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THE WHITE HOUSE
WASHINGTON

April 15, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR:

JIM CANNON

FROM:

JIM CONNOR *JEC*

SUBJECT:

Legislating an End to Unemployment

The attached newspaper clipping was returned in the President's outbox with the following notation:

"Excellent arguments against Humphrey/Hawkins.
Might save for news briefing or veto message."

Please follow-up with appropriate action.

cc: Dick Cheney
Jim Shuman

THE WHITE HOUSE
WASHINGTON

Jen Cannon

Excellent arguments
against Humphrey/Harkin
Might save for news
briefing or veto message.

(Something about the city you're in)

JOURNAL, WEDNESDAY, APRIL 14, 1976

Legislating an End to Unemployment

By HERBERT STEIN

A number of Democratic presidential candidates, or near-candidates, have endorsed the new version of the Humphrey Hawkins bill. That indicates that they are too busy running to think much about what they would do if they were President.

On its surface the bill is a measure for achieving all kinds of good things. Most specifically, it seems to be a measure not only for getting everyone employed, but also for getting them employed producing the "right" things. But in fact it is a measure requiring the President to figure out how to achieve all these wonderful things at once, with not only the Congress but also the governors, mayors and assorted citizens lined up to take a crack at him as soon as he puts forward his program.

That is what makes the bill so attractive and gets it so many sponsors. The Humphrey-Hawkins bill is to unemployment what the WIN button was to inflation. It is a sign your heart is in the right place, but it doesn't require you to do anything. That is, unless you are the President.

The President's Chore

Here are some of the things the President is supposed to submit to the Congress within 90 to 180 days after the passage of the Act:

1. A Full Employment and Balanced Growth Plan, setting forth goals for full employment, full production and full purchasing power, including an unemployment rate not in excess of 3% for adults, to be reached within four years.
2. Policies and programs to "reorder national priorities" including priorities with respect to energy, transportation, food, small business, the environment, health care, education, day care, housing, aid to state and local governments, national defense, international programs and such other matters as the President deems appropriate. (That is, everything is to be assigned priority except people's use of their own earnings.)
3. Proposals for improving the efficiency and economy of the federal govern-

problems. The bill identifies goals—some specifically, some vaguely—but does not recognize any difficulty in achieving any of them, except lack of heart and will. What is needed is to assert the goals strongly. Once that has been done the President can fill in the details of the programs needed to reach the goals.

The bill has two main themes, as indicated by its title, "The Full Employment and Balanced Growth Act of 1976." The Balanced Growth part of the bill is a spin-off from the Humphrey-Javits economic planning bill, which was called the Balanced Economic Growth and Economic Planning Act of 1975. Presumably the Humphrey-Javits bill will now be allowed to wither away. It did not play well in Peoria. Its main promise was to statisticians and bureaucrats—jobs for the former and power for the latter. No crowd of citizens marched upon the Capitol demanding the Plan and the Humphrey-Javits bill as they did recently demanding jobs and the Humphrey-Hawkins bill.

Whether one should be relieved that the Humphrey-Javits bill has been superseded,

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or worried that the national planning idea is now coming upon the scene behind the attractive skirts of full employment, is an open question. In any case, the planning aspect of Humphrey-Hawkins is less frightening than the proposals of Humphrey-Javits. The goals are less comprehensive and ambitious.

Apparently the Plan envisaged in the new bill is less detailed than in the previous one. On this subject, the new bill says, referring to the policies and programs the President is to submit as part of the plan: "Such policies and programs

will benefit not only the otherwise unemployed but will also benefit the rest of the nation, and not only in the spiritual sense of having done the right thing but in the more material sense of having more income, more production, more revenue, etc. Whether this argument is valid depends on how much the unemployed have to be paid to work and how much their product is worth to the rest of the nation.

This is not a fanciful consideration. The fact that people are unemployed at least raises the question whether their product would be worth their wage. The fact that there are lots of unmet needs in the country sheds no light on this question. Every individual, business, and government in the country has unmet needs that some of the unemployed might help to meet. Their failure to hire the unemployed suggests that potential employers think the cost of meeting those needs would be too great.

It will be said that the cost of hiring them is really less than it would seem to be for a private employer, because if they are employed the rest of the nation will save some welfare costs and collect some taxes. Thus, the net cost to the rest of the nation is smaller than the wage that would have to be paid. This may seem an ironic situation—government payments to the unemployed being so large that only the government can afford to hire them. It naturally suggests the possibility that the way to make some of the unemployed employable in the private sector is not to pay them so much when they are unemployed. However, we should accept the fact that there is some minimum income below which we don't want people to fall, whether they work or not. The cost to the rest of the nation of employing them is only the excess of their wage over this minimum income.

But still, this net cost is not zero. The rest of the nation benefits from hiring the unemployed only if their product is worth more than this net cost.

Udall's Example

The arithmetic of this may be seen in the illustration Congressman Udall has given of the workings of the jobs program

4. A comprehensive proposal which shall establish on a permanent basis policies to reduce high unemployment arising from cyclical movements in the economy.

5. A permanent countercyclical grant program that will serve to stabilize state and local budgets during periods of recession and high unemployment.

6. Legislation providing an institutional means designed to encourage public and private investment in economically depressed regions, inner cities and economic sectors and provide an alternative source of capital funds for local and state governments to finance public facilities.

7. Legislation creating a comprehensive youth employment program.

8. Recommendations on how income maintenance and employment policies can be integrated to insure that employment is substituted for income maintenance to the maximum extent feasible. (Is there here perhaps the glimmering of the idea that people might work more if income maintenance programs were less generous or easily available to employable people? Probably not.)

In addition, the bill specifies a number of features which are to be added to the President's economic report, including the description of the monetary policy needed to achieve all the good things and an anti-inflationary policy of numerous facets.

This list reveals the underlying strategy of the bill. It is to indicate a number of respects in which all "good" people think the world is not quite as they would like it to be and call upon the President to submit programs for making it better. With one exception, public service employment, which I shall discuss below, there is no specific proposal for solving any problem. This is truly amazing.

The combined period of service in the federal government of all the sponsors of the bill must amount to several centuries. Senator Humphrey alone has been in the federal government for about 30 years. But, with the aforementioned exception of public service employment, they have no solution to offer for any of the problems they recognize. In fact, it is probably wrong to say that the bill recognizes any

shall not be set forth in the programmatic detail developed by specialized federal agencies, and by others in the public and private sectors, but only sufficiently to furnish an integrated perspective of our needs and capabilities and as a long-run guide to optimum private, federal, state and local government actions."

This is not perfectly clear, but it seems to be an olive branch offered to those who feared that the planners intended to run literally everything. Moreover, while the bill specifies elaborate procedures for congressional review and approval of the Plan, once the Plan has been approved by Congress the President is not required, as he was in the earlier bill, to do anything about it. The Plan is only to be transmitted to the President for such actions as he deems appropriate.

However, the most important concession of the new bill is that no new planning agency is to be established in the Executive office. Now the Plan is to be submitted to the President and prepared with the assistance of the Council of Economic Advisers and in consultation with the Office of Management and Budget. The difference is crucial. If you establish a new economic planning office with nothing else to do but prepare a Plan, they will almost certainly prepare a Plan. But if you assign the function to busy people who have important operational responsibilities, they will probably find a way to avoid an academic exercise like preparing a Plan.

But the core of Humphrey-Hawkins is jobs, not the Plan. Presidential candidates flock to Humphrey-Hawkins because it seems to provide an answer to the insistent question, "What is your program for unemployment?"

The bill's approach to the unemployment problem starts from two propositions. One is that there is a great deal of work to be done in the country, there are people who want to work, and it is only logical to put them together. The second is that the nation (meaning not just the unemployed) suffers substantial costs from unemployment and that therefore the nation should be willing to pay to reduce unemployment.

The argument is that full employment

He supposes that 4 million persons might be engaged in public service employment, at a cost of \$40 billion or \$10,000 a head. Where would this \$40 billion be found? In Udall's illustration \$10 billion would be the amount saved in relief payments to the otherwise unemployed. Another \$10 billion would be the taxes paid by the newly employed. Another \$10 billion would be obtained from tax reform (definition: higher taxes on people who have a high propensity to vote Republican). And \$10 billion would be cut out of the defense program (a cut which Udall regards as a gain rather than a loss.)

One can argue about these numbers. The tax rate on the newly-employed seems high. The people disemployed by the defense cut seem to have dropped out of the picture, as have the taxes they pay. But the basic proposition is clear enough. The formerly unemployed have \$20 billion more income (the \$10 billion they now earn less their former relief payments and their new taxes). The formerly employed have \$20 billion less (the \$10 billion they pay in tax reform and the \$10 billion they formerly earned in defense) and in addition are \$10 billion worth less well-defended.

Whether this is a good deal for the rest of the nation depends on whether what the newly-employed produce is worth \$20 billion to them (plus whatever value is assigned to the foregone \$10 billion of defense). What is striking about the Humphrey-Hawkins bill is that this consideration is entirely ignored. In fact, this consideration is totally at variance with the spirit of Humphrey-Hawkins. The goal of Humphrey-Hawkins is to get the unemployment rate for adult Americans down to 3%. But that may be inconsistent with employing only people whose product is worth more than the net cost of employing them.

Setting Wages

The way the bill proposes to assure that the unemployment rate is reduced to 3% is to require the President to provide job opportunities through reservoirs of federally operated public employment projects and private nonprofit employment projects. The bill also specifies the wage which is to be paid on such projects, which in general is the prevailing wage for each occupation. However, there is no requirement that the value of the worker's product should equal the net cost of hiring him. And there couldn't very well be such a requirement, because it might leave more than 3% of adults unemployed.

The nation may decide that it wants to hire unemployed people at a wage in excess of the value of their product. If it does there should be no illusion that those presently employed will become richer as a result. But no one should be surprised if the nation decides that it is not worth it to do that. It may decide that the laborer is worthy of his hire, or should be, and the Humphrey-Hawkins will defer, not advance, the date when that is true.

Dr. Stein is the A. Willis Robertson Professor of Economics at the University of Virginia and former chairman of the Council of Economic Advisers under Presidents Nixon and Ford. He is also a member of the Journal's Board of Contributors, five distinguished professors who contribute periodic articles reflecting a broad range of

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