weeks 40-52) through December 31, 1976, subject to triggers (outlined below) after December 31, 1975.

   (b) For previously uncovered workers (SUA)

   - Authority for an additional 13 weeks of benefits (weeks 27-39) through December 31, 1975.
   - Extension of current authority for first 26 week increment of benefits from December 31, 1975 through December 31, 1976 and extension of highest 13 week increment of benefits through December 31, 1976, with both subject to triggers after December 31, 1975.

2. Trigger procedures to govern availability of extended benefits

   The levels of the insured unemployment rate (seasonally adjusted) and corresponding maximum weeks of duration of unemployment insurance benefits are:

Insured Unemployment Rate	Maximum weeks of benefits: FSB, etc.	SUA
6% or higher	65	39
5.0% to 5.9%	52	26
4.0% to 4.9%	39	0
3.9% or less	26	0

3. Applicability of triggers to States or labor market areas

   Triggers would be applied on a labor market area basis under the proposal, without the option of applying triggers on a state basis.

4. Trigger criteria for availability of benefits

   Under the proposal, both national and subnational unemployment trigger levels would need to be satisfied for availability of extended benefits.

   Regular extended benefits (weeks 26-39 for previously covered workers) would be available in 1976 if either the national insured unemployment rates exceed 4.5 percent or the state rate exceeds four percent.

5. Estimated additional costs of the proposed benefits extension are:

   For calendar year 1975: $0.5 to $1.5 billion.

   For calendar year 1976: State triggers--$4.0 to $5.0 billion.
   Area triggers --$0.5 to $1.5 billion.

SUMMARY OF MAJOR CONTRACT EXPIRATIONS
January 1, 1975 - September 30, 1976

INDUSTRY	COMPANIES	UNION	WORKERS COVERED	EXPIRATION DATE
FY 75 Expirations				
Railroad	Class I Railroads	Railway Clerks, 4 Shopcrafts and Yardmasters	200,000	January 1

Comment: Railroad negotiations are subject to procedures of the Railway Labor Act. Strike action is not permitted until 30 days after the National Mediation Board, at its discretion, releases the case. The Railway Clerks are free to strike at 12:01 a.m., April 18 unless a Presidential Emergency Board is appointed.

Anthracite Coal	Anthracite Coal Operators	Mine Workers	2,300	March 30

Comment: The strike, which began on April 1, is continuing at this time. Major issues include wages and pension improvements.

Maritime	Major Steamship Companies Atlantic, Gulf and Pacific Coasts	MMP, MEBA, NUM, SIU ARA, ROU, and others	37,200	June 15

Comment: Negotiations involving several of the major unions and organizations are reportedly underway at this time.

INDUSTRY	COMPANIES	UNION	WORKERS COVERED	EXPIRATION DATE
Shipbuilding	Newport News Shipbuilding, American Shipbulding, Bethlehem, Todd and others	Marine and Ship-building Workers, Iron Workers, Metal Trades Councils and others	42,072	June - Aug.

Comment: Agreements involving several Gulf Coast yards of Todd and Levingston have been concluded last month.

FY 76 Expirations

Longshore	Pacific Maritime Association	Longshoremen's and Warehousemen's Union (ILWU)	12,200	July 1

Comment: A tentative agreement reached on February 10 was subsequently rejected by the union membership by a narrow margin (0.5 percent). Negotiations have resumed and are continuing at this time.

Postal Service	U.S. Postal Service	Postal Unions	600,000	July 20

Comment: Postal negotiations are subject to the procedures of the Postal Reorganization Act of 1970. Upon expiration of the contract, the Act provides for factfinding procedures leading to binding aribtration if no settlement is reached.

Airlines	Major trunk carriers	Transport Workers and Machinists	78,000	Aug. - Nov.

Comment: Airline negotiations are subject to procedures of the Railway Labor Act. Under the Act strike action is not permitted until 30 days after the National Mediation Board, at its discretion, releases the case.

INDUSTRY	COMPANIES	UNION	WORKERS COVERED	EXPIRATION DATE
Trucking	Over-the-road and local cartage companies	Teamsters	450,000	March 31
Rubber	Goodyear, Firestone Uniroyal	Rubber Workers	70,450	April 20
Electrical	General Electric, Westinghouse	Electric Workers	150,000	June 26 - July 11
Meatpacking	Wilson, Swift, Armour, Mayer, Rath, Morrel	Meatcutters	36,000	Aug. 31
Automobile	General Motors, Ford, Chrysler	Auto Workers	600,000	Sept. 14
Farm Implement	International Harvester, Caterpillar, Allis Chalmers	Auto Workers	70,000	Sept. 30

Office of Labor-Management Relations Services
April 15, 1975

[July 1975]

QUESTION: Sir, in this line, would you endorse something that might save a great deal of energy and also strike a blow for male liberation; for example, endorse something like sport shirts for summer wear in Washington D.C. and other hot climates?

THE PRESIDENT: Well, I am a great believer in that attire, but I am not sure that that would be too significant in the saving of energy, the kind of energy we are talking about.

QUESTION: Mr. President, the Rockefeller Commission was told about extensive electronic surveillance by Soviet intelligence agents and American ability to piggy-back on to that monitoring. Can you tell us how long that has been going on and what is being done about it?

THE PRESIDENT: I don't think that I should comment on a matter of that kind. I can say very emphatically that we have an expert intelligence gathering community in our Federal Government, and we have a first-class counterintelligence organization in the United States Government.

I have full faith in their responsibilities in any field, such as that that you mention.

QUESTION: Mr. President?

THE PRESIDENT: Mr. Knap?

QUESTION: You said, in answer to an earlier question, that the unemployment rate projected by your chief economic advisers is unacceptable. That projection is that unemployment would remain at about 8 percent through most of next year, and you said you would consider asking for an extension of the tax cut.

Is it your present thinking that you probably would recommend extending the tax cut if unemployment is that high; that is, about 8 percent at the start of next year?

15 ews

THE PRESIDENT: I think you have to take into consideration not only the unemployment rate, but also the impact, an increase in the budget deficit of some $20 billion on inflation.

We have two very serious problems. One, we are licking inflation, and one, we are working on unemployment and as we move ahead, we have to be most careful that we don't reignite the fires of inflation because every economist with whom I have talked tells me that if in our efforts to do something quickly in the field of unemployment we could end up with a new round of inflation, and if you have a new round of inflation of the magnitude of 10, 14, 15, or 20 percent, you will have another recession, and unemployment at that time will go to about 14 to 15 percent.

MORE

Subj
Economy

THE WHITE HOUSE

WASHINGTON

July 24, 1975

MEMORANDUM FOR: DICK DUNHAM

FROM: JIM CANNON Jim

In Cincinnati, Carl Lindner, President and Chairman of the Board of American Financial Corporation, talked to me about the importance of reemphasis on productivity in the U.S. economy. He mentioned that his company has given stock to the employees through various profit sharing and other programs so that the company is now half-owned by the employees.

A program which he described as ESOT, sponsored by Senator Sparkman (he thought), is being used by a number of companies to increase productivity.

Can you tell me what this is?

Thanks

CC: Paul Leach

copy to 1) Durham
2) Cavanaugh

Tab B

from leader meeting 7/21/75

STATUS REPORT ON THE BUDGET DEFICIT
(in billions)

	1975	1976	TQ	1977
February budget estimate		51.9	9.8	30.6
Changes to date:				
Congressional action or inaction		5.8	0.9	1.0
Other changes		2.3	-1.0	1.9
Current estimate		60.0	9.7	33.5
Possible congressional increases:				
Failure to act on reduction proposals		7.6	2.5	8.3
Appropriations bills: 1/				
Education		0.5	0.1	0.8
Labor-HEW		0.5	0.1	0.3
Public Works		0.1	0.1	0.1
All other		-0.1	-0.1	-0.2
Subtotal, appropriations		1.0	0.2	1.0
Authorizations bills:				
Extension of 1975 Tax Reduction Act		4.1	2.2	12.9
Moratorium on OCS leasing		6.3	1.6	7.4
School lunch and child nutrition		1.0	0.2	1.1
Health insurance for unemployed		1.6	0.2	0.4
Countercyclical assistance for State and local governments		1.4	0.4	1.4
Public Service employment		---	0.3	2.2
Public works employment		0.5	0.2	1.8
Change in funding for naval petroleum reserve		0.3	0.5	2.5
Education of the handicapped		0.4	0.3	1.0
Postal Service increases		1.9	0.5	1.9
Military procurement reductions		-1.3	-0.5	-1.0
Other		3.1	1.3	4.9
Subtotal, authorizations bills		19.3	7.3	36.6
Total, possible Congressional increases		27.8	9.9	45.9
Potential deficit	43-45	87.9	19.6	79.4

1/ Includes only bills on which some Congressional action has been taken. Excludes DOD Military, Military construction, Foreign aid, and District of Columbia.

July 22, 1975

Tab C

POTENTIAL CONGRESSIONAL CHANGES TO FIRST CONCURRENT RESOLUTION

(In billions of dollars)

	Outlays	Deficit
Congressional concurrent resolution (5/14/75).....	367.0	68.8
Action completed or underway....................	216.4	
Balance of Administration request under review..	153.4	
1976 levels if action underway and balance of Administration request is approved..........	369.8	
Congressional concurrent resolution level.........	-367.0	68.8
Amount currently above concurrent resolution level....................................	2.8	2.8
Current estimate...		71.6
Changes under consideration by Senate in authorizing bills:		
Military procurement (S. 920).....................	-1.6/-1.0	
Public Service employment assistance (S. 1695)..	3.0/3.0	
Postal Service subsidy (H.R. 8603)..............	1.7/1.7	
Countercyclical assistance for State and local governments (S. 1359).....................	1.0/1.5	
Public Works Employment Act (S. 1587/H.R. 5247).	0.5/1.0	
Energy programs (S. 677, S. 1883, S. 622, S. 598)..	0.8/0.8	
Medical research.................................	0.7/0.7	
Nurse training (S. 66)...........................	0.6/0.6	
Veterans benefits (S. 969).......................	0.6/0.6	
Special education programs (S. 6, S. 462).......	0.5/0.5	
SSI/Black lung programs (H.R. 8)................	0.4/0.4	
Other changes under consideration..............	2.3/2.8	
Subtotal, changes under consideration by Senate..		10.5/12.6
Potential deficit under consideration in Senate..............		82.1/84.2
Further action under consideration in the House:		
Moratorium on Offshore Oilland leasing (H.R. 5588)..		2.3
Potential deficit under consideration by the Congress (range as of 7/21/75)............................		84.4/86.5

July 22, 1975

Economy file

THE WHITE HOUSE

WASHINGTON

July 31, 1975

~~Agree~~ Prepare D.C. cover memo for Jim Cannon signature

A

MEMORANDUM FOR JIM CAVANAUGH

THROUGH TOD HULLIN

FROM ANDRE BUCKLES

SUBJECT NATIONAL COMMUNITY DEVELOPMENT BANK

PURPOSE: This memorandum will serve as a brief backgrounder on the issue of the National Community Development Bank proposal and suggests certain staffing procedures to be followed prior to the issue's reelevation to the President.

ACTION: Attached at Tab C for your signature is a draft memorandum to Paul Leach which (1) forwards the Rockefeller proposal and the OMB option paper; (2) sets forth a brief explanation of the problem; (3) requests that Leach obtain comments on the OMB draft from the Departments of Agriculture, Commerce and Treasury and (4) asks that Leach coordinate with me the preparation of the final paper to the President.

BACKGROUND: The President and Jim Lynn (as Secretary of HUD) met with Mr. David Rockefeller last fall when he outlined a proposal for a National Community Development Bank (Tab B). Subsequently, representatives of HUD, OMB and the Domestic Council met with Mr. Rockefeller's representatives to discuss their proposal in more detail. The National Community Development Bank would provide loans to new community developers and for other projects (primarily rural, related to food and energy production). The proposal would establish Domestic Council and joint Congressional Committee growth units to give guidance to the Bank's activities. The Bank would be funded at $100 million to be provided by the Federal Treasury.

HUD concludes that there is no need for additional support for new community and other rural development projects. While OMB concurs in HUD's position, OMB prefers to state that the development of a national growth policy is now in an evolutionary stage. Consequently, to implement Mr. Rockefeller's proposal would be premature at this time. Attached at Tab A is a draft option paper to the President which represents the HUD-OMB position.

As Director of OMB, Jim Lynn recommends, and I concur, that the OMB draft option paper and Mr. Rockefeller's proposal should be staffed to the Departments of Agriculture, Commerce and Treasury prior to review by the President.

A

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUN 27 1975

MEMORANDUM FOR TOD HULLIN

FROM: JAMES T. LYNN

SUBJECT: NATIONAL COMMUNITY DEVELOPMENT BANK PROPOSAL

As requested in your memorandum of May 16, we have suggested some changes to the HUD analysis, and revised it in the form of a Presidential issue paper. We concur in the HUD conclusion that there is no evidence to support the need for additional Federal support for new community and other rural development projects. Our position is based primarily on the fact that a coordinated national growth policy is just now in the evolution process, and a decision to implement the bank proposal would be premature at this point.

I believe the Treasury Department, the Department of Agriculture, and the Department of Commerce should be given the opportunity to review the proposal prior to review by the President.

Attachment

National Community Development Bank Proposal

Suggested Revision to HUD Analysis

Background

You and Jim Lynn (as Secretary of HUD) met with David Rockefeller last fall when he outlined a proposal for a National Community Development Bank. Subsequently, representatives of HUD, OMB, and the Domestic Council held several sessions with Rockefeller representatives to discuss the proposal in more detail. The proposed Bank is intended to provide loans to new community developers and loans for other projects (primarily rural development projects related to food and energy production) which would promote constructive growth and development. The proposal presumes that the Bank would be linked to the executive and legislative branches of Government through a proposed Domestic Council Growth Unit and a proposed joint Congressional Committee on Growth.

Description of the Bank Proposal

The Bank would have:

-- Board of Governors with the Chairman appointed by the President and 50 members appointed by the Governor of each State.

-- $100 Million in equity provided by the Federal Treasury.

-- Authority to make 15-year loans to developers at 2 percent above prime in amounts sufficient to cover total land acquisition and development costs.

-- Authority to sell 15-year debentures to insurance companies and pension funds at 1-1/2 percent above prime.

Alternatives

1. Approve the development of legislation to establish a National Community Development Bank.

2. Disapprove the proposal for the Bank.

Arguments for the Bank Proposal - Alternative #1

David Rockefeller and other leaders of the banking and insurance communities believe that the Bank is needed because:

-- The reality of the Nation's projected population growth over the next 25 years suggests the need for a coordinated set of tools to develop and implement a national growth policy. The Bank would be a good mechanism for implementing certain physical plans in a national growth policy.

-- There is a lack of adequate financing for land acquisition and development which inhibits new community and other forms of community development.

-- A quasi-public financing institution could fill this financing gap and could be a link between the public (Federal, State, and local governments) and private sectors.

-- The existence of the Bank would stimulate interaction between the Congress and the executive branch on growth matters.

-- The Bank would provide a superior mechanism for weaving the views of the banking, investment, and development communities into the development of public policy.

Arguments against the Bank Proposal - Alternative #2

-- The 1974 Growth Report stressed the complexity of the process of developing a national policy which encompasses a broad spectrum of individual, and sometimes conflicting, goals. It would be premature to decide on the use of a major tool such as the Bank to implement a just evolving national growth policy at this time.

-- The primary function of the Bank--helping developers finance new communities--replicates a function already authorized by the 1970 HUD Act, and performed by HUD between 1970 and 1974. (Note: Use of this authority, which allows HUD to guarantee private loans to developers, was suspended in 1975.)

-- A HUD evaluation report shows that about one-half of those new community projects which did not receive HUD assistance were able to obtain private financing, which suggests that the Bank might not be needed.

-- Recently, some HUD-supported new community developments have experienced serious financial difficulties which may indicate that such large-scale projects are not economically viable. HUD has suspended making new commitments under the program pending completion of a comprehensive study of the program.

-- There is no evidence of a capital availability problem for energy production projects, nor does this seem to be a problem in promoting rural development and food production. Moreover, Federal programs already exist to assist in rural economic development.

-- From an equity standpoint, allowing Bank investors to earn a yield above the prime rate on loans to a federally sponsored entity (whose debenture rates are already well below the prime rate) would represent a significant subsidy to those investors.

-- Technically, it does not seem that life insurance companies would be attracted to a long-term asset whose yield fluctuated with the prime rate since the uncertainty of the resultant earnings would complicate future planning.

-- There is no evidence that benefits to society from Federal support of new communities exceed the benefits that would accrue from equivalent support of alternative social programs.

-- The related proposal to establish a discrete Domestic Council Unit which would make the basic growth trade-off recommendations to the President may create serious political problems, as well as arousing criticism from cabinet departments.

B

THE UNITED STATES NATIONAL DEVELOPMENT BANK

Discussion Paper

I. FUNCTION

A. Lending

1. Land development loans would be made to developers of New Communities as defined by Title VII, Housing Act of 1970 on the following terms:

    Amount - Total land acquisition and development cost (as defined in Title VII, Section 711, f.)

    Rate - 2% above prime floating and compounded annually on balance outstanding.

    Maturity - 15 years

    Debt Service - 75% of positive cash flow, until retired or due; first to interest then to principal.

2. Other Loans - The Bank would seek opportunities to plug financing gaps which inhibit constructive growth and development in support of the national growth policy.

B. Underwriting

At its discretion the Bank would underwrite the acquisition cost of sites acquired by Federal, State, Regional and Municipal public agencies provided: such sites were to be used for development consistent with the national growth policy and were conveyed clear of zoning, building or housing codes or other conditions which would inhibit New Community development as understood by the 1970 Housing Act.

C. Marketing and Promotion

1. From among the major Industrial and Commercial concerns of the Nation the Bank would seek advance commitments to lease sites within areas with respect to which it had made loans and/or underwriting commitments.
2. For each site underwritten from among qualified prospective developers the Bank would select a single Developer (which could be a combination or consortium of responsible interests); would approve the master and land development plans of that Developer and would then lend the Developer his requirements for land acquisition and land development.

II ORGANIZATION

A. Board of Governors

1. Chairman - appointed by the President of the

United States.

2. Members - one each appointed by each of the Governors of the 50 States.

B. Executive Committee

1. Chairman - the Chairman of the Board of Governors.

2. Members 24 - 12 members would be appointed, one each, by the Mayors of Federal Reserve Cities, from among the Chief Executive Officers of the principal banks of those cities; and 12 members would be appointed by the Board of Governors from among the Chief Executive Officers of banks located in other cities throughout the Nation.

C. Officers

1. Nominated by the Executive Committee and elected by the Board of Governors.

2. President is Chief Executive

D. Powers

The Executive Committee would have the power of initiation and recommendation, but policy determination and final control would rest with the Board of Governors.

III FINANCING

A. Equity in the amount of $100 million would be provided by the Secretary of the Treasury.

B. Debentures would be sold to insurance companies and pension funds from time to time as approved by the Board of Governors on the following terms:

Rate - 1 1/2% above prime, floating, compounded annually.

Maturity - 15 years

C. Installment payments on leases to major industrial and commercial tenants would be payable to the Bank. These payments would be in an amount equal to 4 times the acquisition cost of the land area leased, provided the leases were executed within 18 months of the approval of the Developers' Master and Land Development Plans; thereafter the amount would be subject to negotiation. Upon occupancy such tenants would pay an annual rental computed on the basis of 1/2 the then appraised value of the land area leased. Leases would be transferable at market value subject to the approval of the Bank.

UNITED STATES NATIONAL GROWTH POLICY

Discussion Paper

The subject is a national growth policy; any contention that a zero-growth policy merits consideration is foolish and to give it any consideration would be unworthy. If our nation is to accommodate the millions of additional citizens it will have by the end of the century; if it is to bring the millions of our present citizens who are poor and living poorly to the living standard of humanity and dignity enjoyed by the majority: if it is to meet the rising aspirations of a free and dynamic society, the growth required will be enormous. To guide that growth so that it contributes to the accomplishment of our national goals is the purpose of a national growth policy.

Having accepted the reality of growth, there are other realities which must be accepted; some of these are physical and some are political. To mention some of the physical ones:

- The great bulk of our growth will occur in our existing metropolitan areas.
- The satisfaction of national energy needs can be a factor supporting rural growth objectives in our coal and oil-shale areas.
- Satisfaction of our own and worldwide food needs can be a factor supporting rural growth objectives in our agricultural areas.

- Since we are a free-enterprise society, the actual business of mobilizing, channeling and employing the resources to accomplish the great bulk of this growth is up to the private sector. It is the public sector's job to influence the private sector's efforts so that the resulting development serves the national interest.

To mention a couple of the political realities:

- The pursuit of its own self-interest by each political jurisdiction, from the town up to the state, does not necessarily add up to the national interest.
- Plans which call for the improvement of the lot of any minority at the expense of the majority are more apt to be cheered than accomplished.

Now, having talked about some of the realities which a serious effort to shape national growth policy must recognize, let's say what national growth policy can <u>not</u> be and what it <u>can</u> be. It can <u>not</u> be a master plan or detailed blueprint prescribing the physical development of the entire nation to the end of the century or to any other date. It <u>can</u> be a body of principle which recognizes the aspirations of our nation's founders <u>and</u> the aspirations of the existing electorate.

Having talked about the need for a national growth policy, realities affecting its shaping, and what it can be, we come to the questions: Who is going to devise and articulate the policy? How? And how will it be implemented?

To begin our consideration of these questions, it is suggested we look at Title VII of the 1970 Housing Act. This Title provides for the designation of an identified unit within the Domestic Council to develop and report to Congress bi-annually with respect to a national growth policy. The word "urban" should be dropped: and the "unit" should be in fact almost a "State Department" for the growth and development aspects of our domestic affairs. The actual work implied by this concept must be performed by the Executive Branch; however, the Legislative Branch must play a key role in policy determination. To satisfy this requirement, a Joint Committee of Congress should be created to be advisory to the Domestic Council Unit on a day-to-day basis with respect to policy determination and the political realities of its implementation.

The powers of the "Unit" and of its director should be those of recommendation and administration; recommendation would be to the President of the United States. His approval of a recommendation would commit him to coordinate and allot the resources and efforts of the several Departments necessary to support it.

As policy principles are approved by the President and blessed by the Congress, the effort at national implementation should work something as the Marshall Plan worked after World War II and as some of our efforts to encourage and support international growth have worked since. Representatives of the "Unit" would work with State and Regional jurisdictions in the planning and execution of development programs consistent with the local interest and consistent with the national growth policy. In addition, a $2 billion revolving fund would be established to be administered by the New Community Development Corporation of HUD, under the policy direction of the "Unit". The fund would be used for loans to cooperating jurisdictions in support of land acquisition and perhaps other recoverable capital expenditures in furtherance of approved programs.

Throughout the whole national growth policy planning process, the respective roles of the public and private sectors must be understood and policy developed accordingly. As suggested earlier, the bulk of the national growth and investment effort will be by the private sector: to hope that "everyone doing his own thing" will somehow add up to the service of the general welfare may be Adam Smith, but it's not real. To believe that judicious public investment can create the infra-structure and support which will have a significant and controlling impact on where private investment and development occurs is real indeed.

Title VII treats new community development as an essential element of national growth policy and provides for a degree of combination of public and private sector effort to effect that development. While it is expected that only about 20 per cent of our national growth can be accommodated in new communities by the end of the century, that 20 per cent is very important in its direct and indirect impact: direct in channeling growth where it should go, indirect in relieving our metropolitan areas of pressures which frustrate their ability to guide the growth which their inevitable share of the population increase will oblige them to accept.

Among the factors inhibiting new community development on the scale necessary and in the locations where it should take place is the lack of adequate financing for land acquisition and development. Title VII is helpful in this regard but, given the size and nature of the need, it is not presently and cannot be enough. A quasi-public financing institution should be created to fill this financing gap. In addition to and in fact as a part of participating in new community development financing, such an institution could be a link between the public and private sectors. It could help with the economic feasibility evaluation of proposed new communities; it could advise with respect to the business environment which exists or could be created through judicious use of public resources; it could be instrumental in influencing suitable industrial and commercial commitments to ensure an economic base and viability; and it could be a credible middle-man between the new community developer and the Federal, State and local governments.

Since David Rockefeller suggested this idea in a talk to the Regional Plan Association of New York in February of 1971, James Boisi of Morgan Guaranty and other leaders from the banking and insurance communities have been exploring the possibility of creating such an institution.

These structures and processes for the development, articulation and implementation of a dynamic national growth policy could provide the following opportunities:

THE EXECUTIVE BRANCH could satisfy its national growth policy responsibilities.

THE CONGRESS could participate effectively in national growth policy formulation and the supervision of its implementation. The proposed Joint Committee could provide the overview; the Public Works Committees could develop coherent public investment policies to guide their funds allocation; the other committees could formulate their programs and discharge their responsibilities within a coherent understanding of national objectives.

THE STATES could participate in the national growth and development process without sacrifice of sovereignty or self-determination.

THE PRIVATE SECTOR could benefit from an environment which would support its growth and geographic distribution on a basis consistent with a perceived and directed long-term national interest.

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A Proposal to Establish a National Community Development Bank

I. Structure

The National Community Development Bank, proposed earlier by David Rockefeller, would be a "quasi-public" institution, authorized by Congress to provide loans and other forms of assistance for the development of new communities and for "other opportunities" in support of national growth policy. These other opportunities refer to rural development projects which would be linked to meeting the Nation's food and energy needs. Community development, then, is only one objective of the Bank.

As proposed, the Bank would be provided with an initial Federal contribution of $100 million. With this seed money, the Bank would be in a position to borrow additional funds from pension plans and life insurance companies at a rate of one and one-half percent above the prime rate. The Bank would then make long-term loans at an annual compound rate of two percentage points above the prime. These loans would be made available to private developers wishing to construct housing projects which satisfy "new community" standards and to other opportunities in support of national growth policy, rural development and food and energy production.

II. Purpose

Energy, food and housing represent areas which are of crucial importance to the Nation's well-being. The Federal government has, on occasion, provided financial incentives to increase the production of these commodities. The depressed state of the housing industry, the quadrupling of the price of oil, and the spread of famine in poor countries have all served to increase policy-makers' interest in facilitating the production of these goods. By proposing the Bank, the sponsors imply that the Federal government is not doing enough in these areas.

III. Does the Proposal Meet the Stated Needs?

In order to justify the establishment of such a Bank, the sponsors should show that present initiatives in these areas have fallen short of meeting societal goals, and that the proposed Bank represents an efficient method of attaining them.

A. New Communities. Federal support of new communities came about as a result of concern over the increasing urbanization of our society and the perceived failure of our existing cities to adequately absorb the growing urban population. Congestion, pollution, urban blight and suburban sprawl were identified as the by-products of unplanned urban growth.

In response to the belief that the development of new, partially self-supporting communities would alleviate these problems, Title VII of the Housing and Urban Development Act was enacted, authorizing HUD to provide financial assistance to qualifying new communities.

By offering loans for such projects, the Bank would provide financial assistance to a type of community that many urban planners consider superior to existing private developments and would continue Federal support of new community development by offering an alternative source of special financial assistance.

On the other hand, evidence shows that many new community projects which did not receive HUD financial support were able to obtain private financing to continue development, suggesting that the Bank might not be needed. Moreover, the financial problems that have confronted some new community developments may indicate that they are not economically viable. HUD recently decided not to assist any additional new communities, pending completion of a comprehensive study of the program. Finally, proponents of new community development have not shown that the benefits to society of Federal support for their projects exceed the benefits that would accrue from equivalent Federal support of alternative programs such as low income housing.

B. Energy. The national growth and rural development endeavors of the Bank would be directed to facilitating increased energy production in the United States in conjunction with efforts to promote rural development. Since large amounts of capital will be required to achieve increased energy production, institutions such as the Development Bank could serve a useful role in channeling society's resources into this area in order to ensure that the development does take place and that rural areas benefit from it.

At present, however, there does not appear to be any severe problems in acquiring the capital needed to increase domestic energy consumption. While such investment has not taken place at a high enough rate to ensure quick energy independence, the delays have been primarily due not to lack of capital but because of restrictions on offshore drilling and strip mining as well as uncertainty regarding Federal price controls.

C. Food Production. Because of rapid population growth in poorer countries, it will be necessary for the United States to expand its capacity to produce agriculture commodities in order that high levels of food assistance can be provided without disrupting domestic markets. The Bank could facilitate such production by promoting rural development and thereby also increasing rural employment as agriculture production expands.

As in the case of energy production, however, capital availability does not appear to be a problem in promoting rural development and food production. There are many economically depressed rural areas, but the problem is more fundamental than a capital shortage. Many rural areas are economically depressed because business firms find that production in such areas is unprofitable. Moreover, numerous Federal programs to assist in rural economic development already exist. In particular, the Department of Agriculture subsidizes rural housing production through the programs of the Farmers Home Administration and the Department of Commerce operates several programs that provide financial assistance to rural economic development programs.

IV. Economic Impact

A. Financing the Bank. The Bank would be financed by loans from pension plans and life insurance companies at an interest rate linked to the prime rate, thereby tapping the financial resources of institutions that have not been active in real estate lending in recent years.

Because of the long-term, fixed-payment nature of the liabilities of pension funds and life insurance companies, however, these institutions prefer to acquire long-term assets with fixed rates of return. Consequently, they would not be attracted to a long-term asset whose yield fluctuated with the prime rate since the resultant earnings uncertainty would complicate future planning. Likewise, the borrowers would experience difficulty in planning long-term investment strategies because their borrowing costs would fluctuate over time.

In addition to the mechanics of the proposed financing arrangements, there are some important equity issues. Interest rates on Federal and federally-sponsored debt issues are less than market interest rates and well below the prime rate, because such loans are essentially riskless. Accordingly, allowing investors to earn a yield above the prime rate on loans to a Government-sponsored entity would represent an implicit subsidy to those investors.

B. Macroeconomic Impact of the Bank's Activities. Much has been made of the impending capital shortage that is expected to characterize the economy over the next several years. If the demand for credit exceeds the available supply, interest rates will rise, and some borrowers will be forced to withdraw from the market and reduce their planned investment. Concern over capital availability has been heightened in recent months as it has become apparent that the Treasury borrowing required to finance the deficit is likely to make it difficult for some consumers and businesses to obtain credit.

The proposed National Development Bank might alleviate the expected tight credit conditions for some borrowers by channeling funds into social priority areas and those areas which suffer most from high interest rates. Since the Bank could not create credit, however, resources it allocated to perceived priority areas would be at the expense of other capital needs, and there is no guarantee that the ensuing benefits to those receiving the loans would be greater than the losses experienced by those borrowers who were, as a result, unable to obtain credit. In other words, it is possible that the overall benefit to society resulting from the Bank's reallocation of credit would be less than the benefits which would have accrued from an allocation of credit based on private decisions.

As to housing which has recently suffered from a shortage of credit, four Federal or federally-sponsored mortgage credit agencies are already actively working to increase the supply of credit. It is unlikely that another agency would markedly enhance existing Federal efforts to allocate more funds to housing.

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FOR IMMEDIATE RELEASE August 29, 1975

Office of the White House Press Secretary

Pay Increase

THE WHITE HOUSE

TO THE CONGRESS OF THE UNITED STATES:

Consideration of an adjustment in Federal white collar pay comes at a time when, although the economy is recovering, unsettling conditions are still adversely affecting the Nation's general welfare.

Under the Pay Comparability Act of 1970, an adjustment in Federal white collar pay will be required on October 1.

I have reviewed the report of my "pay agent" and the recommendations of the Advisory Committee on Federal Pay relative to a pay adjustment. Their findings indicate that an 8.66 percent increase will be required to achieve comparability with the private sector. I would normally order such a pay raise in recognition of the loyal service given the country by the Government's civilian and military personnel.

However, pay comparability must be viewed in the light of the country's current economic situation. Inflation, unemployment and recession continue to cause hardships on American consumers, workers and taxpayers -- with inflation showing a new spurt which hits hardest at the jobless and the disadvantaged.

I have attempted to curtail inflation by proposing Federal cost-saving measures and drawing the line at a $60 billion deficit. However, with Congressional inaction on the expenditure reduction proposals made in my budget, this proposed deficit has already been exceeded by more than $1 billion and will increase month after month unless there is new fiscal restraint.

A Federal white collar pay increase at the proposed 8.66 percent figure would add more than $3-1/2 billion to Federal expenditures. A five percent increase, as I proposed in my budget, would reduce these expenditures by about $1.6 billion.

Over the past several months, I have had to veto legislation involving a number of programs because of the costs involved. This meant some curtailment in the future expectations of many Americans. However, the cost impact of these proposals would have added to inflationary pressures and thus proven to be a hoax rather than a help.

My overriding objective is to achieve national economic stability for all Americans. Full comparability pay, at this time, is inconsistent with my course of action to build a strong and stable economy and to bring inflation under control. Therefore, the size of the proposed pay raise must be temporarily restrained for the economic well-being of the Nation as a whole.

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The pay act gives me the authority to propose whatever alternative pay adjustment I consider appropriate in the light of "economic conditions affecting the general welfare." The pay increase I have chosen will allow the Federal Government to lead the fight against inflation by example, and not just words alone.

It is my considered judgment that the salary adjustment should level off at the five percent increase which I called for last January. I strongly urge the Congress to support the alternative recommendation which is attached.

GERALD R. FORD

THE WHITE HOUSE,
August 29, 1975.

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FEDERAL PAY COMPARABILITY ALTERNATIVE PLAN

In consideration of economic conditions affecting the general welfare, I hereby transmit to the Congress the following alternative plan, as authorized and required by Section 5305(c)(1) of Title 5, United States Code:

> The adjustments in the rates of pay of each Federal statutory pay system to become effective on the first day of the first applicable pay period that begins on or after October 1, 1975, shall be limited to a 5% increase in lieu of the overall average of 8.66% determined under the comparability procedures set forth in Section 3(a) of the Federal Pay Comparability Act of 1970 (5 U.S.C. 5305).

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THE WHITE HOUSE

WASHINGTON

September 22, 1975

Mr. Cannon:

You requested a copy of the text of Mrs. Thatcher's speech.

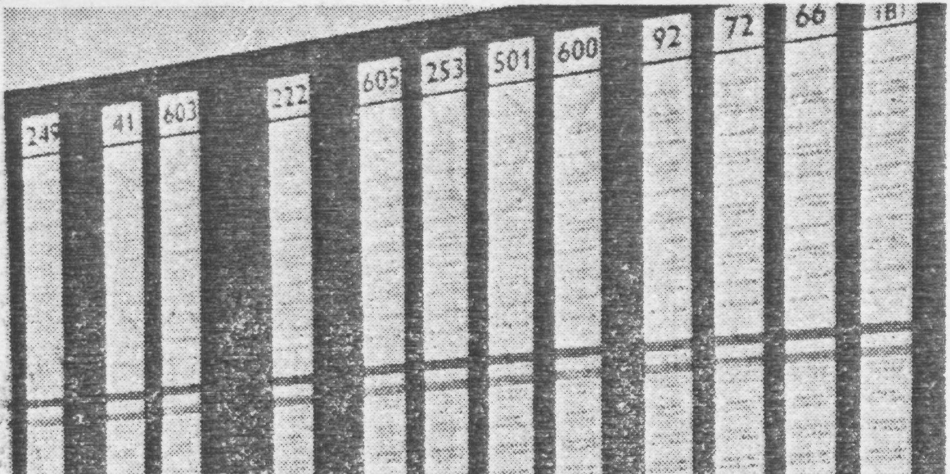
Attachment

TORY CHIEF, HERE, DEPLORES STATISM

Mrs. Thatcher Says Growth Must Be Encouraged

By PETER KIHSS

Margaret Thatcher, on her first visit here since becoming leader of the Conservative party in Britain, charged last night that 30 years of expansion of the welfare state had caused major damage by curbing British growth.



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For Release: After 8:00 p.m. Monday, Sept. 15, 1975

Remarks of Rt. Hon. Margaret Thatcher, M.P.
Leader of the Conservative Party, Great Britain
Annual Dinner Conference on Welfare Reform
September 15, 1975, New York City

"LET THE CHILDREN GROW TALL"

Americans appear to be curiously interested in what is happening in Britain today. What you are writing and saying about us we consume avidly, together with the regular flow of self-criticism which is a long established part of our staple diet. In the spring Eric Sevareid caused quite a stir when he waved us his fond farewell on television. Indeed he may have been instrumental in inducing the Prime Minister to occupy our television screens for the best part of an hour. Only a week or two ago Vermont Royster wrote that:

"Britain today offers a textbook case on how to ruin a country..."

However the rather morbid and fatalistic tone of much of what is written about Britain by commentators on both sides of the Atlantic is misplaced. So I am extremely grateful to the Institute for Socioeconomic Studies for giving me such a splendid opportunity to put the record straight.

For most outside observers have not noticed that amidst our well-published difficulties a vital new debate is beginning -- or perhaps I should say an old debate is being renewed -- about the proper role of Government, the Welfare State and the attitudes on which it rests.

Many of the issues at stake have been debated on countless occasions in the last century or two. Some are as old as philosophy itself. However, the Welfare State in Britain is now at least thirty years old. So after a long period in which it was unquestioningly accepted by the whole of society, we can now do more than discuss its strengths and weaknesses in the hackneyed abstract language of moral and political principles. We can see how it has operated in practice in the light of a substantial body of evidence.

THE PROGRESSIVE CONSENSUS

The debate centres on what I shall term, for want of a better phrase, the "progressive consensus", the doctrine that the State should be active on many fronts in promoting equality: in the provision of social welfare and in the redistribution of wealth and income. This philosophy is well express in the following words:

> "Since Social Justice is the traditionally Socialist aim, and since it can only be achieved by collective action, this part of the exercise naturally comes to be regarded as the major element in Socialist economic policy ... It is just because market forces tend towards growing inequality in incomes and property, that massive redistribution is necessary if political freedom and other civilised values are to be preserved.
>
> So it should be the aim of the democratic state to re-share out these rewards -- to socialise the national income if you like to call it that ... There can be no doubt that by far the most effective method has proved to be, and is likely to prove increasingly in the future, the instrument of public finance, and in particular progressive direct taxation and centrally financed public services."

That was written by a former Labour Cabinet Minister in 1962. However I am not interested in party politics tonight.

For such views are held to varying degrees in all our political parties, in schools and universities and amongst social commentators generally. Interestingly enough they are now being questioned right across the same broad spectrum.

It is not that our people are suddenly reverting to the ideals of total laissez faire, or rejecting the social advances of recent decades. It is rather that they are reviving a sober and constructive interest in the noble ideals of personal responsibility because in some respects the concepts of social responsibility have turned sour in the practice. They are making an attempt to identify and eliminate errors and fallacies, to consolidate and retrench before advancing further.

It is in that constructive spirit -- and as a former Secretary of State for Education and Science myself -- that I am speaking to you tonight. I shall concentrate on four issues:

(i) What are the facts about the distribution of wealth and incomes?
(ii) To what extent is greater equality desired in Britain today?
(iii) Has the economy been strengthened by the promotion of more equality and the extension of the welfare state?
(iv) Finally, has it strengthened our political and social framework?

EQUALITY IN WEALTH AND INCOMES -- FACTS

Let us begin then with some facts. Most people say that the distribution of incomes and wealth in Britain is highly inequitable; and that it has changed little, despite the steps taken by Government to even it out. From there it is only a short step to two complementary arguments; either that redistribution would greatly swell the incomes of the average man; or that the wealth of the rich is sufficient to finance the substantial extension of the role of the state.

By a fortunate coincidence a major study has just been published (by the newly created Standing Royal Commission) on the Distribution of Income and Wealth. It gives the first proper statistical picture of the changes that have taken place in Britain, between the last war and 1972.

Incomes

In 1972 incomes after tax were divided up roughly as follows -- at the upper end of the scale, the top 1% of income earners got 4% of incomes -- four times the average. The top ten per cent had twice the average and the bottom ten per cent a bit under half the average. These are not dramatic differences either by the standards of other western economies or, I suspect, of many countries behind the Iron Curtain. Indeed research has shown that the distribution of income in Britain is surprisingly similar to that in Poland!

Furthermore there have been substantial changes over the decades. Taking account of tax the share of the top 1% of earners went down by half between 1938-49. By 1972 it had fallen by a further one third.

The share of the taxable income of the poor has not increased to so great an extent. But nonetheless they are markedly better off in relative (as well as absolute) terms than they were before the war. By 1972 tax-free benefits in cash and kind added about a half to the pre-tax income of a typical household in the bottom 10%. For poor families with many dependents, the gain could be nearer 100%. Today the figures would probably be higher still.

Wealth

Capital assets have been more unevenly spread than incomes in Britain, as in most other countries. For this reason they have been the chief target of egalitarian critics. In Britain it is almost an undisputed truth that 10% of the population own 80% or 90% of all assets. But that is not the case. The top 10% of the population over 18 own less than half (45%) of personal wealth when state pension rights are counted as an asset, as they should be.

As you will appreciate even these figures are rather misleading since wealth is normally unevenly distributed between husbands and wives, old and young, misers and spendthrifts. If these distorting factors could be properly allowed for, the picture might well look still less extreme.

As with income, there have been big changes over the years. On a narrow definition of wealth which excludes pension rights, the top 1% of the population owned: personal wealth of 69% in 1911; personal wealth of 50% in 1938; personal wealth of 38% in 1960; and personal wealth of 28% in 1972 (or 16½% if pension rights are included in wealth holdings).

So the facts about economic inequality (as opposed to the myths) are these. The rich are getting poorer and the poor are getting richer. This is due both to market forces and the actions of Government through the tax system. And it is no longer the case that taking further money from the rich will make a significant difference to the wealth of the bulk of the population. Nor will taxing them more heavily pay for much more Government spending.

Finally one notes that it would do little to diffuse economic power more widely. It is already largely in the hands of Government and Labour Unions.

TO WHAT EXTENT IS MORE EQUALITY DESIRED IN BRITAIN TODAY?

These statistical myths lead directly to the claim that there is a widespread sense of resentment and injustice over the current degree of inequality in our society and great enthusiasm for its elimination. This political judgement is closely linked in many commentators' eyes with the quite separate proposition that class divisions in Britain are severe and reinforced by economic inequality.

My own experience in politics has always made me doubt this argument, and there is survey evidence which strengthens my view. The following remarks come from the conclusions of a national opinion survey carried out in the early months of this year;

"Our findings show little spontaneous demand for the redistribution of earnings across broad occupational categories and suggest that such redistribution would in itself provide no solution to any problem of pressure on pay. Neither is it necessary to allay any general feelings of injustice in society ... It may be little consolation to the Government in present circumstances that the chief requirement for maintaining general satisfaction with incomes and earnings is steady economic growth... rather than massive redistribution... This point is a crucial one to be met by those who suggest that any problem we have is one of distribution rather than of resources of growth."

Whatever ordinary people actually want, there remains in Britain a powerful and vocal lobby pressing for greater equality, in some cases even, it would seem, for total equality. What is it that impels them to do so?

One important pressure is undoubtedly the simpliste desire to help our fellow men. But often the reasons boil down to an undistinguished combination of envy and what might be termed "bourgeois guilt."

Envy is clearly at work in the case of the egalitarian who resents the gap between himself and those who are better off, while conveniently forgetting his own obligations to those poorer than himself.

"Bourgeois guilt" is that well-known sense of guilt and self-criticism that affects people, not only the very rich, when looking the other way, at the position of those poorer than themselves. Far be it from me as an individual to criticise or ridicule their doubts and worries. However, as a politician, I will most certainly criticise the attempts of such people to impose on others a programme of impoverishment through the medium of the state. This brings happiness to no one except to those who impose it.

In a free society, they can give away as much as they want to, to whom they want to, whenever they want to. If they believe in pooling their possessions with others in a commune they are welcome to do so.

There is a far less general desire for equality (as opposed to equity) in Britain today, than is often claimed. Even where it does exist the underlying motivation is not always creditable.

IS SOCIALISING NATIONAL INCOME GOOD FOR THE ECONOMY?

But suppose we grant for a moment that greater equality is desired. How far is its promotion desirable from the viewpoint of the economy?

The promotion of greater equality goes hand in hand with the extension of the welfare state and state control over people's lives. Universal and usually free social services necessarily transfer benefits in kind and cash from the richer to the poorer members of the community.

So taken together they define rather well the process of 'socialising the national income' which occurs in my first quotation. How far has it strengthened our economy?

Socialising the wage and salary earner

The public sector has been a large part of the British economy since the early post-war years. Despite the statistical fog which surrounds all international comparisons, it is clear that the Government's share in GNP has been consistently one of the highest of the OECD countries. And for at least twenty years it has risen faster in the UK than elsewhere. Today the state controls in various ways well over half of our national income.

Naturally the tax-bill has risen sharply too, particularly for the private citizen. For the yield of corporate taxes has fallen consistently for twenty years. In the middle fifties they financed one-sixth of public spending, but by the end of the sixties they only met one-fourteenth of the total.

In the later fifties and sixties, the increase in tax and social security payments in effect knocked about 1% off the growth of private spending each year.

These global figures play down the very serious deterioration in the position of the typical earner that has taken place at the same time. For he has moved over a few years from a position of paying negligible taxes and deductions to one which the burden had become large and onerous. Since 1963, the state has increased its take fivefold from a negligible 5% of disposable incomes to about one-quarter today.

This rising burden of taxation has been one of the major sources of inflationary pressure.

People respond to over-taxation in several equally harmful ways. They press their employers for ever-higher wage increases in a vain attempt to sustain a growing standard of living.

This has led to a relentless acceleration of cost and price increases since the mid 1950s. (From 2% per annum in 1956-60 to 25% p.a. now).

Equally, they press politicians and the Government for faster economic growth and the budgetary policies needed to finance it, without regard for the dangers of an overheated economy and a failing trade balance.

There are many who regard this desire for private spending as irrational, selfish and unworthy. After all, they say, the taxes have financed a substantial growth in the provision of public goods. Any economist will tell one that this is a part of increasing living standards. Unfortunately, any experienced politician or detached observer can also now see that in practice, people attach peculiar importance to using their own money to buy what they want when they want. Moreover they cannot relate the tax-man's apparently arbitrary and growing take to the services it finances. These services they regard as one absolute right, a kind of manna from heaven.

While the rising tax burden makes the average worker dissatisfied, a progressive redistributive tax system such as ours has much worse effects on the executive or professional with a high salary. You are doubtless all familiar with the arguments about the dulling of personal incentives which this causes. We have that problem. And we have many others as well.

Over taxation and the Labour Market

An employer wants to promote his manager in terms of post-tax salary from Ł8,000 to Ł12,000 a year -- a jumps of Ł4,000. To do so in Britain today (leaving aside the requirements of our current programme of income restraint) he must double the manager's salary from about Ł15,000 to Ł30,000 a year. This sort of increase is more than most firms can think of at the best of times. So the cost of rewarding skill or hard work has become almost prohibitive. The whole country therefore loses much of the benefits of competition in the labour market. For the same reasons, it is very easy for employers overseas to hire English executives and professionals. They can offer a vastly higher effective salary at the same or even lower costs to themselves than those faced by the English firm. So losses of highly trained manpower through emigration are becoming more serious despite the depressed state of the world economy.

Over taxation and the Entrepreneur

Steep progressive taxes also hit at the budding business man, the entrepreneur who has the potential to build up tomorrow's dynamic firm. If he can keep only a fifth or a sixth of the extra profit from some new venture, the odds are that he won't undertake it at all. Or that if he does, he will have to sell out before long to an established firm to turn his highly taxed income into a less highly taxed capital gain. But as a result he may well lose interest and control and the firm lose its drive and inspiration. No economy can develop vigorously if it stifles those forces on which it depends for renewal.

Companies and Economic Growth

The inexorable acceleration of wages, partly in response to overtaxation, has naturally resulted in a wage-price spiral. A spiral with a twist in it. For various reasons, business cannot raise prices far enough or quickly enough to preserve its profits when wage increases are large and accelerating. So profits have fallen for many years on any measure -- before tax, after tax, as share in national income or as a rate of return on capital. Since retained profits are the principal source of funds for investment and profit levels the main incentive, capital expenditure in private industry has faltered more and more. The upswings have got shorter and the downswings deeper and longer with succeeding cycles of activity. Manufacturing investment next year -- 1976 -- is likely to be little higher in real terms than it was ten years before. It appears, as a natural consequence, that our underlying rate of economic growth has stopped improving after thirty years of modest but perceptible acceleration.

Profits and Dividend Control

The situation has not been made any easier recently by the curious belief that profits are rather evil and of little economic significance. Both the present and previous Governments have therefore had little choice but to pursue price and profit controls as part of their counter-inflationary policies. The levels of profit emerging from these controls were selected with insufficient regard for their effects on capital spending, employment or growth and they have bitten hard. Our economy has thus been pushed into a loss of profit and therefore an investment recession at a time when the world economy was in serious downturn.

Now the damage has been done, the situation can only be put to rights if considerable price rises can be made and accepted by labour, without any response in the form of wage increases. It is a pretty challenging 'IF'.

Injustice to Savers

Two decades of declining profits naturally mean that the saver who invests in equity shares has had a raw deal. The real rate of return has recently been negative even before tax let alone when changes in the capital value of investments are allowed for. However, Government has made the position worse by taking powers to restrain dividends still further, in the name of fairness and equity one should note. The case for doing so was simple. Unless profit distribution is restrained, how, it was asked, could one expect unions and workers to acquiesce in a programme of wage restraint?

Now it is bad enough that this seductive little trade-off is based on a very unjust bargain. Savers, and retired people have already suffered severely from the costs of accelerating inflation which they have done nothing to cause. Why should they make yet further sacrifices to induce those who have already gained so much at their expense to desist for a while?

What is at stake is more than a painful injustice. Negative real profits and dividend control must, if sustained for any period, have a corrosive effect on the life insurance and pensions institutions. They are put in a position in which it becomes more and more difficult to plan and guarantee the flow of future income which they have promised their beneficiaries. Private employers for their part find themselves faced with the sudden need to make enormous payments into their pension funds even to maintain their existing pension obligations in money terms.

I am not suggesting for a moment that these great institutions are dying or dead. But they have a nasty fight on their hands.

Market Distortions -- Investment funds

Some of the problems I have talked about combine together to create further subtle distortions of the market place which are not immediately evident.

The first is an unbalanced competition for savings. The process works like this. The Government increases its spending to fulfill its commitments to extend its activities. The wage earner begins to revolt against the consequent rising tax burden. His resentment leads to higher wages, and lower profits, lower corporate taxes, and ultimately slower growth. It also deters the Government from raising taxes in line with spending. So the Government has a growing deficit and then has to borrow growing sums of money assuming, of course, that it does not resort to the printing press.

In doing so it competes with the private company and the home-buyer in the savings market. The private company finds it increasingly impossible to bid for funds, since its profits are depressed. The housebuyer may still be able to do so, but even then he is probably subsidised by the savers who lend him the money. At the end of the day, a public spending bill which exceeds the taxable capacity of the economy sucks away money which should be spent on investment in industry or private housing.

The second distortion is an unblanced competition for labour. As wealth increases spending patterns switch from industrial products toward services in all economies. This will affect the pattern of employment and competition for labour between the private and Government sectors.

Public sector employment in Britain has steadily grown at a substantial rate for more than a decade -- about 1% p.a.-- while the overall working population has contracted. The net effect has been to reduce the pool of labour available to private employers. So when the economy entered its last major upswing, in 1972-3, labour shortages were encountered unexpectedly soon. Although the leap in production was as large and sudden as any we have experienced, employment in industry scarcely increased at all. Many of the missing workers had in effect been absorbed by Government during the previous period of slack business activity.

The importance of this cannot be understated, particularly for a trading economy like ours. The private sector creates the goods and services we need both to export to pay for our imports and the revenue to finance public services. So one must not over-load it. Every man switched away from industry and into Government will reduce the productive sector and increase the burden on it at the same time.

I conclude therefore, that the persistent expansion of the role of state and the relentless pursuit of equality has caused and is causing damage to our economy in a variety of ways. It is not the sole cause of what some have termed the "British Sickness", but it is a major one.

Conclusions

What lessons have we learned from the last 30 years?

First, the pursuit of equality is a mirage. What is more desirable and more practicable than the pursuit of equality is the pursuit of equality of opportunity. And opportunity means nothing unless it includes the right to be unequal. And the freedom to be different. I believe you have a saying in the Middle West "Don't cut down the tall poppies - let them rather grow tall".

Let our children grow tall - and some grow taller than others, if they have it in them to do so. We must build a society in which each citizen can develop his full potential both for his own benefit and for the community as a whole; in which originality, skill, energy and thrift are rewarded; in which we encourage rather than restrict the variety and richness of human nature.

I was particularly interested to read this description of some of the problems in Czechoslovakia: "The pursuit of equality has developed in an unprecedented manner, and this fact has become one of the most important obstacles to intensive economic development and higher living standards. The negative aspects of equality are that lazy people, passive individuals and irresponsible employees profit at the expense of dedicated and diligent employees, unskilled workers profit at the expense of skilled ones and those who are backward from the point of view of technology profit at the expense of those with initiative and talent".

This was not written by a quiet capitalist. It is a quotation from the action program of the Czechosolovakia Communist Party adopted in the Dubcek days of 1968. Even they have learned that the unbalanced pursuit of equality leads to an insufficiency of resources.

Nothing that I am saying tonight should in any way be seen as a diminution of our recognized responsibilities to those people who, throught fiscal, mental, or social handicap, suffer disadvantages. Rather, it is a consciousness that unless we have incentive and opportunity we shall not have the resources to do as much as we want to do. Having been a Secretary of State for Education, I am the first to understand that.

Second we must strike a proper balance between the growing demands and powers of the state and the vital role of private enterprise. For private enterprise is by far the best method of harnessing the energy and ambition of the individual to increasing the wealth of the nation; for pioneering new products and technologies; for holding down prices through the mechanism of competition; above all, for widening the range of choice of goods and services and jobs.

Government must therefore limit its activities where their scope and scale harms profits, investment, innovation and future growth. It must temper what may be socially desirable with what is economically reasonable.

Finally we must measure the economic and political demands of some of our people against their consequences. We must have regard to their effect on our political and social framework. We must devote ourselves to a greater understanding and more realistic pursuit of true justice and liberty and the maintenance of the free institutions on which these values depend.

In the coming months we shall all be thinking particularly of the achievements of the United States in the two hundred years of its existence and of the lessons your country can still teach the rest of the world. May I conclude with the modest hope that you will also spare a few moments to learn from our recent experience. It shows in my view how essential it is to escape from the facile arguments which both our countries have experienced. And to reaffirm, before it is too late, those true values which both our countries traditionally have shared.

Those values have never been more important than they are today.

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