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4/29/75

THE PRESIDENT HAS SEEN

THE WHITE HOUSE

WASHINGTON

April 29, 1975

MEETING WITH THE EXECUTIVE COMMITTEE,
HOUSE REPUBLICAN STUDY COMMITTEE

Wednesday, April 30, 1975
11:00 - 11:30 a.m. (30 minutes)
The Cabinet Room

Thru: Max L. Friedersdorf M.F.
Vern Loen VL

From: Charles Leppert, Jr. CLJr.

I. PURPOSE

To exchange information and views with the President on issues of major concern to the Members of the House Republican Study Committee.

II. BACKGROUND

A. Background:

1. The House Republican Study Committee (formerly the House Republican Steering Committee) was organized in February 1973 by Representatives Crane (Ill), Spence (SC), Blackburn (Ga.), Derwinski (Ill) and Rousselot (Calif) and formally organized upon adoption of a Statement of Purpose and By-Laws in February, 1974.

2. The Committee is composed of approximately 70 - 75 Republican Members of the House of Representatives who espouse a distinctly conservative philosophy of government. Leadership of the Committee is provided by the Officers and the Executive Committee. (See Tab A)

3. The Committee through its Chairwoman, Rep. Marjorie Holt, has requested this meeting to present issues of major concern to the Committee as follows:

(a) Opening Statement by Rep. Holt stating that the conservatives are the President's national base of support. A number of Presidential actions have disappointed the Committee members, and that better lines of communication between the President and Committee members should be established and maintained.
(b) Veto Strategy will be discussed by Mrs. Holt and concern "when is a pledge to veto not a pledge", when and how are straight veto signals to be transmitted, vetoes of the tax bill, farm bill, strip mining bill, land use and consumer protection legislation.
(c) Welfare Reform and Food Stamps will be discussed by Rep. Clair Burgener (Calif) and requesting support for the Committee's sponsored bill, H. R. 5133, the National Welfare Reform Act of 1975. In addition, this discussion will include food stamps and OMB cooperation.
(d) Energy will be discussed by Rep. William Armstrong (R-Colo.) and will urge the President to take administrative actions where authority to do so exists such as deregulation of old oil. He will encourage the President to show political initiatives in formulating a national energy policy. He will express strong support for the imposition of the second dollar fee on imported crude oil.
(e) Land Use will be discussed by Rep. Bob Bauman (R-Md.). He will express their support and gratitude for the Administration's opposition to the land use bill which has been reported out of subcommittee in the House. Bauman will emphasize the need to have the people in various Departments aware of the reasons and need to oppose this legislation.
(f) Economy will be discussed by Rep. Jack Kemp (NY) concerning sound capital creation and general economic philosophy.
(g) Appointments will be discussed by Rep. William Dickinson (Ala). Rep. Dickinson will express the Committee's opposition to the appointment of Neil Staebler to the Federal Election Commission and request participation in future appointments as they come up including openings on the Council of Economic Advisors and the U.S. Supreme Court.

B. Participants: (See Tab A)

C. Press Plan:

Announce to Press
White House photographer only

III. TALKING POINTS

1. I am delighted to meet with the Executive Committee of the House Republican Study Committee.

2. Marjorie (Holt), I appreciate your assistance in arranging this meeting and I am hopeful we can meet on a regular basis.

3. I know there are some specific areas you wish to discuss, and I hope we can have an open and frank exchange on these and any other matters of interest.

4. Members of my senior staff are here and will also be available to respond to your comments and inquiries.

5. So, Marjorie, please let us proceed.

A

PARTICIPANTS

The President	
Representative Marjorie S. Holt (Md)	- Chairwoman
Representative Philip M. Crane (Ill)	- Vice Chairman
Representative Barry M. Goldwater, Jr. (Calif.)	- Vice Chairman
Representative Tom Hagedorn (Minn)	- Vice Chairman
Representative Steven D. Symms (Idaho)	- Vice Chairman
Representative John H. Rousselot (Calif)	- Treasurer
Representative William L. Armstrong (Colo)	-
Representative Robert E. Bauman (Md.)	
RepresentativeRobin L. Beard (Tenn.)	
Representative Clair W. Burgener (Calif)	
Representative Del Clawson (Calif)	
Representative Edward J. Derwinski (Ill)	
Representative Samuel L. Devine (Ohio)	
Representative William L. Dickinson (Ala)	
Representative William F. Goodling (Pa.)	
Representative Charles E. Grassley (Iowa)	
Representative Jack F. Kemp (NY)	
Representative Trent Lott (Miss.)	
Representative Floyd Spence (SC)	
Representative David C. Treen (La.)	

Mr. Robert T. Hartmann
Mr. John O. Marsh
Mr. Max L. Friedersdorf
Mr. William Seidman
Mr. James Cannon
Mr. Vern Loen
Mr. Charles Leppert, Jr.
Mr. Douglas Bennett
Mr. Paul O'Neill
Mr. James Cavanaugh
Mr. William Walker

When they go outside, suggest you request they keep in confidence your comments on oil ~~[illegible]~~ tariff and energy matters now pending for decision.

If other off-the-records matters are discussed they should also be in confidence.

94TH CONGRESS
1ST SESSION

H. R. 4906

IN THE HOUSE OF REPRESENTATIVES

MARCH 13, 1975

Mr. KEMP introduced the following bill; which was referred to the Committee on Ways and Means

---

A BILL

To amend the Internal Revenue Code of 1954 to accelerate capital formation essential to expanding jobs within the non-Government sectors of the economy.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Jobs Formation Act of 1975".

SEC. 2. TABLE OF CONTENTS.—

TITLE II—CORPORATION TAXES

TITLE III—EMPLOYEE STOCK OWNERSHIP PLAN FINANCING

TITLE I—INDIVIDUAL INCOME TAXES

SEC. 101. (a) IN GENERAL.—There shall be allowed to an individual, as a credit against the tax imposed by this chapter for the taxable year, an amount equal to 10 percent of the amount of qualified savings deposits and investments such individual makes during such year.

(b) LIMITATION.—The credit allowed by subsection (a) for a taxable year shall not exceed $500 ($1,000 in the case of a joint return under section 6013).

(c) DEFINITIONS.—For the purposes of this section—

(1) QUALIFIED SAVINGS DEPOSITS AND INVESTMENTS.—The term qualified savings deposits and investments means—

(A) amounts deposited in a savings deposit or withdrawable savings account in a financial institution;

(B) amounts used to purchase common or preferred stock in a domestic corporation; and

(C) amounts used to purchase a bond or other debt instrument issued by a domestic corporation.

(2) FINANCIAL INSTITUTION.—The term "financial institution" means—

(A) a commercial or mutual savings bank whose deposits and accounts are insured by the Federal Deposit Insurance Corporation or otherwise insured under State law;

(B) a savings and loan, building and loan, or similar association the deposits and accounts of which are insured by the Federal Savings and Loan Insurance Corporation or otherwise insured under State law; or

(C) a credit union the deposits and accounts of which are insured by the National Credit Union Administration Share Insurance Fund or otherwise insured under State law.

(b) TECHNICAL AMENDMENT.—The table of sections for such subpart A is amended by adding at the end thereof the following:

"Sec. 43. Increased savings and investments by individuals.".

(c) EFFECTIVE DATE.—The amendments made by this section apply to qualified savings deposits and investments made after March —, 1975.

LIMITED EXCLUSION OF CERTAIN CAPITAL GAINS

SEC. 102. (a) IN GENERAL. Part III of subchapter B of chapter 1 of the Internal Revenue Code of 1954 (relating to items specifically excluded from gross income) is amended by—

(1) redesignating section 124 as section 125, and

(2) inserting immediately after section 123 the following new section:

"SEC. 124. LIMITED EXCLUSION OF CERTAIN CAPITAL GAINS.

"(a) GENERAL RULE.—In the case of a taxpayer other than a corporation, gross income for the taxable year does not include an amount equal to the net section 1201 gain resulting solely from the sale or exchange of securities, to the extent that such amount does not exceed $1,000.

"(b) EXCEPTION.—Subsection (a) does not apply to a taxpayer who is subject to the tax imposed under section 1201 (b).

"(c) DEFINITIONS.—

"(1) NET SECTION 1201 GAIN.—The term 'net section 1201 gain' has the same definition it has under section 1222 (11).

"(2) SECURITIES.—The term 'securities' has the same meaning it has under section 165 (g) (2).".

(b) TECHNICAL AMENDMENTS.—

(1) Section 1202 of such Code (relating to deductions for capital gains) is amended by adding at the end thereof the following new sentence: "No amount of such excess shall be allowed as a deduction under this section to the extent such amount is excluded from gross income under section 124.".

(2) The table of sections for part III of subchapter B of chapter 1 of such Code is amended by striking out the item relating to section 124 and inserting in lieu thereof the following:

"Sec. 124. Limited exclusion of certain capital gains.
"Sec. 125. Cross references to other Acts.".

(c) EFFECTIVE DATE.—The amendments made by this section apply to sales or exchanges of securities occurring after December 31, 1974.

EXTENSIONS OF TIME FOR PAYMENT OF ESTATE TAX WHERE ESTATE CONSISTS LARGELY OF INTEREST IN CLOSELY HELD BUSINESS

SEC. 103. (a) ELIMINATION OF REQUIREMENT OF UNDUE HARDSHIP.—Section 6161 (a) (2) (relating to extension of time for paying estate tax) is amended by striking out "undue" before "hardship".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply only with respect to estates of decedents dying after the date of the enactment of this Act.

INTERESTS IN FAMILY FARMING OPERATIONS

SEC. 104. (a) Part IV of chapter 11B of the Internal Revenue Code of 1954 (relating to deductions from the gross estate) is amended by adding at the end thereof the following new section:

"SEC. 2057. INTERESTS IN FAMILY FARMING OPERATIONS.

"(a) GENERAL RULE.—For purposes of the tax imposed by section 2001, the value of the taxable estate shall be determined by deducting from the value of the gross estate the lesser of (1) $200,000, and (2) the value of the decedent's interest in a family farming operation continually owned by him or his spouse during the 5 years prior to the date of his death and which passes or has passed to an individual or individuals related to him or his spouse.

"(b) SUBSEQUENT DISQUALIFICATION RESULTS IN DEFICIENCY.—The difference between the tax actually paid under this chapter on the transfer of the estate and the tax which would have been paid on that transfer had the interest in a family farming operation not given rise to the deduction allowed by paragraph (a) shall be a deficiency in the payment of the tax assessed under this chapter on that estate unless, for at least 5 years after the decedent's death—

"(1) the interest which gave rise to the deduction is retained by the individual or individuals to whom such interest passed, and

"(2) the individual or any of the individuals to whom the interest passed resides on such farm, and

"(3) such farm continues to qualify as a family farming operation.

"(c) DEATH OF SUBSEQUENT HOLDER.—In the case of the subsequent death of an individual to whom the interest in a family farming operation has passed, his successor shall be considered in his place for purposes of paragraph (b).

"(d) DEFINITIONS.—

"(1) FAMILY FARMING OPERATION.—A 'family farming operation' is a farm—

"(A) actively engaged in raising agricultural crops or livestock 'for profit', within the meaning of section 183, and

"(B) over which the owner or one of the owners exercises substantial personal control and supervision.

"(2) RELATIONS.—An individual is 'related' to the decedent or his spouse if he is that person's father, mother, son, daughter, grandson, granddaughter, brother, sister, uncle, aunt, first cousin, nephew, niece, husband, wife, father-in-law, mother-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, stepfather, stepmother, stepson, stepdaughter, stepbrother, stepsister, half brother, half sister, or in the absence of any of the above his next of kin.".

(b) The amendments made by subsection (a) of this section shall apply to taxes imposed by section 2001 after December 31, 1974.

ADJUSTMENTS OF CORPORATE NORMAL TAX RATES

SEC. 201. (a) Section 11 (b) (relating to corporate normal tax) is amended to read as follows:

"(b) NORMAL TAX.—The normal tax is the amount determined in accordance with the following table:

"If the taxable income is:	The normal tax is:
Not over $1,000,000	20% of the taxable income.
Over $1,000,000 but not over $10,000,000.	$200,000, plus 20% of excess over $1,000,000,000.
Over $10,000,000 but not over $100,000,000.	$2,000,000, plus 20.5% of excess over $10,000,000.
Over $100,000,000 but not over $1,000,000,000.	$20,000,000, plus 20.75% of excess over $100,000,000.
Over $1,000,000,000	$200,000,000, plus 21% of excess over $1,000,000,000.

For purposes of applying the percentages and amounts of tax set forth in the preceding table in the case of a corporation which is a component member of a controlled group of corporations (within the meaning of section 1563), the taxable income of the other component members of such group shall, under regulations prescribed by the Secretary or his delegate, be taken into account.".

(b) The amendments made by subsection (a) of this section shall apply to taxable years beginning after December 31, 1974.

INCREASE IN INVESTMENT CREDIT

SEC. 202. (a) INCREASE OF INVESTMENT CREDIT TO 15 PERCENT.—Paragraph (1) of section 46 (a) (determin-

ing the amount of the investment credit) is amended to read as follows:

"(1) GENERAL RULE.—

"(A) FIFTEEN-PERCENT CREDIT.—Except as provided in subparagraph (B), the amount of the credit allowed by section 38 for the taxable year shall be equal to 15 percent of the qualified investment (as defined in subsection (c)).

"(B) TWELVE-PERCENT CREDIT.—In the case of property—

"(i) the construction, reconstruction, or erection of which is completed by the taxpayer before March , 1975, or

"(ii) which is acquired by the taxpayer before March , 1975,

the amount of the credit allowed by section 38 for the taxble year shall be equal to 12 percent of the qualified investment (as defined in subsection (c)).

"(C) TRANSITIONAL RULE.—In the case of property—

"(i) the construction, reconstruction, or erection of which is begun by the taxpayer before March , 1975, and

"(ii) the construction, reconstruction, or erection of which is completed by the taxpayer after March , 1975, subparagraph (B) shall apply to the property to the extent of that portion of the basis which is properly attributable to construction, reconstruction, or erection before March , 1975, and subparagraph (A) shall apply to such property to the extent of that portion of the basis which is properly attributable to construction, reconstruction, or erection after March , 1975.".

(b) Effective Date.—The amendments made by subsection (a) of this section shall apply to taxable years beginning after December 31, 1974.

INCREASE IN CORPORATE SURTAX EXEMPTION

Sec. 203. (a) General Rule.—Section 11(d) (relating to surtax exemption) is amended by striking out "$25,000" and inserting in lieu thereof "$100,000".

(b) Technical and Conforming Amendments.—

(1) Paragraph (1) of section 1561(a) (as in effect for taxable years beginning after December 31, 1974) (relating to limitations on certain multiple tax benefits in the case of certain controlled corporations) is amended by striking out "$25,000" and inserting in lieu thereof "$100,000".

(2) Paragraph (7) of section 12 (relating to cross references for tax on corporations) is amended by striking out "$25,000" and inserting in lieu thereof "$100,000".

(3) Section 962(c) (relating to surtax exemption for individuals electing to be subject to tax at corporate rates) is amended by striking out "$25,000" and inserting in lieu thereof "$100,000".

(c) Effective Date.—The amendments made by subsection (a) of this section shall apply to taxable years beinning after December 31, 1974.

TAXABLE YEAR PRICE LEVEL ADJUSTMENTS IN PROPERTY

Sec. 204. Section 1016(a) of the Internal Revenue Code of 1954 (relating to adjustments to basis) is amended—

(1) by striking out the period at the end of paragraph (22) and inserting in lieu thereof a semicolon; and

(2) by adding at the end thereof the following new paragraph:

"(23) in respect to any period after December 31, 1974, before making any other adjustments of basis under this subsection, for an amount which is equal to the difference between—

"(A) the basis of the property, as determined under section 1011, before adjustment under this section, multiplied by the ratio which the prices index (average over a taxable year of the Consumer Price Index (all items—United States city average) published monthly by the Bureau of Labor Statistics) for the taxable year in which the property is sold or otherwise disposed bears to the price index for the taxable year in which the property was acquired, or for the calendar year 1974, whichever is later, and

"(B) the basis of the property as determined under section 1011 before adjustment under this section.".

INCREASE IN CLASS LIFE VARIANCE FOR PURPOSES OF DEPRECIATION

SEC. 205. (a) IN GENERAL.—Section 167(m)(1) of the Internal Revenue Code of 1954 (relating to class lives for purposes of depreciation) is amended by striking out "20" and inserting in lieu thereof "40".

(b) EFFECTIVE DATE.—The amendment made by this section applies to property acquired or the construction of which is begun after December 31, 1974.

ALTERNATIVE AMORTIZATION PERIOD FOR POLLUTION CONTROL FACILITIES

SEC. 206. (a) IN GENERAL.—Section 169 of the Internal Revenue Code of 1954 (relating to amortization of pollution control facilities) is amended by—

(1) striking out "60 months" in subsection (a) and inserting in lieu thereof "60 months or 12 months",

(2) striking out "60-month period" in subsection (a) and inserting in lieu thereof "60-month or 12-month period", and

(3) striking out "60-month period" in subsection (b) and inserting in lieu thereof "60-month or 12-month period".

(b) EFFECTIVE DATE.—The amendments made by this section apply to any new identifiable treatment facility (as defined in section 169(d)(4) of such Code) acquired or the construction, reconstruction, or erection of which is begun after December 31, 1974.

TITLE III—EMPLOYEE STOCK OWNERSHIP PLAN FINANCING

EMPLOYEE STOCK OWNERSHIP PLAN FINANCING

SEC. 301. (a) The Internal Revenue Code of 1954 is amended by adding the following new section 416 at the end of subpart B of part I of subchapter D of chapter 1:

"SEC. 416. EMPLOYEE STOCK OWNERSHIP PLAN FINANCING.

"(a) DEFINITIONS.—

"(1) 'Employee stock ownership plan' means a technique of corporate finance described in section 4975(e)(7) that utilizes stock bonus plans, or stock bonus plans coupled with money purchase pension plans, which satisfy the requirements of section 401(a) and are designed—

"(A) to invest primarily in qualifying employer securities;

"(B) to meet general financing requirements of a corporation, including capital growth and transfers in the ownership of corporate stock;

"(C) to build into employees beneficial ownership of qualifying employer securities;

"(D) to receive loans or other extensions of credit to acquire qualifying employer securities, with such loans and credit secured primarily by a commitment by the employer to make future payments to the plan in amounts sufficient to enable such loans and interest thereon to be repaid; and

"(E) to limit the liability of the plan for repayment of any such loan to payments received from the employer and to qualifying employer securities, and dividends thereon, acquired with the proceeds of such loan, to the extent such loan is not yet repaid.

"(2) For purposes of this section, the term 'employer securities' means securities issued by the employer corporation, or by an affiliate of such employer.

"(3) For purposes of this section, the term 'qualifying employer securities' means common stock, or securities convertible into common stock, issued by the employer corporation, or by an affiliate of such employer.

"(b) SPECIAL DEDUCTIONS.—

"(1) In addition to the deductions provided under section 404(a), there shall be allowed as a deduction to an employer the amount of any dividend paid by such employer during the taxable year with respect to employer securities, provided—

"(A) such employer securities were held on the record date for such dividend by an employee stock ownership plan; and

"(B) the dividend received by such plan is distributed, not later than 60 days after the close of the plan year in which it is received, to the employees participating in the plan, in accordance with the plan provisions; or

"(C) the dividend received by such plan is applied, not later than 60 days after the close of the taxable year, to the payment of acquisition indebtedness (including interest) incurred by the plan for the purchase of qualifying employer securities.

"(2) Notwithstanding the limitations of section 404(a), there shall be allowed as a deduction to an employer the amount of any contributions paid on account of a taxable year (as described in section 404 (a) (6)) to an employee stock ownership plan, provided such contributions are applied to the payment of acquisition indebtedness (including interest) incurred by the plan for the purchase of qualifying employer securities.

"(3) For purposes of sections 170(b) (1), 642 (c), 2055 (a) and 2522, a contribution, bequest or similar transfer of employer securities or other property to an employee stock ownership plan shall be deemed a charitable contribution to an organization described in section 170 (b) (1) (A) (vi), provided—

"(A) such contribution, bequest or transfer is allocated, pursuant to the terms of such plan, to the employees participating under the plan in a manner consistent with section 401 (a) (4);

"(B) no part of such contribution, bequest or transfer is allocated under the plan for the benefit of the taxpayer (or decedent), or any person related to the taxpayer (or decedent) under the provisions of section 267 (b), or any other person who owns more than 25 percent in value of any class of outstanding employer securities under the provisions of section 318 (a); and

"(C) such contribution, bequest or transfer is made only with the express approval of such employee stock ownership plan.

"(c) TREATMENT OF PARTICIPANTS.—

"(1) Qualifying employer securities acquired by an employee stock ownership plan through acquisition indebtedness incurred by the plan in connection with the financing of capital requirements of the employer corporation or its affiliates must be allocated to the accounts of the participating employees to the extent that contributions and dividends received by the plan are applied to the payment of such acquisition indebtedness (including interest), in accordance with the terms of the plan and in a manner consistent with section 401 (a) (4).

"(2) Upon retirement, death or other separation from service, an employee participating under an employee stock ownership plan (or his beneficiary, in the event of death) will be entitled to a distribution of his nonforfeitable interest under the plan in employer securities or other investments allocated to his account, in accordance with the provisions of such plan. If the plan so provides, the employee (or beneficiary) may elect to receive all or a portion of the distribution from the plan in—

"(A) employer securities, other than qualifying employer securities;

"(B) cash;

"(C) a diversified portfolio of securities;

"(D) a nontransferable annuity contracts; or

"(E) any combination of the above.

"(3) An employee stock ownership plan may provide for the required repurchase of qualifying employer securities from an individual receiving a distribution thereof if all other of such outstanding employer securities, whether or not acquired through the plan, are subject to repurchase from nonemployee shareholders under similar circumstances.

"(4) Upon receipt of a lump sum distribution, as described in section 402(e) (4) (A), from an employee stock ownership plan, an individual may exclude from gross income that part of the distribution which consists of employer securities or other assets, if income producing, held or reinvested within 60 days in income-producing assets of equivalent value, for the purpose of providing that individual with dividends or other forms of realized current income from such assets. Upon subsequent sale or disposition of any employer securities or other assets distributed by an employee stock ownership plan, to the extent that proceeds realized from such sale

or disposition are not reinvested within 60 days in income producing assets, the total amount of such proceeds (or the fair market value of any such securities or assets that are transferred without adequate consideration) shall be treated as ordinary income to the individual.

"(5) An employee receiving a distribution under paragraph (b) (1) (B) of this section shall be subject to taxation under section 402(a) (1), and the provisions of section 116 shall not apply to such distribution.

"(6) A contribution by an employer which is deductible under paragraph (b) (2) of this section, or a contribution described in paragraph (b) (3) of this section, shall not be included in the meaning of annual addition under section 415(c) (2).

"(7) No contribution to an employee stock ownership plan may be allocated for the benefit of any participant if the value of the total accumulation of employer securities and other investments under the plan for the benefit of that participant equals or exceeds $500,000, less the amount of any such accumulation for that participant under any other employee stock ownership plans.

"(d) Special Provisions.—

"(1) The acquisition or holding of qualifying employer securities and the incurring of acquisition indebtedness by an employee stock ownership plan shall be deemed to satisfy the requirements of section 404 (a) (1) of the Employee Retirement Income Security Act of 1974 provided that—

"(A) the requirements of sections 408 (b) (3) and 408 (e) of such Act are satisfied; and

"(B) the same standards of prudence and fiduciary responsibility that corporate management must exercise with respect to its shareholders are satisfied.

"(2) Upon application by an employee stock ownership plan, the Secretary of the Treasury or his delegate shall issue an advance opinion as to whether a proposed transaction involving that employee stock ownership plan will satisfy all the requirements described in paragraph (1) of this subsection, and any such opinion shall be binding upon the Secretary.".

(b) Payments by an employer to an employee stock ownership plan as defined in section 416 (a) (1) of the Internal Revenue Code of 1954, for the purpose of enabling such plan to pay acquisition indebtedness incurred for the purchase of qualifying employer securities or other contributions to such plan shall not be treated as compensation, fringe benefits, or deferred compensation payments for the purposes of any laws, Executive orders, or regulations designed

to control, establish guidelines, or otherwise stabilize employee compensation or benefits, but shall be treated as the equivalent of debt service payments made in the normal course of financing the capital requirements of that employer.

94TH CONGRESS
1ST SESSION

H. R. 4906

A BILL

To amend the Internal Revenue Code of 1954 to accelerate capital formation essential to expanding jobs within the non-Government sectors of the economy.

By Mr. KEMP

MARCH 13, 1975

Referred to the Committee on Ways and Means

(*Not printed at Government expense*)

Congressional Record

United States of America

PROCEEDINGS AND DEBATES OF THE 94th CONGRESS, FIRST SESSION

A Free Enterprise Answer to Inflation and Recession

SPEECH
OF
HON. JACK F. KEMP
OF NEW YORK
IN THE HOUSE OF REPRESENTATIVES
Wednesday, February 5, 1975

Mr. KEMP. Mr. Speaker, I have taken this special order today to permit the Members, like myself, who believe in limited Government and free enterprise solutions to our Nation's problems to present alternatives to the New Deal-type answers being offered by so many today on the Democratic side of the aisle.

We also must say, in all candor, that while we applaud the leadership of our President in coming up with a comprehensive plan for the Nation's economy, we must as a group speak out against the huge budget deficit being proposed to the American people, much of which, of course, is the result of fiscal irresponsibility of previous Congresses and administrations.

Outrageous deficit spending financed by huge increases in the money supply and unlimited Government borrowing is strangling the productivity of the American free enterprise system. Government is choking to death the incentives and capital investment necessary to generate jobs, the goods and services so necessary to increase the wealth of this Nation.

It took 186 years for this Nation to reach a $100 billion budget. It took only another 9 years to reach a $200 billion budget. It took 3 more years to reach a $300 billion budget, and at the rate we are going within just a very few short years over 55 percent of the total private income of America will be taken by Goverment in the form of taxes at one level of the Government or another.

The time is overdue for the implementation of a policy providing for an enduring economic recovery. It is time for the adoption of a plan which will work, not only in the short run but also on a more permanent basis. And, it is time for an economic recovery which does not sow the seeds of another recession or additional inflation.

During the past several weeks, an impressive number of Members have participated in the preparation of a fiscally responsible, free market policy for economic recovery.

Our policy may not be politically popular or possible but it is, nonetheless, time tested—it reflects the lessons of economic history.

569-117—39441

The statement, together with those who have participated in its formulation, follows:

STATEMENT ON ALTERNATIVE ECONOMIC POLICIES

We believe that solutions to our dual economic problems of inflation and recession lie in returning decision-making to the people through the forces of the marketplace—letting the people decide what to produce, sell, and buy, and at what price levels. The pricing mechanism of the marketplace, derived from the interaction of supply and demand, is a more efficient, productive and stable regulator of the economy than government can ever be. No government agency or official is as capable of making such decisions as are the people through the voluntary exchange of goods and services. To believe otherwise is to deny the basic tenets of democracy and liberty.

We also believe increased productivity—not compulsory rationing, allocations or regulations and controls—is the basic answer to our problems. We believe prosperity to be related directly to the amount of capital invested in increased production. We believe over-concentration on consumption, fostered by government policy, has led to inadequate attention to the production which results in improved efficiency, more jobs at higher pay, and more goods at less cost.

Finally, we believe our economic ills—from heavy inflation to rising unemployment, from high interest rates to inadequate capital formation, from exorbitant fuel costs to anticompetitive regulatory practices—have one root cause: Policies of government, principally those of the Federal government which cause or contribute to inflation.

We, therefore, propose the following:

Controlling the run-away growth of government and the soaring increases in Federal expenditures and deficits, in an effort to better balance the budget. This would reduce the need for government borrowing from the capital markets and would put a brake on the inflationary expansion of the money supply.

The enactment of job-creating, accelerated capital formation techniques, sufficient to insure the full productive capacity of this country and the millions of jobs which would flow from such full capacity. Such measures would include:

A tax reduction for both small business and corporations, to spur production; and,

A permanent increase in the investment tax credit, to allow long-range planning in order to help avoid a repetition of this recession.

Giving protection against inflation to the individual income tax payer by indexing income tax brackets, thus taking the "windfall profit" out of inflation for the government when taxpayers slide into higher tax brackets solely as a result of government-created inflation.

The removal of anticompetitive regulatory practices of the Federal government, practices which drive production down and prices up.

That a limitation, established as a percentage of aggregate national personal income, be placed on the level of revenue taken each year by the Federal government.

Increased reliance on the laws of supply and demand to conserve fuel and to increase production, including the deregulation of natural gas and domestic crude oil.

That increases in the money supply be tied more directly to increases in national productivity, thus eliminating the price rises which accompany expansionary monetary policies.

We believe these measures should be adopted and enacted. We intend to push actively for them.

SIGNATURES

Jack F. Kemp, of New York.
Bill Archer, of Texas.
William L. Armstrong, of Colorado.
Robert E. Bauman, of Maryland.
Robin L. Beard, of Tennessee.
Clair Burgener, of California.
Don Clancy, of Ohio.
John B. Conlan, of Arizona.
Philip M. Crane, of Illinois.
Robert W. Daniel, of Virginia.
Sam Devine, of Ohio.
Barry M. Goldwater, Jr., of California.
William F. Goodling, of Pennsylvania.
Tennyson Guyer, of Ohio.
Tom Hagedorn, of Minnesota.
Marjorie S. Holt, of Maryland.
James G. Martin, of North Carolina.
John Y. McCollister, of Nebraska.
W. Henson Moore III, of Louisiana.
William M. Ketchum, of California.
Trent Lott, of Mississippi.
Ralph Regula, of Ohio.
J. Kenneth Robinson, of Virginia.
John H. Rousselot, of California.
Richard T. Schulze, of Pennsylvania.
Keith G. Sebelius, of Kansas.
Floyd Spence, of South Carolina.
Steven D. Symms, of Idaho.
Charles Thone, of Nebraska.
David C. Treen, of Louisiana.

This statement establishes the framework for our remarks here this afternoon, and it outlines the problems we see in other proposals being advanced.

We welcome the support of other Members, from both sides of the aisle, with whom we did not have an opportunity to confer before the statement's release.

I would like to amplify, from my own understanding of the issues at hand, on the points raised through the statement.

THE CAUSES OF OUR ECONOMIC ILLS

Policies of government, principally those of the Federal Government, cause and contribute to inflation. Only when we understand what caused our problems can we set about on a true course to correcting them, insuring to ourselves and our posterity that our leaders will not repeat them.

The solutions to our economic problems can hardly lie, therefore, in further reliance upon government decisionmaking—government interference in the economic affairs—in the private economic lives—of the people.

No matter how well intentioned or how well administered the programs of government may be, they can never duplicate the efficiency, productivity, and diversity of the economic marketplace—a marketplace composed of the countless millions of decisions made every day by the American people on what to buy and what to sell based upon their priorities not government's. No government agency or official is capable of making such decisions as well as or better than the people. To believe otherwise—and such a belief is too frequently reflected in many of the proposals for remedial action which we hear in these times—is to deny the basic tenets of democracy and liberty.

Advocates of big government purport that there is almost no sphere of the national life in which the Government may not legitimately intervene.

The liberty view, on the other hand, holds that—just as the Government produces little and must be limited in its power to siphon off the fruits of labor of the private sector—so must large areas of the national life, on principle, be cordoned off from Government interference, no matter how well intentioned.

It is, therefore, incumbent upon a legislator who believes in a free society to oppose, in deed as well as word, certain types of legislative initiatives on the grounds that the Government should not involve itself at all in those types of matters.

It seems that at a time when virtually everyone is calling for reduced Federal spending, so as to reduce the pressures of inflation and taxes, that we have an opportunity to examine the existing programs with a view toward ending the funding of those less than essential programs. We must seize this opportunity.

In terms of this continued advocacy of big government, let us look at the Democratic Party leadership's proposals for economic recovery.

AN ANALYSIS OF THE DEMOCRATIC PARTY LEADERSHIP'S PROPOSALS

They have proposed mandatory and presumably permanent wage and price controls, or at least, minimally the placement of controls on a selective basis for some critical industries. They have done this despite the fact that higher prices and wages are the results of, not the causes of, inflation; they have their cart before the horse, once again.

These are the kinds of controls which destroy the bargaining process—individual or collective—between employees and employers, a process essential to a free society.

These are controls which deprive industry of the capital investment funds which are needed for jobs, to increase productivity, and to increase the supply of goods required to drive prices downward. These are also controls which cause innumerable shortages of goods which the consumers both need and want. They are patterned after the control devices which have failed time and time again, from Rome in A.D. 301 to America in 1971–74. It seems to me that after our experiences with the beef freeze—and shortages in over 600 other goods—some would have learned enough so as not to repeat their errors. Apparently this is not the case.

They also propose an expansion of the public service jobs program, one not unlike the "make work" programs of the thirties. They propose this despite the fact that these jobs are essentially nonproductive and that all funds from them must come from taxes or expansion of the national public debt—either of or both of which make inflation and recession worse. This program deprives the private sector of the economy of the fullest means to create real, permanent jobs—tax-generating jobs instead of tax-consuming ones. This is truly a counterproductive program, taking out of the nongovernment sector the very capability it must have to reduce unemployment permanently.

They also propose the rationing of gasoline, the most patently unfair and inequitable of all the fuel conservative measures under consideration. Dramatically increased supplies, which could come about through deregulation, would accomplish the same objectives—bringing demand and supply into harmony, without penalizing the people. If there is rationing, there is no way it can be made fair, when applied on a case by case basis.

The Democratic leadership also proposes the revival of the Reconstruction Finance Corporation, a Government chartered and operated "corporation," to bail out failing businesses with the taxpayers' dollars, forcing those taxpayers to save a company whose products they had already indicated they did not wish to buy in sufficient quantities to keep it afloat. If they had, the company would not be ailing in the first place. This corporation's functions would needlessly duplicate our existing system of 14,000 banks and other private lending institutions. This program would reward inefficiency and poor management over and against companies which succeed, produce, create, and preserve jobs and pay, rather than consume, taxes. It's a rewarding of failure; that's what the corporation's role would be. It would be using borrowed money to lend to companies who—because of excessive Government deficit-induced borrowing—could not borrow enough capital on their own to remain competitive.

They propose the allocation of credit by the bureaucracy in Washington instead of by the free choice of the people and our vast, highly competitive private credit system, permitting bureaus and boards and bureaucrats to decide what or whatever is to be purchased by the people. It gives to the bureaucracy the role of determining what is productive and what is speculative, as to the uses of available capital. And, keep in mind, that Government itself is draining off huge amounts of capital in order to pay the deficits; over 62 percent of the available capital in this country was preempted by the Federal Government during calendar year 1974 to finance its deficit. I cannot help but believe, that if Thomas Edison had gone to such a bureau and asked for money to invent and develop the light bulb, as an alternative to whale-oil lamps and candles, that they would have said, "No," on the basis that the venture was too "speculative." We say: Let the incentives of the marketplace determine what is speculative and what is productive—determined by the total of the decisions made by vast millions of people through their buying or abstention from buying.

They propose the reform of our tax laws, under the euphemism of closing loopholes. They do not mention that the largest so-called loophole is the personal deduction for real estate taxes and interest paid on home mortgages by homeowners, without which few homes could be built and purchased, reforms which typically add additional burdens to the tax load already being borne too heavily by the middle class. We are opposed to the elimination of such incentives. We need tax reform, but it ought to be on the basis of logic and economics, not catch phrases.

They also propose, through offering a variety of programs, some in wholly new fields for the Federal Government, a massive increase in Federal spending. Few actually say they favor it, but that is the inevitable result of the proposals being offered. These proposals for new spending are being made despite the fact that this would result in increased deficits—the principal factor fueling inflation and pushing up interest rates; despite the fact that this would mean additional reliance on Government instead of increased independence from it; despite the fact that such spending is simply taken from our already overburdened people; and, despite the fact that such spending would take further from the non-Government sector of the economy the private means to deal with the very social problems to which Government programs would be addressed. It used to be that Government was the last resort, to be relied upon only when the private sector had failed. Now, as soon as a problem is spotted, actual or potential, the clamor is for the Federal Government to rush in and spend money. We cannot abuse ourselves with such folly any longer.

WHAT'S RIGHT AND WHAT'S WRONG WITH THE ADMINISTRATION'S PROPOSALS

I am pleased with many of the President's proposals to overcome our economic ills. I believe that many are clearly within the best interests of the Nation to implement, as soon as possible. I applaud the President's leadership in identifying much of what is amiss in our economy today and clearly speaking up for the pricing system.

I believe there is much merit to his proposals to place a 5-percent ceiling on increases in Federal salaries, retirements, pensions, and so forth, through June 30, 1976.

I agree with his proposed moratorium on new spending programs for fiscal year 1976. I just wish he had proposed a moratorium on new spending per se, so that we could have held the line on fiscal year 1976 spending at the level of fiscal year 1975 spending.

I agree that we should provide additional incentives to public utilities to expand energy supplies to meet rising demands, for an increase in supply, in relation to demand, will permit utility costs to be driven downward.

I agree that a deregulation of domestic crude oil and new natural gas is called for. This would result in an appreciable increase in oil and natural gas supplies. At a time when hundreds are being furloughed in industry—not because of capital shortages or inadequate demand, but because oil and natural gas are not adequately available—we believe these to be sound measures.

We applaud across-the-board corporate tax cuts, those which will lead to the capital formation requisite to expansion of machinery and plants in an effort to enhance efficiency, for it is that enhanced efficiency—producing a product at less cost—which will stimulate job-producing demand. Of course, the catch to this proposal is that it is contingent on congressional approval of the plowing back, through tax cuts, of the $30 billion of additional revenue generated by the $3 per barrel tax on oil.

We are, on the other hand, concerned over several other proposals offered in the state of the Union and related messages.

No matter how strong the rhetoric against inflation-creating budget deficits, the fact remains that we will have deficits of at least $30 billion this year and $52 billion next; they will probably end up being much more. The impact of these deficits in generating worsened inflation are economically inevitable; it will hurt the economy.

Here, in these deficits, are the potential seeds of a worse economic picture. In hopes of stimulating the economy through deficit spending, it may actually be slowed. In a shift from dealing with inflation to recession, we are concerned that the short-term anti-recession measures may worsen our long-term abilities to combat inflation.

CHAIRMAN MAHON'S REPORT ON THE BUDGET

On Monday of this week, the distinguished and learned chairman of the Committee on Appropriations, Mr. MAHON, addressed the House, as he does after the submission of each budget, on the implications and ramifications of the proposed budget for fiscal year 1976. As is customary for that presentation, the chairman simply put forth the facts on what the budget says and what it does not say. It is, undoubtedly, the most accurate and penetrating analysis yet done on the implications of the budget.

I cannot overly stress how honored I am to be now serving, on the Committee on Appropriations, in the shadow of this man and his stewardship of that committee. The reasoned, reflective voice of truth, removed from considerations of partisanship, is what he has, is now, and will continue to bring to the deliberations of that Committee and Subcommittee. The Nation needs that.

Let me quote, briefly, from his remarks of this week, for they are of profound importance to understanding what confronts us:

> The budget proposes outlays of $349 billion. But in my judgment, the Government will never live within that. The spending will be much higher.
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> * * * * *
>
> The budget calls for spending in fiscal year 1975 of $313.4 billion and $349.4 billion in fiscal year 1976. This is an increase from 1974 to 1975 of $45 billion and from 1975 to 1976 of $36 billion. This will cause a unified budget deficit of $34.7 billion in 1975 and $51.9 billion in 1976, but the total additional increase in debt will be $52.8 billion in 1975 and $67.6 billion in 1976—an increase of $120.4 billion over 2 years. If that will not shock the American people to the marrow of their bones then we as a nation are insensitive to the fiscal situation which confronts us.
>
> * * * * *
>
> The total increase in the amount of the debt which must concern us over the next 18 months is not the $87 billion increase in the Unified budget but the likelihood that we will go into the capital market for as much as $150 to $170 billion just on the matters proposed in this budget. That amount, alarming as it may be, does not reflect the liability associated with loans guaranteed by the Government.

The implications of the chairman's remarks are grave for all of us who are charged with the constitutional responsibility of exercising fiscal and monetary responsibility.

Let me put before this House, in chart form, what the chairman put before us several days ago:

PROJECTED FEDERAL DEBT INCREASES

[In billions of dollars]

	Fiscal year— 1975	Fiscal year— 1976	Total
Projected unified budget deficit	$34.7	$51.9	$86.6
Borrowing from the trust funds	+8.3	+3.1	+11.4
Borrowing to finance off-the-budget agencies	+13.7	+10.4	+24.1
Other financing	−4.1	+2.2	−1.9
Subtotal: projected real base deficit	52.8	67.6	120.4
Effects of congressional refusal to support President's proposed selected spending reductions	+5.9	+17.0	+22.9
Subtotal	58.7	84.6	143.3
Possible congressional action on proposed tax cuts offered by the President	+4.3	+19.0	+23.3
Total	63.0	103.6	166.6

Mr. Speaker, charts on proposed expenditures and new obligational authority reflect similar increases and possible actions and inactions; thus, in addition to the announced projected debt rising by these additional amounts, so too will expenditures and new obligational authority rise accordingly.

The likelihood of the Federal Government borrowing nearly $170 billion or even $100 billion from the capital markets in this Nation over the next 18 months is staggering. Interest rates would soar to even new record highs; and there would be little, if any, money left for private borrowing by manufacturers, homebuilders, et cetera. Inflation would rise steadily as the Federal Reserve System pumped up the supply of new money—through extensions of credit to boost available funding for borrowing. A deeper recession and higher inflation could well set in. Thus, these measures—designed to get us out of recession—would actually put us further into it, all caused by trying to cure our problems with inflated dollars.

The policies which we have today outlined are better, more effective, faster, and more enduring ways in which to bring our country out of this recession, to provide millions of jobs—through the nongovernment sector of the economy—and to do so without additional reliance on the taxpayer. These policies will stop inflation. They will stop the recession. They will restore the economy.

FEDERAL BUDGETS SHOULD BE BALANCED TO HOLD DOWN INFLATION AND INTEREST RATES

I propose a reduction in the runaway growth of Federal budgets, holding the total level of expenditures down to the level of projected revenue. This is a goal of budget balance, free from the deficits that are our No. 1 problem.

We must help eliminate the deficits from Federal financing. To do otherwise is blatantly counterproductive, for it is this borrowing of money from the Nation's capital markets by the Federal Government which drives up interest rates and drives down available capital for private individuals and businesses, and it is the monetizing of the national debt which produces the additional increase in money stock which causes inflation.

How does this process work?

When Government spends more than it takes in, it still must pay its bills. It pays those bills through borrowing funds from the same financial institutions that lend them out privately, to businesses, to contractors, to prospective home purchasers, et cetera. The more capital Government takes out of the markets, the less remains.

Thus, competition for those dollars remaining allows those institutions to set higher rates of interest. This, in and of itself, reduces the amount of speculative capital, because those with speculative ventures cannot nearly as well afford to pay the higher rates of interest. But, the effect is higher interest rates, and when businesses, contractors, home purchasers, and so forth, cannot borrow, recession is the inevitable result, meaning the loss of productivity and jobs.

The Federal Government, unlike you or me, has another way to pay off its bills. The Government may pay off a portion of its new debt by monetizing it—a process by which the Federal Reserve System extends credit to its member banks, through "high-powered" money devices. If the money supply increases faster than production, higher prices are always the result. There has never been a dramatic increase in money supply in the last century which has not been followed by a dramatic increase in prices. As the rate of inflation goes up, so to does the rate of prices, following by a few months to a year.

The conclusion to be drawn from this is that deficit spending must be substantially reduced—with the eventual good of balancing the budget.

THE ESSENTIAL CHARACTER OF CAPITAL FORMATION

I am proposing the enactment of capital formation inducing laws at the earliest opportunity. A corporate tax cut would aid significantly in making capital funds more available to industry, business—large and small—and home construction.

There are additional policies which would help to accomplish the same objectives, including amendments to the capital gains tax structure, increasing the exemption of interests and dividends from savings and similar institutional investments.

Prosperity rests—more than on any other determinant—on the amount of capital invested per person within an economy. In other words, the more capital invested per person, the greater the economic growth and the better the standard of living—in real, not inflated, dollars. Our laws have ignored this cardinal rule of economics during recent years, favoring instead those policies which have led to a decline in the rate of capital investment.

Our present Federal tax structure encourages overconsumption and discourages investment, because the tax laws place a significantly heavier burden on savings and investment than on consumption. Taxwise, it is now preferable for the taxpayer to consume and spend instead of producing and saving. The tax policy which underlies the present tax structure has resulted in laws which have stifled needed capital formation and economic growth. It should be reversed.

That the economy of the United States needs vast increases in capital outlays is demonstrable.

In a recent editorial, entitled "Productivity: The Rest of the World Is Catching Up," the Washington Post depicted our situation this way:

Since 1960 productivity increases in this country have been the lowest of any of the major industrial countries, and our rate has hardly been better than the average for all the other industrial countries together.

This principal measure of prosperity—capital investment—gives much credence to the editorial. According to an extensive study of the Joint Economic Committee, gross private domestic investment in the United States last year was only 15.7 percent of gross national product. By contrast, Germany invested 26 percent, France 28 percent, and Japan 37 percent.

Minimally—to curb inflation and to maintain a "socially acceptable level of unemployment"—the United States should raise its investment rate to 18 to 20 percent. To stop inflation and to send unemployment back down to the lowest rate in the past 10 years, a much greater investment rate would be required.

Yet, even to maintain the 15.7, 1973 rate, the United States will have to invest over $4.5 trillion—$4,500 billion—in capital over the next 12 years. Under our present tax policy and laws, it will be difficult for this amount to be raised. To the degree that it is not raised, our prosperity will be further threatened.

TAX REFORM IS NEEDED TOO

The enactment of job-creating, accelerated capital formation techniques, sufficient to insure the full productive capacity of this country and the millions of jobs which would flow from such full capacity is needed.

Such measures would include a tax reduction for both small business and corporations, to spur production. They would also include a permanent increase in the investment tax credit, to allow long-range planning in order to help avoid a repetition of this recession.

A personal income tax cut can also be feasible in the sense that stimulated consumption will decrease the surpluses which have caused many layoffs. And, if additional personal funds are put into savings, then additional borrowing—badly needed for home construction and corporate borrowing—will be spurred. But, we should be aware that if the supply of money in the hands of consumers is increased and the number of goods remain the same or decrease as inventories are reduced, then prices will go up, not down. Thus, there are counterproductive dangers in enacting solely a personal income tax cut of which Government, the Congress, and especially the people ought to be fully aware.

These are important factors in aiding our economic recovery. One of the best things for the economy right now would be measures that strengthen natural recovery forces that are contained in the profit motive and work incentives. An effective method would be to winnow an effective across-the-board tax cut of the measures incorporated in the budget and at the same time to drastically cut Federal spending so the resulting deficit would not further deplete the Nation's capital.

It must be understood that the secret of recovery does not lie in mere artificial stimulation of consumer demand. There must be a restoration of real, useful production that will generate real capital, which will in turn be employed efficiently by market forces. Unless there is a beginning made toward that end, there will be no recovery and those pessimistic projections in the budget could prove to be optimistic instead.

CANADA HAS CUT ITS CORPORATE TAXES AND UNEMPLOYMENT IS WAY DOWN

Two years ago, Prime Minister Pierre Trudeau succeeded in obtaining a reduction in corporate income tax from 49 percent to 40 percent.

Advocating and pushing through the proposal required strong leadership.

What happened once the proposal was enacted?

Canada became a magnet for outside capital, even as it generated it internally. Successive surveys of capital spending plans showed jumps from 9 percent to 13 percent, then to 20 percent.

Unemployment is at 5.6 percent, notably less than ours.

The tax reduction was coupled with an innovation which allowed the progressive tax brackets, major deductions, and exemptions each year to be adjusted to hold down dollar-level increases in government revenue which would result solely from inflation. This is important, because here in the United States, if inflation amounts to 10 percent in a year and one gets a 10-percent wage increase to offset it, one's real purchasing power is still reduced because the taxpayer will through his wage increase move into a higher tax bracket solely because of inflation.

On January 1, because inflation averaged 6.6 percent in 1973, the Canadian tax brackets were adjusted upward by 6.6 percent, in effect denying the Government a $400 million inflation reward. This indexing device destroys one of the incentives for Government leaders to continue to allow inflation. On January 1, 1975, the brackets will move up to 10.1 percent, saving the taxpayers $750 million. If one believes—and I certainly do—that government's threat to individual liberty can be measured in terms of the growing percentage of the people's livelihood which is taken in the form of taxes, I think one can see the importance of restraining the growth of government in this manner.

I think this proposal ought also to be incorporated in a major tax revision.

Did all of this add up to a staggering deficit—because of reductions in revenues associated with the tax cuts? Not at all. This is one of the most remarkable aspects of the Canadian tax cut. A year ago, the Finance Minister projected a deficit of $450 million in the current year as a result of these tax cuts, but there has been so much real economic growth that revenue increases are adding up to a $250 million surplus. Those figures may be small to us, but remember their entire budget is much smaller than ours, too.

INDEXING INCOME TAXES AND THE TRANSFER PAYMENT PROBLEM

Government actually has a motive in fostering inflation. We must eliminate that motive, that incentive to create and maintain inflation.

As inflation occurs, demands are created within the work force for higher wages. When those higher wages are obtained—even if it is just to keep pace with the rate of inflation—the wage earner will slide from a lower tax bracket to a higher one. Government reaps a benefit in two ways. First, since more money is being earned, there is more base to tax. Second, as a person slides from one bracket into another, he slides into a higher rate of taxation, because of the progressivity in our tax laws—the more money you make, the higher rate at which it is taxed. Of course, if inflation went up 12 percent, and wages went up 20 percent, one would be subject to an additional tax on that amount—8 percent—over the rate of inflation.

I believe that income tax brackets should be indexed.

There is another reason, an important one, why we should make a careful re-

examination of our individual income tax laws and the way in which those laws redistribute income among those who generate taxes and those who consume them. This is known, among the economists, as income transfer. It is an important phenomenon, for the percentage amount being transferred, through Federal policies, including our tax laws, from those who produce to those who consume or depend upon government largess, increases annually.

The Wall Street Journal recently editorialized on this problem. I include the full text of that editorial, for I think it is of profound importance to the deliberations of the Committee on Ways and Means and of this House during this session:

THE TRANSFER PAYMENT EXPLOSION.

It was encouraging to hear Eric Sevareid of CBS comment favorably on President Ford's proposals to at least begin to bring federal spending under control. For more than a decade, most Americans have tended to assume that the U.S. is so rich it could do just about anything. Mr. Sevareid was apparently shocked to learn that if present trends continue, by 1985 half the national income will be controlled by government. What this means, of course, is that half of all national income will be taken in taxes.

That prospect in itself is cause for alarm, but what is even more troubling is the reason for this growth of government. Spending is not increasing by leaps and bounds because of military requirements. It is not growing because government is rebuilding cities, constructing dams or financing scientific research and development. It is mushrooming at a steadily accelerating rate because of government commitments to give cash to people who are not producing after extracting it from people who are producing. We are in the midst of an explosion in transfer payments.

As recently as 1965, government transfer payments to individuals came to a modest $37.1 billion. Last month, federal, state, and local governments were disbursing cash to individuals at an annual rate of $155.9 billion, for which no services are rendered. These include Social Security pensions, government pensions of all kinds, unemployment benefits, black-lung money, food stamps, welfare payments and health insurance benefits. While the payments are of course defended on grounds of compassion, they are having a serious effect on the economy, by steadily breaking down the relationship between reward and effort. The following table is revealing:

	Government transfer payments (in billions)	Wages and salaries	Transfers as percent of wages and salaries
1965	$37.1	$538.9	6.9
1972	103.2	626.8	16.5
1973	117.8	691.7	17.0
1974	139.8	751.1	18.6
Dec. 1974 [1]	155.9	765.4	20.4

[1] Dec. figure is at an annual rate.

What the table doesn't show is the great burst since October, when a rapid triggering of unemployment, welfare and food stamp benefits coincided with a slide in wages and salaries. In two months, wages and salaries dropped by $7.6 billion at an annual rate and transfer payments advanced by $8.3 billion. The December 1974 over December 1973 annual rates showed an increase in wages and salaries of $46.1 billion and an increase in transfer payments of $33.3 billion. With the bottom of the economy not in sight, it seems highly likely that in 1975 transfer payments will grow more than wages and salaries.

It is taken as axiomatic that production is maximized when taxes are zero, i.e., output is greatest when employers and workers can keep everything they produce. The nation benefits from taxes, even though production is not maximized, when it employs receipts in ways the private sector cannot—providing general government, police and fire protection, national security, etc. Helping the poor, the elderly and weak is certainly an important function. From the figures one would assume it is being discharged far better now than five years ago, though the improvement is certainly not reflected in political rhetoric.

The problem is that the tradeoff between lower production and general benefits has a breaking point when private production can no longer carry the burdens placed on it by government. The nation has been flirting with that breaking point for a long time, but seems to have reached it in October. Present and future taxes, which have to be raised to finance government deficits, are now so high that it is more beneficial for more and more producers and workers to not work than to work.

Any serious attempt to solve the nation's economic problems has to focus on this explosion of transfer payments. Mr. Sevareid's concern with government spending has to come to grips with the implications of the following table:

FEDERAL BUDGET

[In billions of dollars]

	1970	1975	Increase
Total	196.6	304.4	107.8
Transfers	66.6	134.2	67.6
Defense	77.5	82.0	4.5
All other	52.5	38.2	35.7

The only reason we have for even cautious optimism about the future is that, at long last, a few brave policymakers, politicians and opinion shapers seem willing to break the bad news to the public. President Ford made a good start in his State of the Union Message. Mr. Sevareid made his contribution. Now, somehow, the news has to get to Capitol Hill.

ESTABLISH A LIMIT ON FEDERAL REVENUE

Federal, State, and local tax collections have risen markedly, as percentages of national income, during the past half century. In 1929, such tax collections constituted only 13 percent of total national income; by 1950, it had risen to 26 percent; and by 1972 it had risen to 34 percent. The increase is even more dramatic when compared to total national personal income: 1930, 15 percent; 1950, 30 percent; and 1972, 43 percent. If present trends continue, by 1985, total Government's share of national personal income will have increased to 54 percent—54 cents out of every $1—more than half the people's earnings. As I said earlier, by the year 2000, it will have increased to nearly 67 percent of all personal income.

Government spending—and the raising of revenue requisite to that spending—has a historical ceiling beyond which it invites either or both the collapse of the economic strength of a nation or the loss of freedom.

Government must realize that it cannot indefinitely tax the people at constantly increasing levels without destroying the people's ability to support themselves and their families.

The Congress has tried for nearly 200 years to control total spending by controlling the overall level of appropriations as each individual appropriations bill came to the floor. These efforts—commendable though they may be and successful though some may have been on occasion—simply have not worked sufficiently.

The reason these efforts have not worked is that the intentions which underlay them are not directed at the one point where more effective control really could be exercised: at the level of revenue, of income.

We have for too long tried to control spending only where the money flows from the Treasury. In other words, we are trying to plug holes in the Treasury's dike or to heighten that dike, when, instead, we should be trying to control the level of water behind it.

It is always easier to control a problem at its source. The source here is the level of revenue raised by the Government from which programs are then funded. To deal with the question of expenditures alone is to work only with the result of our problem, spending, instead of its cause—too much being taken from the taxpayers with which to do that spending.

When an institution knows that it will have a known amount of dollars with which to work, it typically devises means of spending those dollars. It is human nature. Parkinson's law, thus states that spending rises to meet income. That is a truth demonstrated by our national experience as a government. There is a more modern corollary to Parkinson's law which, however, more accurately describes the tendencies of Congress; present spending rises to slightly exceed present income in expectation that future increases in income will cover that spending. When an institution operates from those premises—and the Congress has operated from those premises for years—it means an ever-increasing amount of dollars being taken from the taxpayers.

We cannot, of course, as the legislative branch of the Federal Government—and without an elaborate amendment to the Constitution of the United States—establish revenue and budget outlays ceilings binding on all governments—Federal, State, and local.

We can, however, establish such ceilings with respect to the Federal Government. That is what title I of the Fiscal Integrity Act is all about.

It would establish for each fiscal year a revenue and budget outlays limit for the Government. No appropriation could be made for any fiscal year by the Congress in excess of the revenue and budget outlays limit for that fiscal year.

How would the limit work?

The revenue and budget outlays limit for each fiscal year shall be the amount derived by multiplying the estimated aggregate national income for such fiscal year by a "Federal revenue factor."

Thus, from the first year of the operation of this provision, a ceiling in relation to national income is established on Government revenue and spending. As the economy grows, new dollars would be available for existing or new programs, but a greater percentage of the people's income would not be available.

One should note that a cut in outlays is accompanied by a cut in revenue—and vice versa—so that cutting revenue will not result in creating more of a deficit—as is now a danger—and cutting outlays should result in a cut in taxes.

The bill specifically requires that, if during any fiscal year the revenue of the Government exceeds the established limit for that year, the amount in excess shall be used for the payment of the public debt of the Government. It cannot be carried over to be spent on programs during a subsequent fiscal year.

What if an emergency arises—such as a large-scale war or severe economic crisis—which absolutely requires spending beyond the revenue level?

In that case—that emergency—a resolution passed by no less than two-thirds of each House of Congress may suspend the limitation, but only to the extent necessary to meet that particular emergency and only for that fiscal year within which the resolution was passed. If the suspension is to be continued beyond that fiscal year, the Congress must pass a new resolution allowing it. A vague, general, "times are tough" emergency resolution would not be allowable. The provisions of the bill guard against that happening.

It should also be made clear that the power of the House Committee on Ways and Means and the Senate Committee on Finance with respect to tax reform is not impaired by this bill. Within the overall revenue limitation, those committees can carry out any degree of tax reform—increase certain taxes, reducing others—eliminating old taxes, imposes new ones—deemed necessary. The limitation is that the total revenue collection not exceed that percentage established in relation to aggregate national income for that period.

ENERGY MEASURES

I believe the most effective fuel conservation device is to remove Government interference and to place greater reliance on the price mechanism of the marketplace. This will result in three immediate benefits:

First, incentives to conserve; second, incentives to produce; and last, incentives to develop alternative sources of energy.

I voted earlier this afternoon to defer the imposition of the fee on foreign oil imports, the fee imposed by the President through Executive order last month. That measure to defer the fee passed; it will soon be law.

I voted against the tax or import fee for several reasons. I believe, as the experts have pointed out, that the fee could artificially push up the cost of gasoline by as much as 7 to 10 cents per gallon; heating oil and other petroleum products and derivatives will similarly cost more. I believe those additional costs will reduce consumption only marginally, and it is that decreased consumption which was one of the two aims of the use of the import fee.

Additionally, there is little reason to believe that this action alone will create sufficient pressures on the oil producing nations to reduce their prices. I see, therefore, no reason why the people should be forced to bear this additional, Government-imposed cost.

The policies of the Federal Government created the domestic shortages and the dependency on foreign oil imports in the first place. Now, that same Government wants the people, not itself, to pay higher costs, with Government on the other hand to benefit from receipt of the fees. This is another example, in my opinion, of Government asking the people to "take it on the chin," when it is Government which ought to be required to suffer the hardship instead.

There is no easy answer to our energy problems. In order to reduce our dependence on imported oil and, therefore to more efficiently protect ourselves against another oil embargo, we must begin to develop the capability of being independent of foreign oil for domestic energy. Encouraging maximum domestic energy production must be our prime concern. From experience we know that the pricing mechanism of the free market is the most equitable, economical and productive way to allocate scarce resources.

I support deregulation of natural gas and decontrol of domestic oil, together with positive incentives for capital investment in energy research and development. I am convinced that this is the way to permanent energy recovery.

In the broad overview of options, our alternatives are, at best, limited. Regulation of oil and gas against deregulation; rationing against supply and demand; import tariffs, taxes, fees, or quotas against tax incentives and disincentives for domestic and foreign energy investments, respectively. These are the major points of contention, and the major points to be decided in the formulation of a comprehensive approach to energy.

Increased Federal controls would probably force the Federal Government to impose a quota to limit imported oil, as a readily available means of forcing domestic market investment in both new and old energy sources. Even with this negative incentive, the bulk of costly research and development would still have to come from the Federal Government. Price controls would also be imposed to prevent the reduced oil supply from forcing the price out of reach. Rationing, to allocate available supplies would then almost certainly follow.

With an import fee, import quota, and/or rationing in effect—even if coupled with corporate tax incentives and "plowbacks" for energy related investments—consumer prices would not reflect accurately the limited supply and large demand for oil products, and thus, the investable capital would be substantially reduced, causing little or no R&D by industry. These events would be counterproductive to our long-range goal of developing adequate energy.

In our present economic state, and at a time when there are other urgent domestic priorities to consider in the expenditure of tax dollars, an increase in federal outlays for research and development projects in new energy areas would place a drain on the economy it could not support.

There is no question that deregulation of natural gas at the wellhead and decontrol of domestic oil will result in higher prices at first. However, it is important to note that the increased cost at the wellhead represents only 20 percent of the total cost of gas at the burner tip. The estimated increase that I see as most realistic is about 10 percent at its peak. With decontrols—combined with measures to eliminate foreign investment tax credits and with windfall profit taxes on any additional profits not reinvested in energy development—individuals and businesses would be deciding which uses of energy should be reduced or forgone, rather than the Federal Government. Continued regulation, on the other hand, would effectively drive the price up as it caused greater dependence on imported liquified natural and on synthetic natural gas.

The experiences we have had in the past several years with Federal regulations and controls on the pricing system in the free market—the failures associated with the Federal bureaucracies inefficient and anticompetitive interference with supply and demand—leads me to the conclusion that decontrols are the key to effective domestic energy recovery.

Because I strongly support deregulation as the most positive means to establish energy priorities, I believe better alternatives exist to the import and proposed excise tax on domestic crude. First, deregulation will permit the price of oil to rise. Combined with a fee, tax, or quota on imports, that price would be greatly accelerated and would place too heavy an immediate burden on the economy. Certainly, western New York would be severely hurt by action of this nature. Our supply of Canadian oil would be reduced immediately, as would our access to Arab oil and domestic oil. Considering the particularly hard effects energy shortages have already had on the economy of our area—United States Steel, for example, just laid off 1,500 people in its Buffalo plant—I seriously doubt that we could survive a sharp curtailment of our direct oil supply.

My alternative proposal is a combined tax incentive, directed at energy-related investments, and a tax disincentive, directed at foreign investments and non-energy-related investments.

At the present time, American companies investing abroad in energy related areas are given a tax credit for taxes paid to foreign governments. At the same time, royalties paid by those companies to foreign governments or quasi-government entities are treated by the U.S. Government as taxes, and are, therefore, also credited. My proposal would treat

royalties as royalties, not as taxes, thereby eliminating that credit, and reduce the credit for foreign taxes over a period of years—perhaps 5—to a defined minimum level.

I am not really convinced that a so-called "windfall profit" tax is necessary. Logic and good business sense both point toward the use of additional profits for reinvesting in increasing production from which to meet rising demand; after all, only through that increased production can a company maintain its place within the industry. If, however, a windfall profits tax is imposed, I would fully support a "plow-back" provision—like that which was in the bill reported by the Committee on Ways and Means last session, allowing companies to use additional income for energy-related research, development, deployment, exploration, recovery, and production without the assessment of the windfall profit tax on that amount so reinvested.

The treatment of foreign taxes and domestic taxes should be closely coordinated to assure maximum incentives for domestic production.

In short, while this type of program would bring American dollars back to the United States through reduced foreign investment incentives, it would positively reinforce the incentive to invest domestically in energy resources and potential energy sources. I am convinced that this would be a highly effective program. It would not cause a massive drain on the economy, nor would it immediately reduce the supply of oil imports. It would not drastically reduce our gross national product, and it would not cause gas lines at service stations.

In line with efforts to conserve energy and promote mass transportation, I am considering a provision for a "horsepower" tax on all new automobiles sold in the United States. The tax would be a graduated one, ranging from no tax on low horsepower cars, up to approximately $500 on high horsepower cars.

The Washington Post of January 26, 1975, editorialized on what they see will happen, in a real world context, if rationing is instituted in this country. That editorial follows:

[From the Washington Post, Jan. 26, 1975]

HOW TO RATION GASOLINE

Let us suppose, for a moment, that you are the person to whom President Ford assigns the job of designing a system to ration gasoline. The President thinks that rationing is a terrible idea and wants to cut consumption by raising prices and taxes instead. But a great many well-intentioned senators and congressmen think that rationing is much fairer. We are now going to suppose that they win the coming fight, a rationing law is enacted, and you are appointed to set up the operation. The basic program is clear. There remain only a few minor issues of policy that a sensible person like yourself should have no difficulty resolving quickly and—to repeat the key word—fairly.

The first question is to whom to give ration books, and your first inclination is to give them to every licensed driver. That brings you to the family in which both parents and all three teen-aged children have licenses. If they have five ration books, the kids can continue to drive to school. You think that they ought to take the school bus, and you revoke the kids' coupons. But then you learn that they all have part-time jobs— one of them plays the xylophone in a rock band—and they will be unemployed if they can't drive. You get a call from the White House telling you not to contribute to unemployment, which is rising. You give in, and return the kids' ration books. That gives the family five times as much gas as the widow across the street whose three children are all under 16.

Continuing the crusade for fairness, you take up the case of Family A, whose harassed father has to commute 30 miles to work every day, and Family B next door, whose father runs a mail order business out of his basement. Family B goes to the beach every weekend—very inexpensively because, as the congressmen made clear, the point of rationing is to avoid raising prices. Score another point for fairness and turn to the case of two suburban communities, a mile apart, one of which has bus service to and from central city and the other of which does not. Reasonably enough, you give less gas to people in the community with buses—until you discover that none of them works in the central city. They all seem to work in other suburbs, most of which have no public transportation. Your response, obviously, is to make everyone in the United States fill out a form showing where he works. Then you hire a computer firm to identify those who can get to their jobs by public transit in less than 90 minutes with no more than three transfers; they will get fewer coupons. There are certain difficulties in enforcing these rules, as you concede to several congressional committees, but you expect to be able to handle them with the expanded appropriations that you have requested to hire more federal gas investigators.

Now that you are beginning to get the hang of the thing, you will want to proceed to the case of the salesman who flies to an airport and rents a car. If you issue gas to the rent-a-car companies, the salesman might be tempted to use one of their cars to take his family on a vacation. But the salesman's personal coupons won't cover company trips. Now you have to decide how much gasoline to give to companies, and which business trips are essential. You might turn that over to the staff that you set up to decide which delivery services are essential and how to prevent delivery trucks from being used for personal business.

By the way, you have to consider the rural poor—for example, the laborer who lives far out in the country. Some weeks he's employed far from home and commutes hundreds of miles. Some weeks he finds work nearby. Some weeks he's unemployed, particularly when the weather's bad. You post a prize for the formula to cover that one.

You are beginning to discover the great truth that simple rules are never fair, and the fairer the system gets the more complicated it has to become.

Even in World War II, when there were only one-third as many cars and the national dependence on them was far less pronounced, it was necessary to set up boards of citizens in every community to rule on a flood of special requests, hardships, grievances and challenges. It is a method that requires, unfortunately, a massive invasion of personal privacy. Americans accepted it then as a temporary wartime expedient. But the present emergency is not temporary.

A year ago, when the Nixon administration was considering rationing, the planners suggested simply giving everyone the same number of coupons and letting people buy and sell them legally on a "white market," as they called it. But in a white market the laborer with the long trip to work would have to bid against the family that wants to drive its station wagon to Yosemite for its vacation. Under President Ford's price scheme, at least the country would know roughly what the increased price of fuel would be. In a white market, no one could say how high the bidding might go, or how widely it might fluctuate from one season to another.

Congress, and specifically the Democratic leadership, is behaving rather badly. Its committees have been exploring the economics and technology of energy with considerable skill for more than two years, and they understand the choices as well as the administration does. The Democratic leadership's cries for further delay now are hardly more than a plea merely to postpone unpleasant but urgent decisions. A year ago, when President Nixon asked for rationing authority, Congress said that rationing was unpopular; the law never passed. Now that President Ford proposes the other alternative, higher prices, congressmen cite polls to show that people would prefer rationing.

In the present state of general indecision, the most widely popular decision is probably the one represented by Gov. Meldrim Thomson of New Hampshire. Gov. Thomson opposes both rationing and higher prices. He would prefer, evidently, simply returning to the halcyon days of 1972 before the energy squeeze took hold of us. It is a pleasant idea. But it is not, unfortunately, one of the real choices—not even for New Hampshire.

Mr. Speaker, I would now like to yield to my distinguished friend and colleague from Colorado (Mr. ARMSTRONG), who has been one of the leaders in this effort today and is certainly one of the articulate spokesmen for the freedom philosophy.

Mr. ARMSTRONG. Mr. Speaker, I thank the gentleman for yielding.

Mr. Speaker, I commend the gentleman from New York (Mr. KEMP) for his leadership in addressing the Nation's economic problems. Few Members of Congress, if any, equal his foresight and courage in grappling with these hard issues.

I share the concern which my colleague from New York, and others, have expressed.

In the near future, I intend to submit detailed fiscal and monetary recommendations aimed at curbing unemployment, stabilizing general price levels, fostering long-term productivity, curtailing ill-advised Government intervention in our economic system, and correcting structural imbalance among our economic institutions. In the meantime, I would like to offer a few general observations:

I am very much concerned by the lack of recognition of what causes our country's economic problems—both inflation and recession. From the tone of national debate on economic issues, one might assume that we are facing uncontrollable forces of nature or the consequences of an act of God. The way politicians tell it, one would never suspect the crisis is caused by unwise Government policies. Yet this is clearly the case, as most economists will now ruefully concede and a growing segment of public opinion also recognizes.

Nor were these consequences, inflation and recession, unforeseen.

On the contrary, a vocal minority, including some Members on the floor of the House today, have been warning of precisely this situation for some time. Their cries of alarm over mounting Federal deficits and other irresponsible Federal policies have been dismissed by those who have found it more politically expedient to spend money we do not have, year after year.

I draw this fact to the attention of my colleagues because there are still so many political leaders who are trying to pretend problems can be solved by superficial means or without sacrifice. In many instances, Members of Congress are even advocating increased doses of the very posion which has sickened our system—more Government spending, more intervention in the free economy, and the imposition of various forms of repressive controls on labor and business. If we follow this advice, our Nation's economic system will be destroyed.

I am also greatly concerned by the implicit assumption which underlies so much of the dialog about our economy: The idea that the Government can control the economic outcome by certain actions which have predictable results. In the last three or four decades, there has been widespread acceptance of the myth that economists know enough about how our economy works to predict accurately the consequences of various forms of Government intervention.

It baffles me that we are expected to have confidence in economic and political leadership which has such a sorry record. The "experts" who would have us believe there's an easy answer to economic problems—for example, that we can cure unemployment by simply increasing fiscal stimulus; that is, by increasing the Federal deficit—are the same people whose economic forecasts have been wildly inaccurate in the past and whose recommendations got us into this mess in the first place.

The private sector of the economy is no passive lump waiting to be stroked, massaged, kneaded, or kicked to produce certain desired economic results. On the contrary, despite the intrusion of Government on a vast scale, the private sector still accounts for about two-thirds of the Nation's economic activity and almost all of the real vigor, drive, and creativity.

As a consequence, Government intervention often has unforeseen and undesirable results. In large measure, the ultimate consequences of Government action seem to depend less on technical economic factors and more on public attitudes.

Here, then, is the nub of the problem: There is a crisis of confidence. The American public is becoming increasingly disillusioned with the irresponsibility of Government—the promise-anything-to-get-elected philosophy—the spend-now-and-let-our-children-pay-for-it concepts which have dominated the Nation's political thinking for several decades. Although the average American knows little about economic theory, only the most myopic could fail to see the disaster ahead if present policies are not reversed.

But when the Government begins to put its house in order—reducing deficits and, ultimately, balancing the budget, foregoing some of the vote-buying schemes Congress is addicted to and putting the Federal Government on a sound footing—the public will begin to reflect a new sense of confidence which will quickly show up in healthy economic indicators: Increasing sales, declining unemployment, increased capital formation and savings, higher profits and so on.

Perhaps nowhere is the ominous trend more obvious than in the rising proportion of our national income being diverted from the productive sector—from people who are actually working and producing—to the nonproductive sector. Approximately 18 percent of the Nation's total wages and salaries were paid out in various forms of transfer payments last year. This proportion is rising very, very rapidly.

It can certainly be argued that some minimum standard of living should be assured to all citizens, including those who are unable to care for themselves. So welfare payments, social security and the like can be justified on grounds of social justice or humanitarian considerations.

But we have plainly moved beyond the concept of providing a decent minimum to people who are unable to care for themselves. We are generously supporting many people who could and should care for themselves but who don't wish to do so. In my view, this is completely wrong as a matter of moral principle. To force working people to support loafers is a form of involuntary servitude. It just does not square with American ideals.

But it is not my purpose to argue moral considerations today.

I do want to talk about the economic consequences of such huge transfer payments. Predictably, as the compensation for not working has risen to levels approaching—and in some instances exceeding—the compensation for working, work incentives have been seriously reduced. This is one of the primary reasons for declining productivity in the Nation as well as one of the principle components of skyrocketing governmental costs. The subsidy-welfare-transfer payment portion of Government spending must be controlled and this trend reversed.

I would also like to note that unwise tax and regulatory policy have seriously eroded the Nation's productivity. Productivity gains have been declining for years because we have an inadequate rate of investment in plant and equipment from which productivity gains flow. Our Nation now has the lowest rate of capital formation in the industrial world. Unless our tax system is restructured to remove the disincentives on investment and entrepreneurship it is hard to see how productivity gains can be expected.

In conclusion, Mr. Speaker, I want to discuss briefly a noneconomic aspect of the mess we are in. Economic issues are important. But our ultimate concern must be for human values. In this respect, trends of the economy and Government finance are positively alarming.

Government spending now accounts for approximately one-third of the Nation's total output. If present trends of increasing Government activity are projected into the future, it will not be long before over one-half of the Nation's economic activity will be Government. Today, I was distressed to learn of an estimate that by the year 2000 as much as 58 percent of the U.S. gross national product will be accounted for by Government, if recent trends are simply projected on a straight-line basis.

Economic stagnation is a certainty if we permit this to happen.

But the greater threat is to our political liberty. As each of us becomes more and more dependent on the Government, it becomes increasingly difficult for us to express meaningful political dissent. Economic freedom is inextricably linked to our other cherished liberties. All of us who value our freedom—political, intellectual, and economic—must view with alarm the ever-increasing incursion of Government into every aspect of our national life.

Mr. KEMP. Mr. Speaker, I thank the gentleman for his generous comments and his very vital observation that there can be no political freedom without economic freedom, they are indivisible.

There has never been in recorded history a nation which has been politically free which did not practice some form of private enterprise, and I appreciate very much the time the gentleman has taken.

I would now like to yield to my friend and colleague, and another organizer of this special order, who has worked long and hard on these issues, and who has been just as effective a spokesman for these principles, the gentleman from California (Mr. ROUSSELOT).

Mr. ROUSSELOT. Mr. Speaker, I thank my colleague from New York for yielding.

Mr. Speaker, the proposals which we are presenting today to restore stability to our economy and relief from inflation and recession are the only workable and lasting solutions.

Our proposals include:

A balanced budget—reducing Federal expenditures to balance with anticipated revenues.

Tax cuts that will be made possible by the reduction in Federal spending.

Repeal of regulatory laws which allow Federal intervention in the private sector discouraging competition, raising prices, and otherwise promoting inflation.

These solutions would allow the free market to function to deliver goods and products at competitive prices to all consumers—returning the basic decision-making power to the people. While some of the Members in this House are advocating stronger Federal regulation, our proposal is to get the Federal Government out of the business of controlling consumer supply and demand. We completely reject the regulatory climate of wage and price controls, controlling interest rates, and allocating credit which rob each American of freedom of choice and prevent the return to a healthy economy.

Our Nation is currently experiencing double digit inflation and recession which is primarily the result of the Federal Government's interference and regulation of the economy, and to believe that further control is the answer is pure folly.

Our current economic problems are rooted in the actions of the Federal Government, and it is illogical to allow further intervention in the private sector to correct a situation which has primarily been caused by governmental regulation. If Members of this body are truly interested in reversing the inflationary trend that has now led to recession, they should be more concerned with fiscal discipline of the spending of tax dollars rather than imposing controls on the private sector. The ideas of regulating wages and prices, interest rates, and consumer credit are completely unworkable and inequitable.

WAGE AND PRICE CONTROLS

During my service in Congress, I have discussed the results and consequences of controls in great detail in statements on the floor of this House, and in views included in House Banking Committee reports on this issue. Congress finally got the message when it rejected any extension of the control authority beyond April 30, 1974.

Economic controls cause distortions and shortages. During our recent experience with controls—1971–74—shortages emerged in all industries, and in early 1974, Congress received extensive information from private industry representatives on the extent and consequences of the commodity shortages. Following are some examples of the seriousness of this situation brought about by this interference in the economy:

First. In a statement to the Senate Banking Committee on January 30, 1974, O. Pendleton Thomas, chairman of the board and chief executive officer of the B. F. Goodrich Co. stated:

In those sectors where prices are controlled, serious shortages and black markets are occurring. Each day we are faced with a lengthening list of actual or potential shortages of critical raw materials including tallow, rubber solvents, zinc oxide, titanium dioxide, carbon black, process oils, epoxy resins, antioxidants, polyester and nylon fibers, and synthetic rubber. In some cases, the severity of these shortages has been compounded by suppliers being forced out of business. In recent weeks, for example, one supplier of bead wire, which is used in tire construction, was forced to close its West Coast plant because of the inability to gain approval to raise prices sufficiently to assure an adequate return on investment. Another diversified supplier recently eliminated bead wire from its product lines.

Controls on domestic prices have also stimulated exports of certain raw materials, many of which are already in short supply in this country, especially chemical feedstocks. During the first ten months of 1973, the combined exports of toluene and butadiene used in synthetic rubber production were 270 percent higher than during the same period of 1972.

When conventional economic forces are permitted to function, imports into this country are a significant factor in the supply of critical materials. During recent world shortages our price controls have prevented the inflow of materials—instead, as I have just indicated, exports of some materials have been accelerated, seeking the higher world market prices, thus compounding our problem.

Second. In a March 8, 1974, statement to the House Banking Committee, John C. Datt, director of congressional relations for the American Farm Bureau Federation, discussed the effects of controls on food production:

Due to controls, prices of fertilizers in this country became so out of line with world prices that a sizeable portion of our domestic production moved into foreign markets to the detriment of U.S. food production. This was recognized belatedly by the Cost of Living Council in November, and fertilizer controls were removed; however, there is reason to believe decontrol may have come too late to maximize U.S. farm production in 1974.

Price controls have played a role in the energy crisis. Uncertainty created by economic controls is one of several factors that have brought new refinery construction to a halt. Indications are that this same uncertainty has contributed to a decline in oil and gas exploration in this country.

Agriculture is now facing a shortage of baling wire. Much of our baling wire is imported. Domestic prices frozen at levels unrelated to world prices have contributed to an extreme shortage of wire in this country since American farmers and ranchers are prohibited from bidding for supplies in the world market.

The unwise, though relatively brief, attempt to control beef prices in 1973 brought chaos in the industry—and shortages at the meat counter. It was costly to farmers and to consumers. In fact, the reductions in beef supplies which have resulted in price distortions in recent months are more a result of the abortive controls imposed last year than any other single factor. Furthermore, these controls contributed nothing to the stabilization of the economy.

Third. The Associated Builders and Contractors, Inc., discussed construction industry shortages in its statement to the House Banking Committee in March 1974:

The basic question is one of supply and demand. Experience has shown that controls create shortages and whenever there are shortages there is upward pressure on prices. Why do controls produce shortages? The plain fact is that if a price ceiling makes it unprofitable to produce an article those in the business of producing it find it sensible either to cut its production or to stop producing it entirely.

. . . On the list of recent critical shortages, according to the experience of a firm facing the shortage problem, are lumber, steel and steel products, paper products, hardware, copper wire and copper cabling, trucks, aluminum bar and tube, electrical components, and paint. These are just some of the items which are basic to construction found to be in critically short supply by firms which use them.

Wage and price controls are actually harmful to the economy. The stimulation of competition in the free market is the only route to a healthy economy. In a competitive market, prices respond quickly to changes in supply and demand, and prices are the barometer of the economy. The price mechanism is the best possible allocator of our resources as well as our goods and products. Tampering with this delicate balance only leads to disruptions, distortions, and shortages—conditions which prevent economic growth.

INTEREST RATE CONTROL

It has been suggested that the Federal Government should regulate interest rates. However, this type of action would do nothing to correct the causes of rising interest rates.

Deficit spending puts pressure on the Federal Reserve to finance the deficits by increasing the supply of money in the economy. This is a particularly relevant point when considering that the President's budget submitted to Congress this week calls for an almost $55 billion deficit in Federal funds during fiscal year 1976. This excessive increase in the money supply creates a chain reaction—it increases prices which in turn push interest rates upward over the long run as lenders raise rates to compensate for the inflationary impact generated by the growth in the money supply. Excessive growth in the money supply at rates estimated to range between 10 and 12 percent occurred in the first years of the 1970's. However, a restrictive growth in the money supply—like what we are now experiencing at a rate estimated at 3.2 percent—forces the private sector to absorb the Government's deficit, and also pushes up interest rates.

Clearly interest rates can be brought down by congressional fiscal reform bringing Federal spending into balance with anticipated revenues, and it is on this point which Congress should concentrate its efforts. This would allow the increase in the money supply to be tied to real growth such as growth in national productivity.

CREDIT ALLOCATION

This week a subcommittee of the House Banking and Currency Committee is holding hearings on credit allocation proposals. Credit allocation is an attempt to set priority areas for consumer lending and redirect the allocation of bank credit to national priority areas. Such an action does not, however, guarantee that funds will be available for lending in any specific areas.

This interference in the money market and with the free market mechanism of distributing capital further ignores the causes of rising interest rates and tight money. It would again involve the setting up of a Federal bureaucracy to administer what can be best handled by the free market. It ignores economic interrelationships and attempts to isolate certain segments of the economy. One result of credit allocation could be shortages in industries that are not priority areas—industries which contribute not only goods and services, but also jobs and incomes to working people in that industry. In addition, there is some speculation that such a program could also cause upward pressure on interest rates.

This is the time for Congress to examine all areas of governmental intervention in the private sector which discourage competition, raise prices, or otherwise promote inflation in the economy. There can be no question but that the Government has contributed to the upward pressures on costs and prices from tariffs, import quotas, price supports, and other laws which protect segments of the economy from market forces. At the President's Conference on Inflation in September 1974 the following list was suggested as target areas for regulatory reform—this list was generally adopted by the economists who participated in the Economists Conference on Inflation preceding the main conference:

RECOMMENDATIONS TO IMPROVE ECONOMIC EFFICIENCY AND PRICE AND COST STRUCTURE OF THE ECONOMY

(Originally presented at the Sept. 23, 1974, Meeting of Economists, New York City)

PART I

(1) Repeal the interest rate ceiling on long-term government bonds.

(2) Repeal of the private express statutes that provide the post office with a monopoly of first class mail.

(3) Outlaw state prorationing of oil and gas.

(4) Repeal the Connolly Hot Oil Act.

(5) Terminate the embargo on uranium imports.

(6) Amend marketing order legislation to prohibit restrictions on the interstate movement of specified types of agricultural products, supply controls for products, state fluid milk price and output control, and production quotas on individual producers.

(7) Repeal the meat import act.

(8) Repeal import quotas on dairy and other farm products.

(9) Remove all route and commodity restrictions imposed on ICC licensed motor carriers.

(10) Approve automatically railroad and truck rates within a zone of reasonableness.

(11) Repeal the antitrust exemption of railroads and trucking rate bureaus.

(12) Reduce or eliminate entry barriers into trucking.

(13) Abolish rate and entry controls for inland water carriers and freight forwarders.

(14) Approve automatically all air fares, including discount fares, within a zone of reasonableness.

(15) Authorize existing CAB licensed carriers to extend their operations into any markets while at the same time permitting them to withdraw from unprofitable or undesired markets.

(16) Authorize charter carriers to wholesale seats to travel agents.

(17) Make capacity-limiting agreements among the airlines subject to the antitrust laws.

(18) Eliminate regulation Q and other regulations which prevent savings institutions from paying competitive rates for deposits.

(19) Terminate the "voluntary" quota agreements for steel and textiles.

(20) Make merchant and passenger ship firms subject to the antitrust laws for any conference agreements.

(21) End "voluntary" quotas on other foreign exports to U.S.

(22) Prohibit resale price maintenance.

PART II

(a) Repeal legislation now preventing the sale of surpluses from the stockpile.

(b) Prohibit unreasonable restrictions on union membership, such as prior apprenticeship and excessive entrance fees.

(c) Abolish union operated hiring halls.

(d) Repeal the Davis-Bacon Act and similar laws concerning wages paid under government contracts.

(e) Repeal legislated further increases in the minimum wage.

(f) Deregulate the wellhead price of natural gas.

(g) Terminate crude petroleum allocation and oil price controls.

(h) Repeal the Jones Act governing coastal shipping.

(i) Abolish subsidies for ship construction and operation.

(j) Make such auto safety devices as the seat belt interlock system, heavy duty bumpers, and air bags voluntary rather than mandatory.

Congress must act now to get the Federal Government out of the business of regulating the private sector, and must act to bring Federal spending into balance with anticipated revenues. It is these actions and these actions alone which will start our country on the road to lasting economic stability.

Mr. KEMP. Mr. Speaker, I appreciate the gentleman's remarks. His statement concerning the credit allocation scheme of some of our friends on the other side of the aisle reminds me of a letter which appeared in my morning newspaper. It said: "The only way to keep this Nation from going totalitarian is to impose gasoline rationing and wage and price controls in the country immediately." Is that not an incredible contradiction in terms?

It is interesting that the liberal community, which is so antitotalitarian in its rhetoric, is coming up with solutions which indeed lead to totalitarianism, and led to the tragic situation in Great Britain, where we find almost 70 percent of its total industry is now nationalized. Professor Von Hayek's book, "The Road to Serfdom," chronicles how it could be possible here.

Mr. Speaker, I thank the gentleman for his contribution.

Mr. DEVINE. Mr. Speaker, will the gentleman yield

Mr. KEMP. I yield to my friend, the gentleman from Ohio (Mr. DEVINE), a Member who has consistently stood on this floor as a leader to help return some fiscal and monetary responsibility to this Nation.

Mr. DEVINE. Mr. Speaker, I want to commend the gentleman from New York (Mr. KEMP) for his leadership in presenting these issues having to do with the economy of this country. The gentleman deplores the fact that we find ourselves in such a bind, and I congratulate the gentleman from New York for having the courage to meet this issue head on without political overtones, because he is not necessarily in tune with the messages we are receiving from downtown.

I think all of us were appalled when the budget message was sent up here and we found in it a proposed budget deficit of something in the neighborhood of $52 billion. I know that the gentleman from New York was shocked, as I was. Yet it was anticipated because of the excesses of those of us in the Congress who engage in deficit spending and authorizing the excess expenditure of public funds.

The public should keep in mind that only the Congress, not the President and the administration, can authorize and appropriate public funds. We have built into the budget so many uncontrollables that the President and the administration can do nothing about that. They must operate in this fashion in order to try to keep the Nation functioning.

Mr. Speaker, when I looked at that $52 billion deficit, I looked also at the President's state of the Union message wherein he said he hoped to have a moratorium on any new spending, and that he hoped the Congress of the United States would act responsibly and not come up with any more spending programs and engage in busting the budget.

I made it quite clear to the President that I felt a moratorium, based on this program would indeed be like living in a dream world and would be like basing a foundation on quicksand, because I think it is an illusion to anticipate that this Congress will act responsibly and that it will operate within the budget and not come up with new, vast spending programs.

So what are we talking about? Not just an anticipated deficit of $52 billion. I would say, more realistically, if we look at the temper of the Congress and if we look at the makeup of the Congress and the liberal persuasion of many of our Members, that we are looking closer toward a deficit of $75 billion to $100 billion in fiscal year 1976.

This caused me to go to the chief of the President's Economic Advisers and suggest this to him: That if we are indeed to have a $50 billion or $60 billion or $70 billion or $80 billion deficit, would that not require us to go into the private sector to borrow the money to pay for these programs that the big spenders want, and would that not mean paying very high rates of interest?

Would this not, in fact, be just like pouring gasoline on the flames of inflation, to set it off higher and higher, and I refer to those people on fixed incomes and the others who cannot afford this.

I would say to the gentleman that I appreciate his taking the initiative to point these things out, because the American people are entitled to know, and these, I think, are clearer, solid facts and should be presented to the public.

Mr. Speaker, the uncanny timing of the administration's recommended deficit with this special order on the economy has afforded me the opportunity of emphasizing the urgent need for my colleagues to now assume the initiative to return this Nation's budget to reasonable proportions. For it appears that only through definitive congressional action will this end be accomplished.

The President proposes a $51.9 billion annual budget deficit, and unfortunately the Congress seems ready to accept that amount. Indeed, some even insist that we will add to that budget deficit through further increases in Federal spending. Our country cannot recover from the pains of inflation-recession by implementing fiscal policies which have rapidly given rise to our 12 percent inflation rate and an anticipated unemployment figure in excess of 8 percent. These statistics will never improve when the executive and legislative branches have resigned themselves to the practice of spending more money than the Government receives. This is the base formula for not only inflation, but also a deterioration of the currency. As the leading liberal economist of this century, Lord Keynes, warned us in "The Economic Consequences of the Peace":

> There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which one man in a million is able to diagnose.

Instead, we are asked to use a tax rebate and long-term reduction as the chief antirecession weapon while the people are still compelled to pay for a Government which borrows and spends without restriction. A tax cut is an entirely laudable and desirable objective, but it can only be justified when, and only when, accompanied by a serious reduction in Government expenditures. Whether we give the people a $12 billion or a $15 billion, or a $30 billion "antirecession tax rebate," the effect will be quickly and completely negated so long as inflationary borrowing remains unchecked. Government borrowing to finance this enormous deficit results in inadequate amounts of capital available to free enterprise expansion. Thus, as private industry finds it difficult or impossible to expand, employment is restricted and reduced.

Those primarily responsible for this condition are those Americans who insist on receiving additional services from the Federal Government while resisting legislation to pay for them. They are joined by those in Washington who are willing to hand these programs out, and at the same time, shirk the responsibility of appropriating specific tax revenues for that purpose. They prefer that the Government pay for these handouts with borrowed funds. We are, in effect, requiring our children and grandchildren to pay for our irresponsibility.

Mr. Speaker, let us not distort or cover up the reality facing our present economic policies. We cannot ever expect to spend the country out of a recession. The proposed $51.9 billion deficit and the alarming fiscal intentions of this 94th Congress will only provide the ingredients for economic quicksand for this Nation.

Mr. KEMP. I appreciate the gentleman's comments and his friendship.

Before the gentleman sits down, I want to tell him that I was informed by the Secretary of the Treasury that last year that Government borrowing preempted over 60 percent of the total private credit available in this country, and with a deficit of upward of $100 billion, we are talking about going out and financing in the private credit markets, upward of 80 percent. Imagine what that will do to economic recovery in housing and construction.

Mr. DEVINE. If the gentleman will yield further, he precisely puts his finger on the point, because when we have to go into the private sector and borrow the money, we dry it up and the homebuilding industry, the construction people, do not have the money to build and create jobs and sell the appliances and everything that is necessary. Also, the Treasury has to sell bonds and Treasury notes at 9 or 10 percent, again affecting the people in the private sector, and it is really counterproductive as well.

Again I compliment the gentleman for bringing this to the attention of the House.

Mr. KEMP. Mr. Speaker, I yield to my new friend, the gentleman from Louisiana (Mr. MOORE), a new Member of this body. It is a great honor to have him make a statement.

Mr. MOORE. Mr. Speaker, I appreciate the fact that the gentleman from New York has so graciously extended me some of his time.

I would also like to commend him for having made the effort, through this special order, to bring this important message to the people of this country at the beginning of this most important Congress.

Mr. Speaker, these are my first remarks to this august body, and I feel that it is a very important matter that causes me to rise on this occasion. That matter is the fact that our present economic woes have demanded that each one of us explore and examine every possible alternative for stimulating overall productivity. Increased productivity has always been the answer, and it has always provided the remedy for recessionary ailments. Since the prodigal policies of the Federal Government over the past several years remain the root cause of the stagnation in private industry, this Congress must assume the responsibility of leading the country in the right direction.

In a period of recession and inflation, we need to solve both—we cannot ignore either.

The answer to this dual problem is to increase productivity through our hallowed free enterprise system. Greater consumption alone is not the answer, and will not work. We first must have the goods and services to consume. We need greater production.

Greater production will make more goods available, and thus lower inflation. It will provide expansion of our economy, which will take care of our rising unemployment. Greater production and expansion will bring us out of this recession.

On the other side there are many who are answering that the way to change our economy is through increasing our Government programs. I humbly submit that this is not the answer to our problems. Increasing Government programs and expenditures only stifles productivity as it dries up private capital needed for expansion. It creates the need for new taxes and has brought us to the point in our history where over 40 percent of all private income goes to Government at all levels in the form of taxes.

Greater Government programs create increased deficit spending.

I voted today against increasing the national debt ceiling in protest to increased deficit spending in this country.

On the first day of this Congress I cosponsored a constitutional amendment, House Joint Resolution 129, to stop deficit spending. I think this was symbolic that on our first day in session this important proposal was introduced to get at the root cause of our problem. Our free enterprise system has for over 200 years given us the highest standard of living in history. Some mistrust it, and look to the Government for solutions. I do not. I look to our people, and their ability to work hard and to produce. I think the answer is to increase production, and we can do so by the five following points:

First, give our productive sector incentive to expand by immediately passing a 10-percent investment tax credit, and make it permanent—not just for 1 year.

Second, give an income tax rebate to small businesses and corporations by reducing corporate taxes from 48 to 42 percent, and do so immediately. This will help small businesses who might not otherwise use the investment tax credit. They need such a tax incentive, as many of them went bankrupt last year, and part of their problem is the crushing tax burden that they now face.

Third, we must encourage labor and management to cooperate in finding ways to increase productivity corresponding with increases in wages, and costs of goods and services.

Fourth, we must end unnecessary Government regulation of private enterprise which is strangling our productivity, and again hurting our small businesses.

Fifth, and finally, we must make more capital available by:

Reducing Government borrowing.

Increasing the capital supply by encouraging the lowering of the Federal Reserve interest rates.

And by encouraging people to save.

To establish savings, today I introduced a bill to exempt the first $1,000 on savings accounts from Federal income taxes. This will reduce inflation by encouraging savings. It will give an average saver a tax incentive that large savers and investors now have in tax-free municipal bonds.

And thirdly—and most importantly—this will reduce recession and unemployment by making funds available for loans for home construction and business expansion.

I conclude, Mr. Speaker, by urging the return to free enterprise by needed incentives, such as I have outlined, which will restore the time-honored principles of supply and demand, increase our standard of living, and restore our confidence in our Government and ourselves.

Mr. KEMP. Let me say to our new colleague, the gentleman from Louisiana, he has made an eloquent defense of the free market and limited Government philosophy, and his proposal for accelerating the capital formation necessary to boost productivity is well thought out, and a responsible answer to the recession facing this Nation.

I should like to say to the gentleman and others who are in the Chamber that the gentleman from Louisiana obviously understands the fact that the only real and lasting way to increase the standard of living of the maximum number of people in this country is to increase the amount of capital invested per capita: the more capital invested per individual leads to better tools and plants and to a higher rate of production; the better the rate of production, obviously, the higher the ultimate standard of living.

Mr. Speaker, I now yield to my friend, the gentleman from Idaho (Mr. SYMMS).

Mr. SYMMS. I thank the gentleman very much for yielding. I appreciate his leadership as a fellow economic libertarian. I appreciate the leadership of the gentleman from New York (Mr.

KEMP) in trying to bring some of these very important points to the floor, and I am very pleased to be speaking after the very articulate presentation by the gentleman from Louisiana (Mr. MOORE).

I think that what Mr. MOORE is really reemphasizing is what Governor Bradford discovered in 1623 when the American Revolution really started, and that was that it is easy for someone to divide up the grains in the bin, but it is very difficult to have there be some grain in the bin, and that is when he threw out the socioeconomic type of system they were living under in the colony and started us on the free enterprise system, and that is where the great ideal burst forth.

Mr. Speaker, today I should like to emphasize a special part of our economic dilemma besides the fiscal and the monetary matters the gentleman from New York and others have so articulately placed before this House, and emphasize some of the problems we face in the economic tie-ups. It seems as though there are three large factors in the country: the regulators, the environmental extremist hysterical groups that would stop all natural use of our natural resources, and, of course, the regulators.

Mr. Speaker, I am pleased to associate myself with my colleagues who are participating in this special order sponsored by Mr. KEMP. I do not think that I need to emphasize that the American people are facing an economic crisis—namely inflation with a slowdown in production.

However, I would like to address myself to something that has been a particular problem to our economy recently—environmental extremism and the Environmental Protection Agency. Since its creation in 1969 the EPA has been a single purpose agency by definition. It serves a very special clientele and looks to it for support. Its "missionary" role has attracted personnel who have internalized the values of the environmentalist community it serves. It is not equipped to make trade-off decisions between environmental and other objectives. As a result of this, some EPA decisions have been based on data that is neither scientifically accurate nor conclusive. Oftentimes the so-called facts have been twisted to fit a previously desired conclusion of environmental extremists. This type of bureaucratic regulation has taken its economic toll on all of us.

Under the Environmental Protection Act of 1969, it is required that Federal agencies with licensing powers over public works file "environmental impact" statements concerning the effect of such proposals upon the earth, its atmosphere and waterways. The concept has spread to other layers of government and findings of bad "environmental impact" have recently stalled all sorts of projects, including nuclear powerplants, improvement of electrical facilities, and construction of refineries. These controls have had drastic counterproductive results. Overconcern about such things as the mating habits of caribou and the ground squirrel population has adversely affected our economy in numerous crucial areas—causing shutdowns of industries, laying waste to crops and timberland and contributing decisively to the energy crunch.

One of the most glaring examples is the ban on the use of DDT that resulted in millions of dollars worth of damage to timber in the forests of the Northwest. Tussock moth infestation placed severe economic hardship on the timber industry in my own district in Idaho and in the neighboring States of Oregon and Washington. This added to the cost of lumber and to housing and so on down the line, all because of the arrogance of environmental elitists at the EPA. And this kind of thing goes on and on. The banning of certain pesticides as a result of inconclusive data could easily cost us dearly in food production and add to the consumer cost of food.

However, one of the greatest causes of our economic difficulties today is the lack of production and high cost of energy. And it is in this area that the EPA and other environmentalist obstructions have taken their greatest economic toll on the American people.

Since nothing can disrupt industry or bring a nation to its knees faster than an energy shortage, let us take a look at what the environmentalists have done in this field. The most horrifying example is, of course, the Alaskan pipeline. We are forced to import oil at a rate of over 1 million barrels a day from the Middle East at a terrific cost. Yet if court action by environmentalists had not blocked the Alaskan pipline, today we already would be receiving over a million barrels a day from that one source. Even though Congress passed legislation during the last session to enable its construction, we cannot receive oil from the pipeline for 4 years; meanwhile the estimated cost of the pipeline has escalated from $1.5 billion to $3.6 billion and a large part of one of the richest oil fields in the world lies unexplored because of a lack of means to transport new discoveries. Just look at the cost Americans are paying today because the environmental lobby is concerned about the pipeline's effects on the Alaskan caribou.

Another tremendous source of domestic oil and gas lies offshore, but the environmental lobby is bringing suits under the Environmental Protection Act to prevent the sale of oil leases offshore. Furthermore, refinery construction has been blocked due to unreasonable environmental regulations. Some examples are the Stuart Petroleum refinery at Piney Point, Md.; a 65,000 barrel-a-day refinery by North East Petroleum at Tiverton, R.I.; and a Shell Oil Co. 150,000 barrel-a-day refinery on Delaware Bay.

Also, EPA regulations have greatly added to fuel consumption by automobiles. Cleaning up auto exhausts has already cost 300,000 barrels a day of extra gasoline, according to the Office of Emergency Preparedness and could go to 2 million barrels a day by 1980 unless the standards are relaxed. Yet, we are supposed to be on a fuel saving campaign. So it seems to me that fuel economy and the EPA are working in opposite directions.

Coal, which is the only domestic fuel in plentiful supply, is on the environmental black list because it is dirty. What is more, environmental regulations all but preclude mining of clean, low-sulfur coal which could meet the strict air pollution standards, yet the clean air standards preclude the burning of high-sulfur coal which can still be mined legally.

So that leaves nuclear power, but that is anathema to environmentalists and many of the EPA regulators. As a result, the nuclear powerplant construction program has fallen way behind schedule. Construction on nuclear powerplants has been delayed and in some cases abandoned altogether as a result of environmentalist law suits and unreasonable EPA regulations.

The point that I want to make, Mr. Speaker, is that all of these regulations, many of which are not based on sound scientific data, greatly add to the consumer cost of energy and have contributed to the energy shortage. Just look for a moment at the rapid rise in utility rates; when a power company must battle law suits and complex environmental regulations in order to construct a generating plant, somebody has to pay the bill—the consumer.

The increased costs to consumers of environmental regulations is not confined to direct energy cost alone; rather they are reflected in higher cost of practically all goods and services. It has been estimated that when all of this is taken into consideration, the average American family is paying approximately $1,000 a year in higher prices as a result. We are now in a position where we must weigh "economic impact" with "environmental impact".

In conclusion, Mr. Speaker, the President has asked for a relaxation of EPA regulations in order to expedite energy production; this is especially critical if we are to make use of our abundant coal supplies. Now, the EPA is directly under the control of the President and if they do not cooperate then President Ford should consider some staff changes at EPA and the Department of the Interior.

Mr. KEMP. Mr. Speaker, I appreciate today, as always, the gentleman's contribution to the free market philosophy.

Mr. Speaker, I yield to my distinguished friend and colleague, the gentleman from Virginia (Mr. ROBINSON), with whom I serve on Appropriations.

Mr. ROBINSON. Mr. Speaker, as a member of the Appropriations Committee—the only member of that committee from the Commonwealth of Virginia—I have a particular responsibility to be concerned about the state of the Federal finances.

Recurring heavy annual Federal deficits—paying out billions of dollars more each year than the Treasury collects in revenue—worried me as a private citizen before I had the privilege of serving in this House. The same was true of the related inevitable substantial increase in the national debt. Through two Congresses, this sort of worrying was a continuing part of my official duties. Now, in the first session of another Congress,

I am not merely worried. I am appalled, and truly frightened, by the prospect of annual deficits in excess of $50 billion and a national debt of more than $600 billion, with the Federal Government approaching a spending rate of a billion dollars a day.

Frankly, I am concerned for the very solvency of our National Government.

As representatives of the people, we are being called upon to deal effectively with inflation, recession and an energy crisis. There are plans to stimulate the economy by rebating and reducing taxes, in order that individuals and business might have more money to spend, thereby, hopefully, restoring lost jobs and creating new ones.

At the same time, there are plans to impose new taxes in an effort to enforce energy conservation, and to recoup some of the revenue which would be lost through income-tax reductions and rebates.

These measures are directed toward the recession and the national energy shortage.

For the time being, the problem of inflation seems to have been nudged into the background, as something all of us simply will have to tolerate for the indefinite future.

Inflation, though, is an identifiable menace in the overwhelming majority of American households. The families so affluent as to be able to ignore its impact on their standards of living represents a very small fraction of our population.

If this Congress does not demonstrate a disposition to deal in a responsible and energetic manner with the persistent double-digit annual increases in the cost of living, relative to household funds available to pay this cost, all of us who serve in the Congress will feel the anger of the people—and properly so.

One step we can take—if we have the courage to do so—is to reduce Federal spending drastically. We must face up to some emergency costs at this time, but we must avoid the destruction of the free enterprise system by pre-empting its essential resilence, ingenuity and denying it self-regulation through the economic law of supply and demand.

As the biggest purchaser of goods and services, and as the biggest borrower, the Federal Government is a major factor in inflationary price increases—including the price of money—interest rates.

An example of how inflationary spending by the Federal Government has fed upon itself is the revenue gain to the Treasury attributable solely to inflation—the situation in which a taxpayer has moved into a higher tax bracket, not because of increased productivity, but because of increased income in dollars—less valuable dollars, to be sure—produced by inflation-induced increases in wages, professional fees, business profits, or investment yields.

These are not true income increases, but the Federal Government reaps a windfall profit in inflated dollars, which it then spends to maintain the inflation spiral.

Taxes should be related to real income. Taxes should be reduced for both individuals and business to rejuvenate the free enterprise economy, and the Federal Government simply should get along with less for its own functions—which functions, not incidentally, should be reduced drastically.

We need more effective checkreins on the Federal tax power, such as a limitation on the percentage of aggregate national personal income which might be taken each year in Federal taxes.

Most Americans believe in the free enterprise system. Certainly, I am sure there are few, if any, in the House, who would advocate abandoning it.

Over the years, however, we have brought this system to the point of strangulation through legislation and bureaucratic regulations.

There still is time to ease the bonds and prepare to enter the third century of this free Nation with reliance on the innate vigor of free enterprise, and the commonsense of the people.

Mr. KEMP. Mr. Speaker, I appreciate the comments of the gentleman as well as living up to his words by his work on the Committee on Appropriations.

Mr. Speaker, my friend, the gentleman from Texas (Mr. COLLINS) is another leader in the economic freedom movement and I yield now to him.

Mr. COLLINS of Texas. Mr. Speaker, I appreciate very much what the gentleman from New York is doing.

In this particular week we have heard so much about the budget and we have heard about the $52 billion deficit, whereas in reality we should be talking about a deficit which approaches $100 billion.

The person who is often overlooked in these discussions is the average American. I have read some statistics applying to the average American workingman. It was said that during the past 2½ years the workingman's monthly income has increased $100 but interestingly enough his purchasing power is $34 a month less. What has been happening is the more money the Government spends, the less money the fellow who is working, the fellow who is paying his taxes, the fellow who is making this Government operate is receiving.

There is nothing more pertinent now than discussing this budget. The gentleman from New York is to be congratulated.

This special order by my scholarly colleague from New York, Congressman KEMP, is most timely. The Nation is looking for answers to inflation and recession.

There comes a time in the reality of economics when the best solution is not always the easiest one. Today we are discussing the economy of this country, and I join those colleagues calling on America for sacrifice and long-term planning.

I would emphasize the need for long-term planning. Liberals have thought only in terms of the next election and for three decades liberals have been leading the country toward a socialistic state.

America is the greatest country in the world because it provides a system of government with equal participation for all. In this Republic of ours we provide incentives by encouraging more production. But more and more legislation has been designed to emphasize broader distribution of goods.

Congress continues to give and spend money as they pay by extended bank credit, printing more money and borrowing money. These weak finance practices have developed weaker money.

In the first week of this session, I addressed the House and recommended 22 specific points to cut back on our overspent budget. These points called for sacrifice but they would lead the way to a stronger economy for America in the future.

Our biggest problem in this country today is excessive Government spending. We overspend at the Federal, State, and local government levels. Our crisis in inflation and recession derives from this overspent deficit budget.

Inflation is severely hurting the plain average workingman. This week's issue of U.S. News had an enlightening chart that showed what had happened to a factory worker in the past 2 years. Back in 1972, his paycheck averaged $136.51 and today it averages $259.87. But he is not making $100 a month more as his paycheck indicates. Instead, we need to compare his real weekly pay of actual purchase power dollars using 1967 as a base year. The average worker has $34 a month less in the real purchasing power of goods than he had only 2 years ago. He has $34 less money in purchasing power than he did 2 years ago. It comes back to one fundamental. The more the Government spends, the less money is available for the private sector.

We talk about inflation all over the world. It is true that other countries have inflation. But it used to be that the American dollar stood highest in value all over the world. The old expression was it was just as good as a Yankee dollar. Let us compare the American dollar today with other currencies. How has our exchange rate held up from where we were 5 years ago? Compared to Belgian francs, we are down 29 percent. Compared to the Danish kroner, we are down 26 percent. With the French franc we are down 22 percent. Look at Central Europe, we find we are down 33 percent less than the Dutch guilders. We are down 36 percent less than the West German mark, and we are down 42 percent with the strong money of Switzerland. Other countries have had inflation, but the dollar is eroding faster. It is the same fundamental weakness—the U.S. Congress is overspending its budget.

Congress should not borrow more money to give away. We should consider the advisability of whether to continue foreign aid. How can we share revenue with States when we are actually creating debts?

Unless Congress balances its budget, this will require more of the Nation's money for the Government and less will be available for the private sector. Let us remember the private sector creates the jobs, pays the salaries, and pays the taxes.

Mr. KEMP. Mr. Speaker, I thank the gentleman from Texas for being here and taking part in this discussion.

Mr. Speaker, I yield now to my friend, the gentleman from Maryland, who has had such a great deal to do with this special order, Mr. BAUMAN.

Mr. BAUMAN. Mr. Speaker, I appreciate this opportunity to join with my colleagues in presenting alternative proposals to deal with the crisis which afflicts the American economy. There has been a great deal of criticism of some aspects of the administration's budget and economic proposals. I share many of those criticisms. Certainly the largest peacetime deficit in history is not a prospect which any of us can view with pleasure.

Unfortunately, most of the proposals put forward by the majority party in this Congress either share the basic errors which mar the administration proposals, or offer the same tired New Deal solutions which originally got us into this economic mess. There is a serious need in this country for the articulation of another course of economic action, for a frank and bold departure from the programs of the last 40 years. Variations on the same shabby themes will no longer do. For this reason, I am particularly grateful to my colleague from New York (Mr. KEMP) for his leadership and his untiring labors on behalf of articulating sensible free-market-oriented solutions to our economic problems.

It has been said that the economy is in such a fix because the Government has spent the last 40 years trying to fix it. This sentiment is more than a mere turnng of a phrase. It contains the kernel of truth the realization of which can help us to see our way out of our current problems.

The American economy is a massive and complex mechanism. A total gross national product in excess of $1,400 billion reflects thousands, and hundreds of thousands of individual transactions and decisions. Millions of people make their own estimates of the individual economic circumstances in which they live, and decide whether or not to produce or to purchase, how much to purchase, how to organize their affairs to provide for their own welfare, when to cut costs and when to invest.

Here in Washington, Congressmen and Government officials often lose sight of the millions of decisions and calculations which comprise our free economic system. We receive neatly printed booklets from Government agencies, which translate all of this into a series of figures and statistics. We can look at these figures and get an overview. If we are not careful, we can start to think that we can control all those millions of decisions and guide them along the path to prosperity and full employment.

Viewing the economy as a set of statistics, it becomes easy to think you can comprehend and control it. But such an arrogant attitude is a delusion, a trap for the unwary. No one person, no matter how brilliant, can comprehend all the complex factors which are part of our economy. Not even in the Office of Management and Budget is there enough capacity to absorb and comprehend statistics to run our economy with complete rationality and accurate information.

In addition to the difficulty inherent in any attempt to "fix" the economy from above, there is a very real question of freedom involved. We may see a lot of statistics and numbers, but those cold statistics represent the lives, jobs, hopes, and aspirations of millions of individual American citizens. Who are we in Washington to interpose our supposedly superior wisdom in place of the decisions of those who are most directly affected? How did we acquire the right and the power to disrupt millions of American lives for the sake of the theoretical juggling of some statistics on an economist's balance sheet?

We are paying the price now—not those of us in Congress, but our constituents out across America. Some may complain that we have not had a pay raise in several years, but $42,500 is still more than 98 percent of our constituents are making. Most of us can manage to scrape by. But how about our constituents, the people whose lives may be ruined by economic mistakes made here in Washington? Those are the people who are now protesting higher and higher taxes and deficits. Those are the people we are going to have to go back and look in the face. Can we live with ourselves if we simply go back and tell them, "Well, I went along with doing more of the same. I did not know if it would work, but in Washington you have got to go along to get along. We will try to get some increased unemployment compensation for those of you who have been thrown out of work by misguided Government efforts to manage the economy." That type of lame excuse will not work this time.

Mr. Speaker, trying to manage and fine tune the economy from above simply has not worked. We have had periods of prosperity in the last 40 years, but the cumulative effect of deficits, regulations which tie the economy in knots and deter progress, and plain and simple mistakes, is now beginning to tell. The up-and-down cycles are becoming more frequent and more drastic. We are now in the midst of a "stagflation recession" which, according to most economists, is not going to respond very quickly to the old medicine. When inflation becomes a habit, it takes ever-larger doses of inflation and deficits to provide ever-smaller stimuli to the economy. Thus the administration tells us that this largest peacetime deficit in history is not likely to put the economy on an even keel for 2 years or more—and if the past is any guide the administration forecasts will prove to err on the optimistic side.

Well, if even the advocates of the conventional wisdom, who stick to the formula of using deficits to stimulate the economy, predict that it will take at least 2 years for this method to turn the economy around, then we really should be looking at our economic problems from a much more long-range perspective than many of us in Congress are accustomed to adopting. If we cannot apply a few bandages and splints and give the economy an appearance of health by mid-year, or the next election, it might behoove us to investigate a little more deeply into the root causes of our difficulties. If it is going to take us several years to restore prosperity, why not restore a real prosperity, rather than appropriating enough funds for public service jobs to compensate for the harm which the Government is doing to the fabric of our economy?

Mr. Speaker, the basic answer to our economic troubles is increased productivity. Productivity comes from accumulation of enough investment capital to make the risks inherent in new production feasible and reasonable. Productivity is enhanced when individual workers and producers have reason to believe that they will be allowed to retain the fruits of their labor, rather than having it taken from them to pay for the mistakes of Government. Productivity is encouraged when investment capital is allowed to flow to those kinds of investments which offer the best rate of return—rather than being seized and allocated according to artificial, politically inspired schemes into nonproductive activities and endeavors.

Productivity, in short, is enhanced when the Government maintains a low profile in the marketplace, allowing those millions who participate in the market to decide how to allocate their resources and direct their endeavors.

In the long run, productivity will be enhanced, and a genuine economic recovery brought about, through increasing reliance on the free market, and a decrease in the control which government exercises over marketplace decisions. The conventional liberal wisdom, embodying controls, allocations, deficit spending and printing more paper money, may bring us out of this economic decline, for a short while. But the result will be only the appearance, the illusion of prosperity. Unless it is undergirded by increased productivity, these formulas will only be paving the way for the next decline, which will likely be steeper and more costly—not just in terms of money but in terms of shattered lives and trampled aspirations.

If we are to think in terms of returning the power to make decisions to the people, a good place to start out thinking is with the Federal budget. It may not be completely accurate to say that the size of the Federal budget is an infallible indicator of how extensively the Government is intervening in the lives of its citizens. But it can be a pretty good indicator. To meddle, even in an unproductive manner, requires money and resources. The size of the budget can give

us some indication of just how much of our national wealth is being diverted away from productive, job-creating activities into non-productive, resource-consuming activities.

In that perspective, the proposed budget for fiscal 1976 must be considered alarming at the least. As the Wall Street Journal has pointed out, even Eric Sevareid has expressed concern about the ever-increasing percentage of the national wealth which is diverted to the uses preferred by the Government rather than those chosen by the people. Mr. Sevareid was apparently shocked to learn that if present trends continue, in 1985 half the national income will be controlled by the Government.

That is a shocking projection to many of us. What may be more shocking, however, is the size of the projected deficit—more than $52 billion. In the last few days, both administration and majority party spokesmen have acknowledged what I had predicted over 2 weeks ago—that the actual deficit may be much higher, perhaps in the $80 billion range. The distinguished gentleman from Texas (Mr. MAHON) has even estimated a possible deficit in the next 18 months in the amount of $150 billion.

The impact of a deficit of that size can scarcely be comprehended. The first fact to be recognized is that a deficit of that magnitude indicates that we as a people are getting, and perhaps asking for, more Government than we are willing to pay for. In effect, we are asking our children, and perhaps our grandchildren, to pay for the Government services and payments which we want now. If we are not willing to pay for Government at that cost level, there must be a way to cut back the Government to a level which taxpayers are willing to support.

The second implication of a deficit of this magnitude is the effect on the capital market and interest rates. Some economists may downgrade the notion, but it seems to me there is no way to get around this simple fact. When the Government goes out into the marketplace to borrow $150 billion—or even a "mere" $52 billion—it has to have a serious impact on the availability of capital for other kinds of loans. Diverting that much money from the private capital market is going to have an influence on interest rates, and it is not going to be to drive them down.

The only way you can avoid a credit crunch with a deficit of $50 to $80 billion or more is to pump up the money supply. Such a deficit will place tremendous pressure on the Federal Reserve System to create more money, so that there will be some funds available for private investment. But the economists tell us the productivity is going to decline in the next year or so. Lower productivity and an increased money supply can mean only one thing—double digit inflation, perhaps of a magnitude which will make us think of 1974 nostalgically.

The conclusion which seems demanded is that we must cut the Federal budget drastically—now—this year. Each year we hear about the special circumstances which make a deficit necessary this time around, usually accompanied by a promise to move toward a balanced budget next year. Those kinds of promises are not good enough. This Congress must act now, to cut the budget and move toward balance.

Anybody who has spent much time in Washington knows that there is a great deal of waste in Federal spending. Thus, while it maye be somewhat simple in conception, the idea of an across-the-board spending cut should not be rejected out-of-hand. Such a cut would be greeted with lamentations and weeping, but there is simply not a department of Government which could not manage to struggle along with, for example, 5 percent less than they have asked for in fiscal 1976. We are giving the taxpayers an 11-percent annual inflation rate, which means that those who do not get a raise this year will, in effect, have an 11-percent decrease in their standard of living. Why should we accept, as a matter of course, the proposition that the Government should have an increase each year, at the expense of the taxpayers?

In looking for other places to cut, it would seem logical to examine those programs which have most recently been enacted. Roughly, Government expenditures can be divided into two categories: The provision of services, and the transfer of wealth. A third area, the expense of regulatory agencies which shackle the economy, should be considered as well, but let us consider the area of transfer payments.

The provision of services should not be considered exempt from budget cutting. There is little doubt that budget consciousness and improved management could reduce the cost of most Government services appreciably. But the area in which the Federal budget has exploded in the last several years is this area of transfer payments.

As the Wall Street Journal pointed out in a January 24 editorial, as recently as 1965, such transfer payments were "only" $37.1 billion. By the end of 1974, the Government was taking from some people and giving to other people at the rate of $155.9 billion per year. The increase in unemployment compensation and public service jobs is likely to bring this figure even higher in the next year.

It seems to me that in looking for places to cut the Federal budget we should concentrate on those areas which have experienced the most growth in the last few years. Those are the kinds of expenditures which this country managed to struggle along without for almost 200 years. A gradual and humane program of eliminating such questionable expenditures could bring healthy results for the economy as a whole.

I would also like to suggest that curtailment of many of the regulatory agencies in the so-called "fourth branch" of Government would have two salutary effects. It would reduce the direct cost to the taxpayers involved in the maintenance of this bureaucracy. And it would liberate the people of this country so that they could turn their attention to increasing productivity rather than filling out Federal paperwork and complying with the arbitrary edicts of hundreds of bureaucrats in Washington.

The people of America are resilient and resourceful. The economy is not yet on its deathbed, although application of the same old medicine is likely to induce a lingering death rather than a speedy recovery. What our people need is not more handouts and controls, but the opportunity to work and produce in an atmosphere of freedom from arbitrary Government control.

In order to protect that freedom it is going to require the arduous and sometimes unpopular work of attacking, reducing, and revising those Government programs and policies which got us here in the first place.

Again, I thank the gentleman from New York (Mr. KEMP) for his leadership and for arranging this special order today.

Mr. KEMP. Mr. Speaker, I appreciate the remarks of the gentleman.

I yield now to another new colleague, the gentleman from Minnesota (Mr. HAGEDORN) who also stands for limited government and free enterprise.

Mr. HAGEDORN. Mr. Speaker, I congratulate the gentleman for his extensive effort in putting forth a program to meet the needs of our Nation in economic terms and for calling to our attention a very important but often overlooked trend in the financing of the Federal Government which has been going on the past few years.

That trend is the rapidly growing increase in so-called "off-budget" financing—spending by agencies of the Federal Government or Federal guarantees for borrowing by quasi-public agencies.

In fiscal year 1974 the Federal Government borrowed $3 billion from the public to finance the $3.5 billion unified budget deficit. What is often not taken into account, however, is the disturbing fact that it borrowed an additional $28 billion from the capital markets—more than $2 billion a month—for the "off-budget" activities of such agencies as the Federal Home Loan Bank Board, the Environmental Financing Authority, the Postal Service fund, the Export-Import Bank, and many other Federal agencies whose monumental demands upon the capital market are semisurreptitious—we cannot read about them in the Federal budget.

In the last 10 years, while the Government was running up an unprecedented $104 billion in official budget deficits, the "off-budget" Federal agencies were borrowing even more—$142 billion.

There are, of course, a good many economic effects of this situation. Federal borrowing and guarantees increase the demand for credit, but do not increase the total supply of funds available. As a result of this policy, interest rates are pushed higher and higher making it more difficult for the ordinary citizen to borrow to finance a home or for small businessmen to expand his business and create more jobs in the private sector.

A political effect of this policy is to make it more difficult for the people's representatives to adequately scrutinize these large spending operations in the "hidden budget." As Senator William Proxmire recently observed:

No Federal program should be excluded from the budget. The whole purpose is to place all Federal programs—loans and direct expenditures—in competition with one another.

Secretary of the Treasury Simon in testimony before the Senate Budget Committee on August 15, 1974, said that in fiscal 1973, total Federal and federally assisted borrowing accounted for 62 percent of the funds raised through borrowing on the capital markets. His figures were based on the Federal Reserve System flow of funds data, which showed that the capital markets raised $52.6 billion in fiscal 1973, and that the Federal Government accounted for $32.8 billion of this. This was comprised of $21.6 billion in borrowing by the Federal Government and $11.2 billion by federally sponsored agencies. This 62 percent figure is in marked contrast with the 22 percent which was the Federal Government's share of the capital market borrowing 10 years previoulsy in 1963. Secretary Simon has recently pointed out that if the present trend continues, the Federal Government will soak up 80 percent of the funds available in the capital markets in just a few years time.

Mr. Bruce K. MacLaury, president of the Federal Reserve Bank of Minneapolis in my home State, recently wrote that—

With the big Federal umbrella covering a growing portion of funds moving through the credit markets, these markets simply become vehicles for mobilizing private savings, and their role in assessing credit risks is displaced or forgotten . . . As a result the potential exists for reduced efficiency in resource allocation in the economy, as Federal credit programs spread.

I should like to conclude, Mr. Speaker, by reminding our colleagues of the warning which Dr. Arthur Burns, President of the Federal Reserve Board, voiced to the Senate Budget Committee on August 21, 1974. He pointed out that—

In the fiscal year just concluded, the condition of the Federal budget failed to improve sufficiently. True, the reported budget deficit declined about $3½ billion—a much smaller deficit than in the three preceding years. But in a year of such powerful inflationary force, the Federal budget should have been in surplus. Moreover, when off-budget outlays and the expenditures of governmentally-sponsored agencies are taken into account, as I believe they should be, the total Federal deficit reached $21 billion last year, which is not much lower than the extraordinary deficits of the three previous fiscal years . . . the financing of the huge Federal deficits has contributed powerfully to the upward pressure on interest rates and the tension in financial markets, which have been troublesome of late.

Mr. Speaker, in calling these facts to the attention of our colleagues, my purpose is not necessarily to imply that all of this spending and borrowing through off-budget financing is undesirable. My point is, that the Congress has a duty to bear these huge sums being spent in this way in mind and to take "off-budget" financing into account as we supervise the growing Federal budget. I believe that Senator PROXMIRE has given us an important warning when he urged that no Federal spending program should be excluded from the budget.

Mr. KEMP. Mr. Speaker, I thank the gentleman for his comments.

Mr. Speaker, I yield to my friend, the gentleman from Nebraska (Mr. McCOLLISTER), who since coming to the 92d Congress with myself has been one of those who consistently has spoken out for sound fiscal and monetary policies and the efficacy of private financial enterprise.

Mr. McCOLLISTER. Mr. Speaker, the gentleman from New York deserves the praise of this body for having put the focus on these issues of limited government and our free market. Next Tuesday evening the gentleman from New York (Mr. KEMP) will have the opportunity to speak in a similar vein, I hope, on these same subjects in my hometown of Omaha, Nebr., at a Lincoln Day Dinner. I am indebted to the gentleman, not only for that, but for having arranged this special order on this vital subject this evening.

HOW MUCH GOVERNMENT DO YOU WANT?

Since the days when our Founding Fathers grappled with the issues of the proper role and functions of our Federal Government, the subject has been the topic of lively public debate. Never has it been more important than today to understand the dynamics of Government growth and its implications for our society.

The introduction of the President's record $349 billion budget and the confusion and concern of our professional economists about how to deal with our present economic difficulties makes the basic question of what Government should be doing of critical timeliness.

Congress faces some hard choices. Can we afford to meet our past promises of governmental services? Can we afford not to? Is spending out of control? And what about the other nonspending aspects of Government intrusion into the lives of our citizens?

GOVERNMENT SPENDING

The most obvious barometer of the growth of the Federal Government is in government spending. It took 173 years for the Government to reach the $100 billion budget level. Only 9 years later it passed the $200 billion level. This year, 5 years later, we topped $300 billion. In another 2 years we will reach $400 billion. Can the taxpayers, can the economy stand this rapid expansion? And if they can, is this rapid expansion of Government spending bringing our society the kinds of benefits that make such sacrifices worthwhile?

The scary part is that the budget seems to have a momentum of its own. We are committed to so many programs that continue year after year that fully three-quarters of the budget is considered "uncontrollable" in the sense that it is nearly immune to congressional review. Of course, that did not just happen. Congress created this situation. Congress provided openended promises of benefit payments in so many social welfare and income maintenance programs, for example, that the budget of the Department of Health, Education, and Welfare alone approaches $120 billion for next year—assuming no new programs are enacted and increases in benefit levels are held to 5 percent this year.

Government spending, of course, is only symptomatic of the growing role of government in our economy and in society. At the present rate, governments will soon be spending more than half of our total income. Put another way, governments will be making more than half the economic decisions in this country if the present trend holds. In many ways, freedom of economic choice is directly translatable into freedom of personal choice. As governments spend more of our earnings, we have less to spend on our personal choices.

PAYING THE BILL

How do we pay for all this spending? A good question and one that the Congress has not been meeting straight on. The budget document projects that deficits will total $86 billion for this year and next. That is shocking enough. But that figure omits some backdoor transactions which actually bring the total national debt increase to $120 billion. And all this assumes that the Congress will vote to cut benefit increases to 5 percent and defer all new spending programs.

We have mortgaged the freedom of future generations by burdening them with a half-trillion dollar debt and Government deficit financing has a largely hidden effect. Government borrowing in the next 18 months may well reach $150 to $170 billion, draining this available loan capital away from would-be borrowers in the private sector where it would be used to build houses, modernize our industrial base, and create jobs.

Congress has ducked the hard questions too long. We are reaping the inflationary consequences of paying our bills by borrowing beyond our ability to pay and of pressuring the Federal Reserve Board to pay the bills by increasing the money supply. These are easy, short-term answers. The serious consequences are just now beginning to be felt.

GOVERNMENT REGULATIONS

Government regulations have become a way of life. We hear a lot about the possibility of wage and price controls or of gas rationing. We virtually ignore the omnipresent controls routinely imposed by a myriad of Government departments and regulatory agencies. The "alphabet soup" agencies are not just some abstract evidence of bureaucratic growth. Government bureaucrats determine transportation costs, what we see and hear on television and radio, the policies of our Nation's banking and securities industries, the contents and manufacturing methods of a vast variety of consumer goods, and a good deal more. Their decisions affect our daily lives at every turn.

ARE WE BETTER OFF?

The true test of any governmental system is its result—what kind of people and what kind of society does it produce. There can be no doubt that we are more affluent today with bigger Government that we were a half century ago. But are we better people? Is our society more desirable? As tradeoffs against our high standard of living we have crime and moral relativism, entangling Government redtape, increasing mental illness, and the destruction of the family as an institution, not to mention a frustrating "stagflation" in the economy and a crisis in public confidence in our Government itself. Could we achieve "the good life" with fewer of the present drawbacks?

It is instructive that the first priority of the new Congress this year was to create special committees to investigate charges of a Government agency spying on our citizens. Big Brother is watching. These kinds of abuse, combined with the demonstrated waste and inefficiency created by the clumsy bureaucracy, bear eloquent witness to the need to refocus some of our justly-renowned common sense on the problem of big and growing Government. Which programs do we need and want? Which ones should be discontinued? The public must decide. Congress only too well mirrors, even magnifies, the will—or the irresolution—of the people.

Mr. SEBELIUS. Mr. Speaker, I am pleased to be able to participate in this special order and enter into this discussion regarding our national economic policies. Most important, we need to talk about how these policies will affect the pocketbook of every American citizen.

I wish to commend my good friend and colleague, Congressman JACK KEMP from New York, for his leadership in making this discussion possible.

I am privileged to represent a district that typifies rural and smalltown America, the 57-county "Big First" district of Kansas. It goes without saying that folks in my district are concerned and frustrated over the present state of our economy. The mail now coming into my office is increasing daily and it reflects the serious concern that our rural and smalltown citizens have regarding the fact the inflation buck stops in rural America. I might add the economic status of folks in my district should be of special concern to everyone, for farmers and the small businessmen and working men and women who support our agriculture-related economy have the responsibility of feeding our country and a hungry world.

I believe it most important for every American to realize the real answer to providing quality food at reasonable prices lies in making it possible for the farmer to produce. In this regard, I am very much concerned over what I think is a most peculiar and distressing attitude that is apparently prevailing in this body, throughout the media and our Nation.

Today, any comment or criticism aimed at business—and let me point out American agriculture still represents our Nation's largest business—for the presumed benefit of the "working man and woman" usually results in headlines or prime time coverage. On the other hand, any defense of our private enterprise system or profits as the foundation of our free society is likely to be ignored, considered self-serving or politically expedient in behalf of so-called special interest.

Let me say I have a special interest. My special interest is doing what I can to help revitalize rural America. Put simply, I think it is time to quit deluding ourselves that "big government" can somehow be a source of jobs, income, social progress. The affects of our private enterprise system in a period of economic hardship will surely be harsh but compared to the problems we are experiencing and could experience with a government controlled economy, I think the private enterprise system is, without question, much more desirable.

This is so true today in rural America. In response to a growing shortage of food, controls were relaxed and the farmer responded with unprecedented production. Unfortunately, export, program, and marketing controls have been dragged back into the picture due largely to political pressure. Prices for our basic commodities are now depressed and as a result so is our food production capability.

Mr. Speaker, the following editorial from the February issue of the Farm Journal sums up in everyday language what I have been trying to say and what we are discussing. The article is entitled "Profits Aren't Obscene" and I think it should be required reading for everyone interested in our Nation's economic problems.

Again, I thank the gentlemen from New York for affording me the opportunity to take part in this discussion and for his leadership in making this special order possible.

The article follows:

PROFITS AREN'T OBSCENE!

For more than a decade now, the U.S. business enterprise system has been under increasingly virulent attack. During the 1960s, businesses got a lion's share of the blame for the nation's social ills: racial discrimination in hiring, polluting the air and water; killing and maiming employees with unsafe factories; and neglecting their medical and retirement needs.

The attacks have shifted to new fronts in the past year or two: Watergate and its illegal campaign contributions; neglect of the nation's fuel and power needs; and now blame for high profits and high prices.

We're not feeling sorry for any particular industry or corporation. Many of them deserve the criticisms they've gotten. Besides, public as well as competitive pressures are part of the game, as every businessman knows before he signs on.

But we are alarmed by one proposed cure that keeps popping up. During the oil embargo a year ago, several members of Congress declared that the U.S. should set up a government oil corporation "to bring more competition to the oil industry." When Consolidated Edison, New York City's power supplier, got into financial difficulty last spring, a *New York Times* editorial suggested that it might be a good idea for the State of New York to own all power plants. And when Pan American Airways fell onto hard times, there were claims that only a government-owned airline could compete with other international carriers.

Some farmers have joined in criticizing business, particularly when they've had to pay $350 a ton for anhydrous ammonia or $25,000 for a new tractor. Of course, it is part of the free-market system to resist price increases every way you can. But we hope farmers won't attack private ownership itself.

Right now it's popular to condem profits as being too high. The U.S. Bureau of Labor Statistics reports that between November 1973 and November 1974 the inflationary rate was 12.1%. Add to that a minimum 4% or 5% real return on a risky investment like common stocks, and profits for the year should have averaged 16% to 17%. *Forbes Magazine* says in its Jan. 1, 1975 "Report on American Industry" that the median return to equity (dividends and capital appreciation to stockholders) for the 850 largest corporations last year was 13.3%. No wonder the stock market is depressed.

Before condemning high profits, we should remember that grain farmers who harvested decent yields last year are as vulnerable as any businessman to the charge. Some farmers could be accused of making profits of 100% or more. Yet you know how many poor years a single good year often has to pay for. You also know that if you're going to add new machinery, put up buildings or buy more land, profits must provide the capital to do it.

Many businessmen, including farmers, are feeling the growing squeeze on capital. Cattle feeders felt it last summer. So did power companies, who, in spite of the need for new generators, were unable to float new bond issues. Investors just weren't interested in buying utility bonds—not when they could get U.S. Treasury bills and notes at record rates of interest.

If the capital squeeze continues, one day it will be farmers—not Lockheed or Pan Am—who go to Washington to ask Uncle to be their "lender of last resort." Like any other lender, when Uncle extends credit, he often asks for, and gets, control.

Vermont Royster, former editor of the *Wall Street Journal*, summed up the situation well in a recent column: "Even the most obtuse politician can see how the plight of the auto business translates into lines of unemployed. But a Senator Jackson can still talk about the 'obscene profits' of oil companies at a time when the real welfare of people calls for untold billions of capital investment to find and deliver new oil.

"It never seems to occur to the railers against business that if new oil supplies aren't found . . . the lines of the unemployed will grow even longer."

Mr. GOLDWATER. Mr. Speaker, I commend the gentleman from New York (Mr. KEMP) for taking this special order to discuss the state of the economy. I subscribe to his "Statement of Economic Principles." Unfortunately, our mutual view of the economy and what needs to be done to combat inflation heretofore has not met with approval by a majority of the Congress and the Federal Government.

Well, I have said it probably 1 million times, but I will say it again—we cannot spend ourselves into prosperity and out of inflation. On the contrary, the single greatest cause of inflation is the Federal Government and its monetary policies.

This national debt of over one-half trillion dollars did not happen by some exterior force outside our control. It has happened because this Congress and the preceding 20 or so Congresses have been on a spending spree with little or no regard for the consequences. Congress has acted like the proverbial drunk with a credit card, and in order to pay for all the pie-in-the-sky things we have dreamed up over the years, the Federal Reserve simply increases the money supply by borrowing whatever is needed.

It is really not too difficult to understand inflation. It is the inevitable result of increasing Government spending—faster than we have been willing to pay for it through taxation.

From 1963 through 1968 the percentage of national income represented by Government domestic spending increased from 24 to 27 percent. From 1968 through 1973, it jumped from 27 to 32 percent. Meanwhile the national debt soars, double-digit inflation is with us, and productivity lags.

Now, we have a budget that calls for a $51 billion deficit. Of course, we will be lucky to get through with a deficit of less than $70 billion for fiscal 1976.

Several years ago I recall that a handful of the most vocal opponents of deficit spending predicted that future generations would literally pay for this folly. They were right. The future generation has arrived. We are paying now for 40 years of unbridled Government spending with $3 bags of sugar, 70 cents per gallon gas, ad nauseam. And this is just the beginning. Who would have thought 10 years ago that a six-pack of cola would cost more than a six-pack of beer? Who would have thought that a so-called medium priced car would go for $5,000?

Frankly, I am not at all certain the future holds promise for an end to this madness. Congress would not practice restraint. Far too many of our colleagues still feel that their constituents really like all this spending. Maybe they are right. But those constituents are going to have to pay the piper.

The gentleman from New York (Mr. KEMP) and the other brave few who are trying to tell this story deserve to be heard, and hopefully some people will start listening. The gentleman has introduced thoughtful, comprehensive legislation that deserves consideration. It certainly makes more sense than all these deficit budget proposals floating around. His bill is designed to help establish the integrity of the Government and its monetary policy through the imposition of ceilings on both revenue and budget outlays. This would be done by tightening the issuance of additional money by the Federal Reserve—a very noble purpose, indeed.

The Government causes inflation, thus the Government can stop inflation. First and foremost we have got to stop unnecessary Federal spending over revenue taken in. Second, we have got to stop printing phoney money to pay for the Federal Government's version of utopia, and lastly the Government must start offering incentives to private industry through tax credits and a reduction in top heavy antibusiness edicts, such as OSHA regulations, in an attempt to step up production, which most economists agree—steps up employment.

Mr. CONLAN. Mr. Chairman, any talk about the economy and how to stop inflation that causes recession and unemployment must consider an important point from the President's state of the Union message, when he said to the American people:

> What we most urgently need today is more spending money in your pockets rather than in the Treasury in Washington.

Government is the only organization competing against individual citizens and productive enterprises in the private sector for spending money.

There are three ways Government obtains money for its own projects: First, through taxation. Second, through deficit spending that borrows on tomorrow's productivity and earning power. Third, by inflating the money supply with an infusion of new printed dollars from the Federal Reserve System.

Politicians do not like to increase taxes, which is the honest way of committing people to support their spending ideas and receiving their approval for new Government projects. Voters would throw them out of office for spending money on most of their extravagant and wasteful schemes.

Liberals in Congress have worked around this thorny political problem of increased taxes for new and expanded programs with the dishonest almost-secret tax of deficit spending, which is why today we were again asked to increase the limit of the multi-billion dollar national debt.

Assuming Congress does not agree to the President's proposed $17.5 billion in budget cuts—which I personally feel is not enough—Federal spending in fiscal year 1976 will be $100 billion more than 1974. The combined deficits of 1975 and 1976 will also be $100 billion. That is more than a third of our entire U.S. money stock, which is currently around $284 billion.

These horrendous Federal deficits are the direct result of legally required spending by the Congress. They will be higher still if liberal leaders of Congress push through their political vote-buying but economically foolish tax cut proposals without a comparable cut in Government spending. This is why the national debt limit will have to be jacked up to over $60 billion by 1976.

In addition to catastrophic deficits and other economic mush-headedness by Congress, liberals on my House Banking Committee have this week rolled out their big guns to get through a big increase in the Nation's money supply. This requirement for the Federal Reserve to crank out additional money will not be backed by increased productivity, the only honest way to increase the money supply, and thus will result in more inflation.

If their proposal goes through, the new printing-press money will depreciate everyone else's money. The Government will be taking spending power from the people, particularly the low- and middle-income people, to use on its own boondoggles. This will also increase the prices of all goods and cause interest rates over the long haul to soar even higher.

Our goal must be to drastically reduce Government spending to eliminate much of the 1975–76 deficit. If Government borrows more money from the public, private borrowers will be deprived of lendable funds and interest rates will be higher.

Consider the staggering economic impact if Government takes more lendable money away from the private sector:

All commercial and industrial loans in 1973 totaled only $156 billion. Outstanding auto loans and charge accounts were $61 billion. And FHA mortgages totaled $68 billion. If investors bought another $100 billion in Federal securities, other potential uses of such funds—such as auto loans and home mortgages—would have to get by with much less. Thus the economy will not get the shot in the arm it desperately needs, and areas of the economy most hurt by the current recession will continue to suffer.

I say cut Federal spending, and cut it now. Put money back into citizens' pockets and into the private sector. Develop a sound program to reduce the budget and eliminate the 1975–76 deficit now. Here is my proposal, introduced in a package of five bills in this Congress:

First, place a 3-year moratorium on all U.S. foreign aid (H. Con. Res. 9).

Second, reduce the 1976 Federal budget by at least enough to put it 10 percent below what was spent in 1975 (H. Con. Res. 36).

Third, impose an immediate moratorium on new Federal spending programs (H. Con. Res. 10).

Fourth, balance the Federal budget every year, tie the growth of Federal spending to the growth of national productivity, and establish a firm monetary policy to prevent inflationary growth of the money supply (H.R. 1252).

Fifth, pass a constitutional amendment forbidding future Federal deficits and requiring gradual repayment of our half-trillion-dollar national debt (H.J. Res. 5).

And for dessert, let us require all foreign nations to pay us what they owe for U.S. loans—money and equipment—during the two World Wars and the Korean conflict. The total bill, with interest, comes to hundreds of billions of dollars. France alone still owes us $6 billion from World War I, and the Soviet Union owes us $2.6 billion from Lend-Lease. The list goes on and on.

Americans do, indeed, need more spending money in their own pockets. Let us stop the destructive flow of money from the productive sector of our economy into the hands of bureaucrats in the nonproductive Government sector. And let us make foreign nations pay back the billions they owe us to help put our economy straight and create jobs.

Mr. GUYER. Mr. Speaker, nearly 2 years ago we publicly predicted the coming of an energy crisis and since that time the majority party has submitted no program nor put forth any solutions to deal with this most critical situation.

The events of the past 2 years have made us painfully aware that the United States must achieve energy self-sufficiency at the earliest possible date. It is obvious that to become independent of foreign energy supplies, we must move rapidly to develop alternative energy sources. The prospect and need for reaching our goal is great. We must develop methods to draw power from the Sun, extract oil from our shale, make gas from our vast coal supplies and take heat from the Earth's core.

The role that the Government plays in the development of these alternative energy resources will evolve in the next several years. Neither compulsory rationing, further allocation, quota systems, regulations, controls, nor press releases and rhetoric will expedite the achievement of our energy goals. Only prompt and bold action will suffice. We must create incentives for industry to assume the responsibility of creating new energy sources and to perfect the technology to further develop those supplies for speedy utilization. The private sector of our economy has the professional know-how, expertise, and the capital resources and motivation to make self-sufficiency a reality.

The free enterprise system, over the past 199 years, has made America the greatest Nation on Earth. Let us not lose faith in that economic system as we strive to keep our country strong, free, productive, and self-reliant.

Mr. ASHBROOK. Mr. Speaker, for a number of years I have warned my colleagues that irresponsible Federal spending would seriously injure our Nation. Despite my warnings, the Congress has continued to spend far beyond the Nation's means.

The result today is a soaring national debt and double-digit inflation. Inflation means a higher cost of living and a growing rate of unemployment, which together are putting a terrible squeeze on many American families. Action must be taken now to help bring inflation under control.

First, Congress must cut Federal spending. Unfortunately, too many in the Congress talk of economy but vote for new programs and much higher appropriations for existing programs—even though their usefulness may be unknown. Federal spending can be cut. A limitation can be placed on the number of governmental officials. Additional cuts can be made in a number of other programs including foreign aid. Our country simply cannot afford $350 billion budgets.

Second, I suggest that the Congress and the administration both start using the zero-base budget concept. Under this plan each agency and department would have to justify its whole program each year. Some will ask if that is not already done. In reality departments and agencies only are asked to justify increases in their authorizations and appropriations of funds. The result is that many programs continue year after year with few knowing if the program has outlived its usefulness. Over the years, programs develop their own constituencies. The constituency may be made up simply of those who administer the program. Very seldom is there movement to eliminate programs that may have become outdated.

Third, the Federal budget should be changed in order that all Federal expenditures are included. To accomplish this some changes will be needed in existing laws. The new Committee on the Budget in both the House of Representatives and the Senate should take into consideration the totality of Federal spending.

Action on these proposals will start us on the road to controlling the ravages of inflation. The increasing cost of living can be turned around but it will take action. These suggestions will provide the framework for a policy of prosperity without inflation.

Mrs. HOLT. Mr. Speaker, for more than a generation, the Government of the United States has been perpetuating an economic fraud on the American people.

The political leaders of this country have, in effect, been telling the people that Federal money is free; that the Federal Government can infinitely expand services without imposing proportionate costs on the people.

Reduced to its simplest terms, the popular notion has been that Government can produce wealth by printing more money. Presidents and Members of Congress, of both parties, have ignored the timeless truth that money must represent something in value.

In the last 5 fiscal years, including the current one, we have produced a cumulative budget deficit of $100 billion.

The Federal debt has reached an almost unimaginable total of half a trillion dollars. Interest payments on that debt amount to $41 billion in the current fiscal year, and will leap to new heights in the next.

With manic spending pouring billions of unearned dollars into our currency, nobody should have any doubts about why price inflation accelerated to an annual rate of more than 12 percent last year.

I rise today to urge every Member of Congress to tell the bald truth—that every dollar spent by the Government is extracted from the people either by taxation or inflation, which is a cruel and sly erosion of the people's earnings.

There is, at least, honesty in taxation. The cost of growing Government is imposed on the people with a direct and comprehensible charge voted by their elected representatives. I daresay that the growth of Government would be slowed considerably if we were required to balance spending with taxation.

Financing Government with inflation, however, is a practice fit for scoundrels. It is dishonest. The Congress has habitually voted to spend billions more than anticipated revenues, billions more than tolerable rates of taxation would allow.

But how many times have we heard Members of Congress tell the people that deficit spending is taken from their earnings as surely as though it had been taxed away? The people hardly ever hear such truth from their elected representatives.

The recession we are enduring today was caused in inflation. Government borrowing on a grandiose scale drained the capital markets and forced interest rates to record highs, plunging the homebuilding industry into depression and vastly increasing the costs borne by every industry.

The flood of unearned cash into the currency increased the price of everything until massive consumer resistance developed. Sales of goods and services sharply declined and the unemployment rate climbed above 7 percent.

Suddenly, the President and nearly everybody in the Congress is in a panic to fight recession and unemployment, which are the inevitable consequence of the inflationary policies we have pursued. Tax reductions of $16 to $22 billion are now proposed as the method of stimulating the economy.

Now, I enjoy voting for a tax cut as much as anybody in the Congress, especially since I have long believed that government takes too much from the people, and spends their money in ways they would never tolerate if they know what is really going on here.

But those of us who think about the consequences of our acts are very concerned about these tax cut proposals, because we doubt whether the congressional majority will match them with spending cuts.

As a consequence, we are confronted with the prospect that the Federal budget for the next fiscal year will be $50 to $70 billion in the red, a new record for peacetime.

If we fail to cut spending significantly, if we fail to make the hard decisions, we will be experiencing a rate of inflation by 1977 that will make last year's 12 percent seem mild by comparison.

In the sorry circumstances of the Federal budget, a tax cut is not returning surplus revenues to the people. It means only that the Federal Government will be borrowing $16 to $22 billion more than it would otherwise have borrowed.

What is being proposed is an exchange of some taxation for more inflation as a method of financing government, unless we are able to cut deeply into spending.

Let us hear no more talk about the budget being uncontrollable. We have the responsibility to control it.

There are approximately 975 Federal domestic programs, of greater and lesser value and efficiency. We must separate what is essential from what is merely desirable.

We have been sailing along for too many years on a magic carpet of imagined affluence. We piled billions of debt upon billions of debt, wallowing in unearned money that devalues the real earnings of the people.

Such irresponsibility will surely ruin this great Republic unless we practice discipline and restraint.

Just think, a mere 5 percent reduction in Federal spending would provide sufficient savings to finance the proposed tax cut in the 1976 fiscal year.

We would not then be exchanging some taxation for more inflation. We would not be practicing fraud.

The tax cut would mean something if it were balanced with reductions in spending, and most importantly, the dollars thus released to the citizens would represent something of value.

The question is whether we are responsible public officials, or are we practitioners of deception, bamboozling the public with the same old deceit we have watched for a whole generation?

Mr. ROBERT W. DANIEL, JR. Mr. Speaker, today I joined with many of my colleagues in a statement of alternative economic policies which I believe offers a responsible solution to our dual economic problems of inflation and recession.

I am principally concerned with controlling the runaway growth of government expenditures and increasing Federal deficit.

This year government at all levels—Federal, State, and local—will borrow about 80 percent of all funds raised in the Nation's bond market. This is up from 60 percent from last year. Such government dominance of the financial markets squeezes out private borrowers and puts upward pressure on interest rates.

If we can curb government spending through elimination of wasteful spending programs, then we can reduce the need for government borrowing from the capital markets and put a brake on inflation.

Mr. MARTIN. Mr. Speaker, the statement on alternative economic policies discussed here this afternoon is the "Old Time Religion" and I, for one, am getting tired of the way the free enterprise system, the profit motive, and individual initiative are being kicked around in this Congress and this country.

It is time for this country to call a halt to congressional mismanagement in the form of straightjacketing the economy and trying to solve problems by throwing money at them.

For too long we have been loading the private sector up with requirements which reduce the quantity of goods produced per unit of labor expended in their production. When our basic problem is declining production, coupled with rising costs to produce, it ought to appear ridiculous that the solution is 180 degrees around from further increasing costs to produce and further diminishing the ratio of production to labor input. We cannot afford to continue to shift employees from productive work to paperwork.

Regulatory reform was an important part of the President's almost forgotten "WIN" program. It deserves to be resurrected as a major goal. I believe very strongly that we cannot long escape the inflation/recession crunch without increasing the amount of production output per unit of labor and capital input. Greater productivity rewards suppliers of both capital and labor in the form of higher wages and higher profits. If the employer, the employee, and the investor all gain—and recognize that they all gain—we can have hope of not sliding down the razor blade of class division the way Europe has done.

But, if we continue—albeit with motives as pure as today's driven snow—before it turned to slush—to overregulate with our OSHA's, NEPA's, and the like, we will continue to reduce productivity. Nobody intends that that should happen—at least, I hope not—but if a factory that used to have 100 employees, 95 of whom worked on an assembly line producing 100 widgets a day has to hire five more white collar employees to record sanitary, environmental, racial, and other data for our bureaucracy, we go from one widget per man-day of labor to 95 percent of a widget per man-day of labor, with widget costs rising proportionately. A surgeon can waltz through a gall bladder operation in 30 minutes and have to spend—or hire someone to spend—a couple of hours filling out Government-required forms.

Then, when widgets and gall bladders become more expensive we blame the free enterprise system.

Well, since almost everything worth quoting is in either the Bible, Shakespeare, Churchill, or Pogo, I submit from the latter that "we have met the enemy and he is us." We—the Government—must assume the lion's share of blame for declining productivity.

We do not solve that problem by throwing money at it in the form of conferences, committees, and programs on productivity. We solve it by backing off on requirements that result in diminishing the percentage of a business' total payroll that creates goods and services. Incidentally, allowing a reduction in nonproductive work implies fewer nonproductive Government forms and, therefore, a need for fewer nonproductive Government employees to review, analyze, compute, fold, spindle, and mutilate them. Them, and us.

Out there, out there "where the broad fields of the Republic roll on under the night," there is faith in our system—more than we find here. Today I received a letter from a constituent who has been laid off for 60 days from the job he held for over 15 years, and I would like to quote him. He is no economist, just a formerly—and future—middle-income American, a Democrat:

> We will come out of this slump and be a stronger country. . . . The other good men in Washington will help us to do what we can to make this so because I believe it is my job as well as yours to do what we can to make America once again the land of the free and the home of the brave. Too many people today are not brave and want someone else to do their thinking and working for them.

We must do what we can to let the American people do for ourselves. I would underscore "ourselves" because too often of late I have heard sentences including "the American people—themselves" as if we on Capitol Hill and in the bureaucracy were somehow a nation apart.

We—here on this Hill—must abandon fears of offending special interests, be they organizations of the drawers of benefits, or supporters on corporate boards. We are all elected from districts and should represent them, of course, but faced with hard choices affecting this entire Nation, we should stake our political necks on how our districts reflect on what we have done for all America.

We must let this economy of ours get moving again. We must encourage people to work, to invest, to take risks. The worker's freedom from the fear of ups and downs in the job market must be seen as tied to the employer's and manager's freedom from the fear of ups, downs, ins, and outs of the complexities of well-intentioned regulation out of Washington. We all need a sense of security. The more the Government intrudes into the marketplace, the more complex it becomes and the more bets have to be hedged. We must encourage investors to run the risk of investing in new capacity; we must encourage businessmen to run the risk of new product lines; we must encourage the workingman and his family to run the risk of investing in a new home—or maybe his company's stock. We must, to put it simply, encourage America to restore its faith in itself, its self-esteem. We cannot sit back as a nation, grumbling, whining, and pointing fingers of blame at the pet demon of the day.

The American people are not lining up for the dole. The American people do not demand, or even want, their Government to throw money at them. They do not insist that the Government solve their problems. Rather, the American people are looking to their Government to let them solve their own problems and to provide some assurance that they will not—once at work to solve their problems—have the rug pulled out from beneath them by a new edict from on high. They want some assurance that whatever success they achieve will not be penalized and that their Government will allow risks to be run and the rewards to be kept. The American people are not crying to be protected from their own individual errors—just from errors inflicted upon them.

I suggest that there are three major lessons to be learned from recent errors inflicted upon the people of this Nation:

First, we cannot cure inflation and recession concurrently by slapping together more of the same policies that created them. More spending, higher deficits, and artificial controls are not the answer. They caused the problems, and causes make poor cures;

Second, short-term solutions have a way of becoming permanent. When someone is given a temporary break or advantage, they will feel unfairly penalized when the temporary advantage runs out, and

Third, our modified, regulated, taxed, and subsidized—but otherwise—free-enterprise system can recover and fend for itself if we only take the tourniquets from about its neck.

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Mr. ABDNOR. Mr. Speaker, in participating in this discussion of the economic problems confronting our Nation, I would be remiss if I did not devote my remarks to what I consider the most significant economic problem confronting the people of my State of South Dakota. That problem is inflation and the hardship it is causing for an area which has its primary dependence on an agriculture base. Certainly the recession is not easy for anyone.

I would submit, however, one of the major reasons we are in a recession is the fact that we have been on such an inflation binge for so long that something had to give.

And give it did when the people quit buying automobiles and other goods which they felt were too high priced.

The combination of inflation-recession is a relatively new experience for America.

Productivity serves as an important measuring stick in the measuring of inflation.

We find that the industries of America rate of productivity has fallen behind, this has contributed immeasurably to inflation.

The one industry that stands out for their outstanding record of high productivity is agriculture.

If our industry as a whole had the record for productivity that we find in agriculture, we would not be in the disastrous inflationary period this country finds itself in today.

The American farmer, however, has been taking it on the chin for a good long time. Through most of the past quarter of a century he has found himself going through the economic wringer that we call the "cost-price squeeze."

During that 25-year period, the income the farmer received was at less than what we call full parity. In other words, he was not enjoying the benefits of the prosperity in which most of the rest of America participated. His costs of operation always seem to run a bit higher and a bit ahead of his receipts, thus reducing the margins of profit he would otherwise receive had he the same protection others have in the marketplaces of America.

The farmer, however, cannot set the price he receives for the goods he sells. Business and industry can and do. When business and industry have increased costs in their operations, they raise their prices. The farmer is the victim of the marketplace. Someone else determines the price he is to receive for his products.

For a short period during this past quarter of a century, there was a sharp escalation in farm prices. That lasted about as long as it takes for a hailstorm to wipe out a good crop. Most farmers did not benefit from the high prices of a year and a half ago. The wheat farmer, for example, had already marketed his crop when the big wheat sale occurred which sharply raised that price. Most everyone down the line from the farmer shared in that increase. But not too many farmers. What the farmer received, in large part, was the blame for the increase in the cost of bread.

This was also true for our livestock producers. When the high prices came for cattle, many farmers had sold their livestock. Their animals were already in the farm-to-meat counter chain. For the remainder, their animals were not ready for market. When marketing time came, the good prices were down.

But the farmer got the blame for the high beef prices in the grocery stores. Unfortunately, he got little of the profits.

Today, many livestock producers are on the point of bankruptcy.

It is not easy—nor has it ever been—to operate a family farm. For America, however, the family farm is vital. We enjoy, because of our agriculture, the highest standard of living of any people on Earth and at a cost that takes less from our total earning power than anywhere else in the world.

This story, however, does not seem to get told. The average citizen does not seem to have the proper perspective of what agriculture means to this Nation.

One of the Nation's largest grain cooperatives is doing something about this, trying to set the record straight as to the contribution agriculture makes not only to our way of life but to our very survival.

FAR-MAR-CO, Inc., of Hutchinson, Kans., is sponsoring a series of messages on the importance of farmers as a valuable resource. One of this firm's recent advertisements appeared in the U.S. News & World Report. I believe it tells an important story which should be of significant interest to all Americans.

It is a story that deserves an important place in any discussion of our Nation's economic plight and certainly is worthy of consideration today as we review the problems of inflation.

I include the material in the RECORD at this point:

FAR-MAR-CO., INC.,
Hutchinson, Kans.

Farmers are a valuable resource.
Let's not forget it!

If we take time to listen to the newsmakers of the day, nearly everyone is talking about food. Food reserves, food production, malnutrition. We can go on and on. But stop and think for a minute. Who is the most valuable and vulnerable link between food production and the dinner table? It's the American farmer, who is subject to skyrocketing input costs, and uncertain economic returns.

According to USDA figures, the farmer paid 81% more for his fertilizer for the 1974 crop, than he paid in 1973. That was only if he could get it. Black market prices ranged 300% higher.

Seed for crop production is also taken for granted. Yet, it too jumped 23% in cost last year, and nearly three times what it was in 1967.

Farmers know what the cost-price squeeze is. Others must recognize this also. It is time to acknowledge the farmer's importance as one of the world's most valuable resources.

The American farmer produces food for himself and many, many others. This extremely important contribution can be continued, but only if he can have profitable farming operations.

If you have any questions or comments, contact me personally. We will appreciate hearing from you.

Sincerely,

GEORGE VOTH,
Executive Vice President.

THE FARMER IS PAYING THE PIPER, BUT LOOK WHO'S DANCING

To put things into perspective, let's take a look at what the American farmer is paying.

He paid 81% more in 1974 for fertilizer than he did in 1973. And that's when he could get it. His building and fencing supply costs were up 23%. When he planted his crops, the farmer paid 20% more for his seed in 1974 than he did in 1973.

These are just three examples. But they show what the farmer is having to pay to the large, powerful corporations from whom he has to buy.

It becomes even more shocking when prices are compared with 1967 levels. For the seven year period, the above percentages explode to 212%, 191%, and 263% respectively.

As the American farmer is feeling this extraordinary cost squeeze, he is also feeling the threats against his only real hope for survival.

Cooperatives are his method of dealing with the powerful buyers and sellers on a somewhat more equal basis. Yet there are some who seek to destroy this efficient marketing system.

Especially with today's strangling inflation, we can no longer take the American farmer—and his production—for granted. His valuable contribution to this nation can be continued only if we provide an atmosphere conducive to profitable farm operations.

The American Farmer.
Let's not take him for granted.

Mr. DICKINSON. Mr. Speaker, we Americans have engaged in reckless, deficit spending for too long now, and the day is close at hand when we must face the music and pay the piper. Rampant inflation is today, indeed, threatening the very ability of the Department of Defense to "provide for the national defense." And since the Congress is constitutionally responsible for national defense, I believe a few "sour notes" about Pentagon problems are now in order.

Even though the total strength of our Armed Forces has been cut 40 percent since 1968, the cost has increased due to inflation. But, as a percentage of gross national product, our military expenditures have been steadily decreasing, and in fiscal year 1974, were only 6 percent. In fiscal year 1975, that figure should be about 5.9 percent.

I believe that today peace in the world is dependent upon the maintenance of a military balance between East and West, and when that balance is upset, we risk war. And the question now is, "What is happening to the military balance?"

We have not heard of a reduction in Soviet military expenditures. To the contrary, the CIA has reported that real Soviet military spending is increasing at 3 to 5 percent per year. The Soviets outspend us militarily, and have since 1970, in terms of real expenditures or, in other words, the absolute amount of goods and services which a given number of rubles or dollars will buy.

Even though our own military budget is growing in terms of real dollars, the absolute amount of goods and services purchased is decreasing rapidly. These facts are now creating a serious disequilibrium in the balance of power between East and West.

Let us take a closer look at what is ac-

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tually happening to our defense budget and let me give you a few facts and figures to back it up.

In the past 2 years, Army aviators' flying hours have been reduced by over 25 percent, and the cost of each hour flown has increased 42 percent. The consumption of oil and petroleum products has been reduced by 21 percent while the cost has increased by 58 percent. The cost of procurement of a small steel item like track shoes, which are the individual links comprising the track on tracked vehicles such as tanks and armored personnel carriers, has increased a total of $18.7 million in less than 2 years. But does this mean we can reduce or eliminate our need for such items? It cannot be done. We must now pay the price.

We all know what has happened to our utility bills. The Army has that problem, too. In the past year, their cost of coal has increased 91 percent, electricity 58 percent, and water and sewage 48 percent.

The Army, as the other services, has already cut, reduced, and shaved right to the bone. At the unit level, equipment shortages, excessive down time, the nonavailability of spare parts, and the shortage of fuel has resulted in the curtailment of training. The standard of living of our military personnel has dropped, and if the trend does not soon reverse, we will be faced with widespread morale problems. The time has now come when their budget must be substantially increased if they are to remain capable of fielding an effective military force.

Let us take a look at the Navy. We know that a ship's useful life is limited to about 25 years. Using that figure, we must build an average of 20 ships per year just to maintain a fleet of 500 ships, about what we have now. And if we could build 20 ships per year and have each last for 25 years, our average ship age would level off at 12½ years.

Now let us take a look at what we have actually done. Since 1970, the Navy has received authority to build a total of 89 ships, or an average of about 15 per year. If we sustained our shipbuilding program at 15 ships per year, our fleet would be reduced to a size of 375 ships by 1990. But can we allow that to happen?

Even today, except for our aircraft carriers, the Soviets lead us in tonnage of surface combat ships, nuclear-powered submarines, diesel-powered submarines and in tonnage of coastal patrol and minesweeping ships. They have more major surface combat ships and three times as many submarines as the United States. They lead us in numbers and in range of missiles deployed aboard naval vessels. Is this the kind of naval power which the Congress wants to take credit for providing to our people? I do not believe so.

It was in 1970 that the Navy retired many World War II ships, thereby reducing the size of the fleet by about 400 ships. It was determined that the operating costs thereby saved could be used for additional ship construction. But, then along came 1974, and the rampant inflation which threw every American budget back to the drawing board. And the Navy's was no exception. The Bureau of Labor Statistics reported that fiscal year 1974 saw an increase of over 22 percent in the cost of shipbuilding materials.

The United States is a maritime nation. We cannot afford to let inflation erode the naval strength we must have to protect our vital interests.

And, as for the Air Force, the problems are no different. Inflation is chewing away at every program, whether in research and development or in procurement.

The Air Force today seems to be our only service which can match its Soviet counterpart. Not because they have done something the other services have not, but because the Soviets have not yet mastered the advanced level of American avionics. The Soviets chose, instead, to concentrate first on their army and navy, both of which are now formidable forces. They have begun their assault on air superiority, too. We must not let them succeed as a result of the intransigence of the American people in their determination to defeat the cancer which is now destroying our economic system.

I have tried to outline some of the problems which are now facing the Department of Defense and to give you a few facts and figures. Inflation is eroding our defense posture, upsetting the military balance of power between East and West and increasing the risk of war.

We have a choice, Mr. Speaker. We may pay the price to slow inflation, or we may risk the price of World War III. It is the United States alone which has the ability and the responsibility to maintain that balance of power. We alone carry the torch, and there is no one else to pick it up, should we choose to let it fall. In 1949, Senator Arthur Vandenberg said:

> Much as we might crave the easier way of lesser responsibility, we are denied the privilege. We cannot turn back the clock. We cannot sail by the old and much easier charts. That has been determined for us by the march of events. We have no choice as to whether we shall play a great part in the world. We have to play that part. We have to play it in sheer defense of our own self-interest. All that we can decide is whether we shall play it well or ill.

If we choose to play it well, and I believe we must for the alternative is unthinkable, then we must begin, right here, to bring inflation under control. The Congress has the responsibility for establishing and maintaining the military force of our Nation. If we choose to also provide them with worthless dollars, then we must also bear the blame. If we are going to fulfill our responsibility of all the American people, then we must begin to act in a responsible way.

Who among us believes we have an alternative?

Mr. ARCHER. Mr. Speaker, during this time of difficulties with our economy and the problem of energy, we need to continue our faith in our institutions and to follow the path which has brought us success in the past before we take a chance on traveling new and unproven roads. This lesson is clear when we look at the energy situation.

If we are to develop our full potential and reach energy self-sufficiency, we must follow the road proven success—the free enterprise system.

Our economic system in the past has provided us with efficient and cheap energy in abundant supply—oil, natural gas, coal. Despite our increase in production over the years, our Nation has been consuming more and more energy. Jack Bridges, formerly with the Joint Congressional Committee on Atomic Energy and a widely recognized expert on energy, has observed:

> If the U.S. can get the energy, it will come close to using more oil and gas from 1970 to 1990 than has been used by the nation in all the years before 1970.

The era of cheap energy is over; the era of the energy shortage is upon us. We can meet our energy challenge if we pursue the right policy now and in future years.

Our national leaders recognize the necessity of developing our own domestic energy sources in order to reduce our dependence on foreign suppliers. The way to accomplish this objective is to provide incentives for our own citizens. Yet, at the very time we recognize the need to encourage our domestic supply, there are proposals to eliminate a major incentive for individuals to invest in and explore for oil—the depletion allowance. We will not be able to increase our oil exploration and development in the United States unless we can provide the necessary incentives for people to enter this field.

The percentage depletion on oil and gas has provided a major incentive encouraging exploration and development and has allowed oil and gas to be available to the American public over the years in increased quantities and at reduced price levels. However, the critics of the depletion allowance charge this item is a tax "loophole" for the large oil companies and that no harm will result in our efforts toward energy self-sufficiency if we eliminate it.

The facts tell a different story. The independents, not the large oil companies, now drill over 80 percent of our domestic wells, and the elimination of the depletion allowance will have a severe effect on these energy searchers. Because of the high cost involved in the oil business and lack of new incentives, the number of independents has been declining over the last few years. The effect of reducing or eliminating the depletion allowance simply means the independent oilman will likely cut back on exploratory drilling. Arthur T. Stieren, an independent oil producer residing in San Antonio, Tex., has estimated that a reduction or elimination will result in a reduction in drilling in the range of 20 to 60 percent. We have a good historical example to back up this prediction. When an attempt was made to close this loophole by reducing the statutory role of depletion from 27½ percent to 22 percent in the Tax Reform Act of 1969, a 20-percent reduction in drilling did occur.

We recognize the desirability of providing certain tax benefits to encourage

charitable contributions and business investments in capital equipment and donations to educational and research organizations. We need to recognize the need to keep an inventive for those in the private sector likely to provide our future energy needs.

The elimination of this incentive will deter the high-risk investment needed for the United States to acquire self-sufficiency. If we are going to borrow a platform from consumer organizations urging truth in labeling, we should label any bill to reduce or eliminate the depletion allowance as follows: "a bill to allow the United States to continue its dependence on foreign sources of petroleum and to discourage American energy independence."

If we are to encourage domestic development, it is essential that we recognize that adequate profits attract new capital which makes possible additional supplies. The petroleum industry is a capital intensive industry and requires a huge investment on a long-term basis. Over the past 10 to 15 years, net income of the petroleum industry has been too small relative to its capital needs. The National Petroleum Council has estimated that industry needs to spend $19 billion per year during the 1971–75 period for oil and gas exploration, development, refining, transportation, and synthetics—plants and mines—in order to achieve 83 percent oil self-sufficiency by 1985. This would require at least tripling the 1972 expenditures of $8 billion on these items.

The Chase Manhattan Bank in a special study on energy has estimated that if the oil industry is to raise sufficient funds the rate of return on invested capital needs to range between 15 to 20 percent. Rice University Prof. Dr. Robert R. Sterling has noted that oil companies have been earning less on total assets than other industries. In his current value accounting analysis of returns for other industries between 1964 and 1973, Dr. Sterling concluded that average industry returns for other industries were 7.7 percent while average oil companies returns were 6.9 percent. If we eliminate incentives plus add disincentives—like the so-called windfall profits tax—we will not be able to raise the necessary capital to reach our goal of energy self-sufficiency.

We have already experienced one long-range effect of Government controls on energy resources—the decision in 1954 which allowed the Federal Power Commission to set an artificially low wellhead price on natural gas used in interstate commerce. There was an expected rush to use this "cheap" fuel. This fixed price, lower than the free market level, overstimulated consumer demand and discouraged producer initiative in exploring for and developing natural gas. It became a Federal program not to produce cheap energy but in reality a Federal program to guarantee a shortage. Do we ever learn? We have advocates of continued Federal regulations over the price of "old" oil, proposed controls over "new" oil, suggestions of placing "public representatives" on the boards of oil companies, and even the proposal to establish a Federal Oil and Gas Corporation—Fogco. This latter Corporation would take the lead in developing our energy resources. This Corporation would probably operate with the efficiency and dispatch of our postal system. At least the initials of this Corporation give us a clue to what will happen to our energy policy if the Federal Government takes over—our energy program will be in a "fog."

Speaking of our postal system, we should remember that almost 20 years ago it cost 1 penny to send a postcard from Texas to New York through our postal system and it cost a penny to send a gallon of oil from Texas to New York by tanker. Presently, private enterprise can still move a gallon of oil from Texas to New York for about a penny by tanker while a postcard costs 8 cents—and we are never quite sure how long the journey will take.

An analogous situation to our present energy crisis occurred during the latter part of the 19th century. It has been related by Walter B. Wriston, chairman of the First National City Corp. of New York, in a speech entitled "The Whale Oil, Chicken and Energy Syndrome." It illustrates a historical lesson we should not forget. Mr. Wriston notes:

> Few Americans even remember that from the time of the American Revolution until the Civil War, a major source of artificial lighting was the whale oil lamp. No one should have needed a Congressional commission to predict that the supply of whale oil could not forever keep pace with the demand of a growing nation.
>
> The tragedy of our Civil War disrupted whale oil production and its price shot up to $2.55 a gallon, almost double what it had been in 1859. Naturally there were cries of profiteering and demands for Congress to "do something about it." The government, however, made no move to ration whale oil or to freeze its price, or to put a new tax on the "excess profits" of the whalers who were benefitting from the increase in prices. Instead, prices were permitted to rise. The result, then as now, was predictable. Consumers began to us less whale oil and the whalers invested more money in new ways to increase their productivity. Meanwhile men with vision and capital began to develop kerosene and other petroleum products. The first practical generator for outdoor electric lights was built in 1875. By 1896 the price of whale oil had dropped to 40 cents a gallon. Whale oil lamps were no longer in vogue; they sit now in museums to remind us of the impermanence of crisis.

We need to utilize the free enterprise approach to solve our energy crisis—free market incentives not Federal controls. We need to keep incentives like the depletion allowance and avoid disincentives like the so-called windfall profits tax. We need to decontrol all domestic oil and deregulate natural gas while avoiding Federal price controls and a Federal Government energy corporation. The increased involvement of the Federal Government in our energy crisis will not solve it but will only make it worse. Our private enterprise system with the necessary incentives can do the job of making the United States self-sufficient in energy.

U.S. GOVERNMENT PRINTING OFFICE: 1975

MEETING WITH
EXECUTIVE COMMITTEE
HOUSE REPUBLICAN STUDY COMMITTEE

Wednesday, April 30, 1975

11:00 A.M.

THE PRESIDENT HAS SEEN...