# LABOR SUMMIT ON INFLATION

September 11, 1974

P R O C E E D I N G S

PRESIDENT FORD: Good morning.

I am pleased to join this morning with so many distinguished members of the Congress, both Democratic and Republican, and the outstanding leaders of America's great labor unions, and guests.

We have gathered here today to deal with inflation, an immediate danger threatening every American.

The future of labor union members and all other Americans depends upon what we can achieve together in the campaign against inflation.

I want to thank you all for participating today in this important meeting. Some of you have generously accepted an additional burden by agreeing to participate in other such meetings.

By so doing, you indicate that you share with me the conviction that inflation is the most critical national issue of the day.

I deeply appreciate your willingness to work together with me on a problem that transcends America's many special interests -- whether Republican or Democratic, labor or business, urban or rural.

It also goes beyond any divisions based on age, sex race, color, or creed.

The enlistment of trade unionists in the war against inflation is consistent with the patriotic involvement of American labor in every great challenge that has faced our nation.

Without the productive dedication of American labor, World War II might have ended differently. Labor built America.

Labor is America. Together, we must now preserve and enhance the economic base of our existence from everybody's enemy -- the scourge of inflation.

We need your advice and guidance on this issue of such overwhelming concern to all your members. I want your ideas on steps we can take to help the individual as well as the nation.

Today's meeting is a part of the series that culminates in the Conference on Inflation on September 27th and 28th.

Since this is only a one day session, let us get directly to the point. Let us dispense with formality. Let us be frank. Let us also try to keep our comments brief and on target.

I will certainly welcome, however, any detailed statement anyone wishes to submit in the form of written proposals.

Please submit these directly to me, if you will, within the next few days. That will give us adequate time to consider them before the conclusion of the designated time frame.

You are aware of the severity of inflation. Although inflation is unfortunately no novelty in our economic history, its present form is the worst we have experienced in 27 years.

Consumer prices are increasing at an unacceptable annual rate of 11 percent.

Statistics alone are inadequate to describe inflation in human terms. Cold and impersonal numbers and percentages cannot describe the impact on people's lives.

While everyone is hit by inflation, some are struck harder than others. I am thinking of families on low and moderate incomes, of older Americans who are struggling on modest pensions, and our young people whose initial experience with the employment scene may not generate real confidence in our economic system.

These are human problems which must guide the actions of Government as well as the decisions of the private sector.

Government has a particular obligation to act responsibly. We will make a concerted effort to cut the budget and reduce our expenditures.

But we shall wield our budgetary knife ever so carefully, so as not to sacrifice the meat while trimming the fat. Within our general budgetary restraint, we shall be mindful of the need to increase what we allocate to the essential while we decrease what we apportion to programs which are to some extent discretionary.

We also must exercise care to prevent our recently overheated economy from cooling off too fast. We must avoid a damaging recession.

We are now making a cooperative effort in response to the initiative of the distinguished majority leader of the Senate and other members of the Congress on a bi-partisan basis.

The legislative and executive branches are working together to seek short-term answers to short-term problems and long-term answers to long-term problems.

In May of 1973, the Administration requested enactment of the Job Security Assistance Act. This proposal is an important part of our policy to assist in a period of rising unemployment.

It would modernize the unemployment compensation system without violating the relationship between the States and the Federal Government.

I recognize the concern of many that unemployment might rise because of the policies we must follow to fight inflation.

I am watching the unemployment rate very closely.

This Administration will act with compassion. We will not permit the burden of necessary economic restraint to fall on those members of society least able to bear the costs.

The unemployment rate in August, announced last Friday, was 5.4 percent. But we certainly cannot be complacent about any American lacking work.

The present situation calls for full use of available tools and dollars.

I have instructed the Department of Labor to accelerate the obligation of currently available funds under the Comprehensive Employment and Training Act.

The Secretary of Labor will immediately disperse $65 million to those communities in which unemployment is highest.

By the end of the month he will make available another $350 million under CETA Title II. This $415 million will finance some 85,000 public sector jobs in State and local governments.

Added to the almost $550 million obligated for public service employment in June from the FY 1974 appropriation, and about $50 million in prime sponsorships under the CETA Title I have allocated for this purpose, currently available resources will provide 170,000 public service jobs this coming winter.

The effect of these actions will be to double the number of federally funded public service jobs. In addition, $1.3 billion will be available to State and local governments for manpower programs.

Beyond this, drawing on the outcome of the Conference on Inflation, and your suggestions, we will develop contingency plans against the possibility that unemployment might give evidence of rising to substantially higher levels.

If the employment statistics demonstrate the need in the future, we will be ready to present such plans to the Congress and to work together to assure a mutually satisfactory course of action before the end of this session.

To leaders of our labor unions, and to the captains of industry, I make a sincere appeal for restraint. And it must be a self-imposed restraint.

As I have said before, there will be no controls imposed on wages and prices. Settlements at the bargaining table are the responsibility of the participants as long as they respect the public interest.

We need your help today, not merely for my Administration, but for the whole Nation. I hope this discussion will not only be productive of ideas to preserve the American dollar, but will demonstrate that we remain a nation united.

Those opening observations and comments. I would like to turn now to some observations and comments.

First, I would like to call on my friend George Meany who will make his comments.

MR. MEANY: Thank you very much, Mr. President.

And I appreciate the opportunity afforded to us. So that the thinking of the American trade unions would be of some service in treating this problem.

I think all Americans agree with your announced judgment, Mr. President. Certainly, the union members we represent and their families agree with the priority this Administration has given to this problem.

We will not try to recite for you all the various statistics that are put out by agencies of the Executive Branch of the Government that clearly show that this country is in a recession.

By the same token, we hope that we and our members as well as the American people will be spared the optimistic rhetoric so often used by the past Administration.

It is our opinion that this Administration would be making a grave mistake if it attacked inflation as the only problem besetting this country.

Worse than that, it would be jeopardizing the lives of thousands of Americans. It would be bad government, in our view, to fight inflation by making the recession worse.

The burden of fighting inflation and recession is the truth, the truth of the economists, the truth of the leaders of vision, the truth of the leaders of labor, and all the other truths.

We intend to try and give you the benefit of our assistance. The first is that today's inflation is not caused by excessive demand, which is the classic reason for inflation, too many dollars chasing too few goods.

Hence, we believe that budget cuts, high interest rates and tight money, which might be appropriate weapons against excessive demand inflation, certainly, will not work on today's inflation.

Indiscriminate budget cutting could compound recession. Higher interest rates could only insure higher prices.

Tight money only chokes an economy that needs to grow. Another truth is that unemployment hurts people. It's easy for the government economists to talk about acceptable rates of unemployment, but it is very difficult for people who are unemployed.

The prospect of a deepening recession and mounting unemployment, even in the name of the glorious battle against inflation.

It is a frightening prospect for millions of

Americans.

Their only hedge against inflation is their job. And these American workers, whom we represent, are not economists, not bank officials, or corporate executives, people who do not have to worry about this.

We look to our government for protection. I would like to respectfully submit that as a starting point that we all should agree that we are doing something wrong.

Back in 1969 a program was made up by the Administration, tight money, restricted credit, all the so-called ideas that the economic experts at that time brought to bear on the Administration.

And this fight against an unacceptable rate has increased. We were told that the 4.3 percent, or whatever it was, in February of 1969 was unacceptable, and that the Administration was going to see that it was either held down or brought down.

And we were assured that this was going to be done without causing anymore unemployment. The economists that we have, and we have some that we feel are pretty good, they said this didn't make sense.

The tight money and restricted credit are bound to cause unemployment. But we were assured that this was not so, that this was not going to happen. And we were assured in writing, if you please, in February of 1969 by the President of the United States. He put it in writing, that the workers were not going to pay through increased unemployment.

So I think we've got to start by admitting we are doing something wrong. We've been going down the hill -- down hill for five and a half years under the present economic policy that we have right up to this date.

I think we've got to have some new thinking on the part of the experts, some new ideas, and some new direction.

I think we should, despite the fact that you have assured us, Mr. President, there are going to be no wage and price controls, I think we should take a look at the 32 months of the so-called stabilization program starting on August 15th, 1971 and ending on April 30th of 1974.

And during this period it is our contention that workers and their unions were subject to one-sided control on workers' wages.

But there were no effective controls on prices and no restraints whatsoever on corporate stock. The program included at its beginning huge tax cuts for business. This was supposed to help.

In the name of economic stabilization this added to $6 billion a year. We feel that these were tax giveaways to the business community.

From the very start this program was inequitable, unjust and unfair. However, the main point is it did not control inflation.

While wages were held at five and one-half percent, prices kept going up and up and they're going up right to this very minute.

Now, in addition, of course, there were things that happened that we didn't like very much. Our contracts were abrogated, they were nullified from the balcony, as it were.

It reminded me of of Peron and Mussollini, making decisions from a balcony. Our contracts were nullified, legal contracts.

We negotiated with the government right in the middle of the conference. And we were told on the 16th of August that these contracts were no longer valid.

Well, that was a mistake. Of course, the President himself admitted it was a mistake, because late in December he signed an Act of Congress that validated those contracts.

The Congress decided to vote contracts between union and its employers as valid. However, we were still faced with the unfair controls.

Again, Mr. President, I agree. I am delighted to hear you say there are no controls, but there are some great minds along the economic field that feel, well, let's have guidance.

And to me, this guideline is the same as the controls, because, Mr. President, you've never seen greater patriotism, greater civic pride on the part of employers when you give them a guideline on wages.

So each one of them becomes a great patriot. They are going to go along with the national administration. They are going to go along with the country, and the interests of the country happen to dictate that wages be held down.

We had guidelines back in the days of President Johnson. Price and wage controls will not work in this matter.

In this diverse economy -- this is a great big country, and the minute you put on price and wage controls unless the control is absolute and complete, wages controlled by fiat with the Government, prices controlled right down to the last local grocery store.

18 If you've got that kind of a control, this may work. And that's the kind of a control that's equitable, all forms of income controlled, all forms of prices controlled, at the wholesale level, at the retail level, all down the line.

Now, the only other situation where there is complete ecstasy is where there are no controls. And we have said in the trade union movement for the past 8 years, we've said it time and time again, that we want to fight inflation; we're the victims of inflation; our members are the victims of inflation; and that we will join and cooperate in any program that is equitable, completely equitable, equitable where we sacrifice, where the other segments of American society will sacrifice.

And, Mr. President, I'm delighted to hear you say that there will be no controls, and I want to assure that as far as we in the trade union movement are concerned, to the extent that I can speak for the trade union movement, we want to fight inflation.

We want to turn this economy around. We don't want a recession. And I heard this morning that Professor Samuelson -- well, he said that he expects a depression, but it won't be as bad as 1929.

So, thanks for nothing.

We will cooperate, I am sure, to the fullest extent, and I am sure that the people sitting here at the table with me this morning will let you know what they think.

Maybe what they think won't please you completely, but you will at least give them credit for saying what they think, and I will give you credit for being ready to listen to what they think.

Thank you very much.

PRESIDENT FORD: Thank you very much, George.

I want it clearly understood that in this meeting, as in the preceding one and those that follow, we want the unvarnished truth as people see it.

There will be differences as to what the facts are, but as I have said many times, we want whatever people believe to be said.

Secondly, I fully agree with you that we do not want any reimposition of wage and price controls, and I see no circumstances that would prompt me, the Congress, or anybody else who understands this problem to recommend such action by the Government.

Thank you very much.

Next, my old friend from western Michigan, Leonard Woodcock, of UAW-CIO. Leonard.

MR. WOODCOCK: Thank you, Mr. President.

I most certainly associate myself with the remarks made by Mr. Meany. I don't have to say to you, sir, that inflation is not an easy problem.

Indeed, a few weeks ago, the distinguished economist who, last year, got the Nobel Prize for Economics said, and I quote him, "One reason why economists are in such disrepute is that they have pretended to understand inflation, to know how to control it, when obviously, we do not."

It is, of course, as much an international problem as domestic, and it can't be treated in isolation, because the policies pursued, obviously, have substantial impact on the economy, and we, too, think we have a recession.

Within the practical range of alternatives, manipulating demand will have very little impact on this inflation.

Cutting Federal spending will not get prices down, we believe, nor do we think will a tight monetary policy. But, it will deepen the current recession, it will increase unemployment, it will reduce the economic welfare.

Real demand has already been cut too much by the overall budget surpluses of all governments, when you add together Federal, State and Local, by inflation and, particularly, by the huge increases in the oil and food bills.

Real demand should be increased by the easing of monetary policy coupled with credit allocations to channel funds where they are needed, as in housing, construction and the utilities; in Government spending in critical areas, construction of needed social input structure, energy research and development, I think, above all things -- manpower programs, and so on. We are happy that you are keeping your eye on that.

And, some increase in effect of demand by lessening the burden of taxation on lower and middle incomes, with compensating increases on the rich and the large corporations.

Now, I must admit, these have little to do with inflation as such, but some can help in easing the sacrifice of the most vulnerable, which is most important.

In addition, in that regard, the public employment program, to which you, Mr. President, have referred, geared to the seriousness of the unemployment problem, we agree, both locally and, of course, nationally.

And we think income maintenance schemes tied to the Consumer Price Index to provide a basic standard for the poor -- we think we need to take another look at the negative income tax.

I would also suggest the indexation of the minimum wage. Now, there is no universal remedy for slowing down prices. The problem is much different in one segment of the economy than another, and we would like to suggest the advisability of ongoing task forces, drawing on expert knowledge, in those parts of the economy troubled the most.

Health care, obviously, is one of the most important, because those inflation costs still are persisting at 50 percent above the general level.

Agriculture, certainly; we need to encourage production still more. We do not think there should be a restriction on exports, because we need those exports to fund our imports.

But we do need, it seems to me, to examine the policy, to insulate, at least in part, the American consumer from high world prices through subsidy and, certainly, the question of all forms of energy.

Now, Mr. President, every bit of our economy is run by plan, except the economy itself, as a whole, has no plan. We think this country has got to look at the possibility of an economic planning board, as other countries have, with considerable success, and begin to develop institutions which can monitor key sectors, foresee problems, and help us make adjustments before disasters overtake us; and, I think, too, recognize that the invisible hand of the marketplace does not work very well in the modern world of huge producers whose prices are set by administrative fiats.

We suggest again the setting up of a permanent price wage review board with subpoena powers, to get all the essential economic data into the light of day, in those industries where one or two producers are dominant in price setting.

Obviously, one must include the unions in that review process, but with no mandatory powers to control, simply to get what is now secret information into the public view.

In conjunction with that, a general counsel for those problems which fall outside the small, but obviously, most powerful, circles.

We think, too, we need a thorough ongoing review of Antitrust laws, for possible reform.

And I might say, finally, Mr. President, with regard to the appeal for wage restraint, there are some of us sitting at this table who negotiated contracts, some under the shadow of partial control, some, as Mr. Abel, outside of controls, and we set contracts so they are geared to a three percent annual increase that is protected by cost of living.

But, Mr. President, the cost of living wage increase is paid up to three months after the prices in fact have risen, so that it is not full protection.

It is not full protection going in -- that is, less protection as the contract runs its course. So that, constantly, that three percent is eroded.

And with the level of inflation up to where it is now, the erosion is greater. We have been restrained, Mr. President, both under the shadow of controls and outside the shadow of controls, and I am grateful that Mr. Greenspan acknowledged the other day that labor cost push is not part of our present problem.

I hope that the future fears of your advisors don't prompt any notion to try and get us in the corral when we are so meekly in the pasture.

(Laughter.)

PRESIDENT FORD: Thank you very much, Leonard. I have never heard that quip before. I do appreciate your very thoughtful and very helpful comments.

I think we are off to a good start, and at this point, I would like to ask Dusty Miller to make his recommendations on behalf of the Teamsters.

I want to make a public apology for not seeing to it that you were here on Labor Day, when we had the signing of the historic Pension Reform legislation. It was, regrettably, one of those slips that I accept as my responsibility, and I apologize. We won't let it happen again.

MR. M. MILLER: Mr. President, I sincerely want to thank you for the opportunity to express my views on this matter.

Consider interest rates as the prime cause of inflation rather than a solution. I think I would not be too far off to describe money as a commodity that is bought and sold.

Also, it is a commodity that is necessary to people in all walks of life.

All of them must buy it and if the price of money is high it increases the cost of living.

Increases in the cost of living are inflationary. We believe that the first policy step in stopping inflation would be for the government to immediately relax its money structure.

Not only would it have an anti-inflationary effect but it would stimulate industries such as housing, and it would have an anti-inflationary effect. It would provide jobs and work; rather than theproposed alternate for the government to step in when unemployment reaches a certain level to hand out jobs, which can only be demeaning.

Another area we believe the nation should gather together inflation data is in the area of international companies.

WE know that these companies have no loyalty to any one nation. Rather they play the economy of one nation against the others.

We suggest the appropriate agency of the Executive Branch sponsor experts and take their testimony of the effect of these financial giants have on inflation.

And we suggest that inflation is a world-wide problem. Another area of consideration which we can see as very important is that the market place is dominated by monopolies.

In this regard it is extremely important that fair competition be re-established in the market place. Antitrust laws must be vigorously enforced.

Combines in the trade must be broken up, and price fixing must be wiped out if the economic theories of ours are to work.

We are not encouraging that simply monitoring of the economy have much effect on inflation. We believe that more is needed. I need not labor this response with statistics on excessive profits which are available in volume for the asking.

Therefore, we believe that a series of price roll-backs are necessary where profits and interest rates have been exorbitant.

How else can we be re-establishing the balance between purchasing power and prices in the market place?

How else can we return to a pdnt where the consumer can expect dollar worth in value for the expenditure of that amount of his wages?

Failing a return to that economic reality we see the danger of a crippling depression. Most of us are old enough to recall the depression of the thirties, and know the human miseries of that sad period of our nation must be avoided at all costs.

And at this point, I hasten to add that we have never agreed to a control on wages, or restraints on the negotiations for new labor agreements, until the time that the balance between the purchasing power and prices is a reality.

To do less would be to forfeit the standard of living of all working people.

If we succumb to the premise that the ordinary citizen will not enjoy prosperity without runaway inflation, then we are in a whole new ball game.

I happen to believe with wise management of our affairs we can maintain our present standard of living by bringing inflation under control.

Properly so, much has been made of cutting government spending to combat inflation. Certainly there is fat in the federal budget that can be cut, but we do not believe that such cutting should sacrifice programs designed to help the poor and the elderly.

Theirs is a fixed income, one that they planned during their productive years by wise management of their affairs.

It would be cruel irony to cut programs to supplement those on fixed incomes in pension years and those living on Social Security.

Much is made of increased productivity as a means of fighting inflation, but in too many incidents we find corporations producing 65, 70, or 75 percent of capacity rather than full productivity.

Shortages exist because of that kind of managed productivity. We believe it should be a matter of concern and there should be rewards for full productivity, and not for productivity contrived to extract the greatest amount of profit.

I would in all candor, highly criticize those who suggest that the consumer buy less to combat inflation.

The consumer cannot overcome the habit of eating, their habit of living under a roof. Such statements by high government officials only confuse the people.

In conclusion, we in the Teamster's believe that this nation should set up a negative goal; a level of inflation that we will not tolerate.

Now, Mr. President, I don't know what a forum like this -- whether it is the proper place to use a comic strip as an example; but last week in the Washington Star there was an appropo example.

The character went to the doctor for a physical. After a thorough examination, the doctor said, "Congratulations, you are as sound as a dollar." He said, "Help, I'm dying."

(Laughter.)

Thank you, Mr. President.

President Ford: Thank you very much. At this point I would like to call on the Secretary of Labor Peter Brennan.

MR. BRENNAN: Thank you, Mr. President.

I would like to join with you, Mr. President, in extending a personal welcome to each and every one attending this meeting here today to exchange our views on how we might best deal with a problem that profoundly affects and concerns every American, whether they be labor leaders, corporate executive, rank and file worker or government official.

And there can be no doubt that inflation is such a problem. Should any of you come here expecting to hear from me, or anyone else in Government, deliver a long-winded speech, let me assure you that your fears can be laid to rest.

Inflation is not going to be solved through people preaching to each other, or indulging in game playing. The problem is too pressing and the time is too short to afford the luxury of breast beating and moralizing. In this battle we are all victims, and none of us are on the side of the angels.

Before we begin our deliberations, I think that it will be good for us, although it may not be necessary, to remind ourselves of the human cost of inflation. The human costs -- and they are what the issue is all about -- are too often covered over by the jargon of modern day economics, whatever brand you subscribe to.

I am not arguing that theories are not important. Although I wonder if we have been suffering from too much of a good thing. My point is that they too easily lead us to lose sight of the underlying human conditions they are invented to represent.

Inflation has been striking a series of repeated hammer blows to American workers and their families, a situation which they and we cannot continue to tolerate. Real, spendable earnings have been in a serious decline over the past few years, falling five percent during the past 12 months.

For the great bulk of wage earners, this lose of purchasing power affects their ability to procure the essentials of life rather than the luxuries. We have already provided you with a series of background papers on wages, prices, productivity, employment budget, monetary policy, trade policy and international economic developments, taxes and related matters keyed to the major inflation and unemployment issue which we will be discussing today.

I hope that the discussion that takes place throughout the day will produce some concrete suggestions as to what further actions might be taken by the Federal Government as a whole, and the Department of Labor in particular, to combat these twin scourges of inflation and unemployment.

The purpose of this meeting is to get ideas as to what we should be doing on the crucial issues. All of your ideas and suggestions will be welcomed, and rest assured that they will be given serious and earnest consideration, as we all work together towards a common objective -- the development of a healthy economy for all of our citizens.

Thank you, Mr. President.

PRESIDENT FORD: Thank you very much, Secretary of Labor Pete Brennan. I appreciate very much not only what you have said this morning, but the cooperation and the assistance that you gave me when I was in the Congress and the Vice-Presidency and now in this job, and I just want to express my gratitude publicly.

It seems to me, after these introductory statements, that it is appropriate that we get an analysis, an overview of where the economy is by Alan Greenspan, the Chairman of the Council of Economic Advisors.

Alan came on board just recently. He was in attendance last week when the economists met. He has summarized for me the recommendations, in a broad way, that came out of that conference. But I think it is important for him to give you the facts as we see them.

Alan, would you please proceed?

MR. GREENSPAN: Thank you, Mr. President.

It is obvious that the economy is not in good shape, or we would not all be sitting here around this table. The evidence, I think, that we are confronted with a very dull and perhaps easing economy at that stage, confronted still with a high rate of inflation, I think is apparent to all of us.

I will not go into the details of how we got here or, in a sense, what some of the implications are, but just let me try to briefly suggest to you what the elements in the outlook are, without necessarily getting into specific numerical forecasts, because I think economists tend to push the state of our science, if you wish to call it that, far beyond what we really know. I think we are getting too much involved with strict numerical forecasts, when I think qualitatively where we are going is perhaps somewhat more important.

First of all, I think the chart you are seeing in front of you now, back here, is one of the key indicators that the economy is in the process of softening. We have built up very substantial inventory accumulation throughout the economy in the last year or so, and we have gotten to the point by any of the various measures which we use, inventories are now excessively high. We're beginning to see some slippages in quarters which, from materials producers, leave times on deliveries from various producing mills are beginning to ease a bit. And concurrent with the sense of more materials availability also are the indications that inventory accumulations are now in the process of turning down and this is putting downward pressure, to a certain extent, on production.

Now, were it not for the fact that the capital goods markets are still exhibiting quite considerable strength, I would be quite concerned about that particular chart, because there is potentially some fairly large declines in inventory that could occur were it not for the fact that the capital goods markets, which, incidentally, support a very substantial portion of the inventories in the system, are still quite strong.

We do hear of numerous reports of cancellations, cutbacks, and the like, especially in the electric utility area. But nonetheless, the total backlogs, the amount of construction in process and the momentum to date pretty much assures us of a fairly strong and stable capital goods market unless there is some untoward financial event which we don't foresee at the moment.

Clearly, these charts suggest that new appropriations are very much higher than the level of capital expenditures. Unspent backlogs continue to rise. And even if we were to adjust these numbers for the inflation rates which clearly affects them, you would still see pretty much the same sort of picture.

The next chart is another way of looking at the manufacturing outlook. It suggests that the starts of new plant and equipment through the second quarter are still running in excess of actual outlays, and hence, the carryover of uncompleted projects still rises, and this clearly gives us substantial uncompleted work which must be completed, unless companies are willing to accept a very large loss, which usually they don't look at very kindly, obviously.

Even in the public utility area where we hear about major cutbacks, we are still starting new projects at levels so far in advance of what the actual level of expenditure or construction is, that there even is here a fairly prolonged, continuous rise implied in the particular level of outlays.

So what we see at this point is true -- a soft economy, one in which we do expect that the unemployment rate is likely to rise; even so, we are still confronted with an inflation rate which, although we hope will be declining in 1975 because of certain temporary elements in the price level, the facts at the moment are it is still high and in the immediate period ahead, it does not appear as though the inflation rate is turning down, because we do know that in the food area there have been some fairly pronounced rises in agricultural products at the farm level -- this, of course, being the result of the drought. And with the inevitable trend from moving from the farm through wholesale areas into retail food markets, I would be most surprised if we did not get continued increases in food prices which we did not like, in the months immediately ahead.

The next chart sort of indicates one of the problems that we have been having over the longer run. We often hear about this trade-off between unemployment rates and the rates of inflation. What this particular chart shows, which -- I think it is clear, the light lines on the left is the change in the consumers price index, the heavy red lines are the unemployment rate. We can see in the top sector the unemployment rates sort of averaging in the four, five or six percent area, with the inflation rate much below that. And what strikes one immediately is that in the most recent period we are getting very dramatically different results which suggest that the so-called trade-off between inflation and unemployment is scarcely a stable thing and one which does suggest quite immediately that the presumption that inflation and unemployment are merely just reversible in the short run. But, clearly, this is not a correct way of seeing what is going on.

Finally, I would like to merely indicate with the last chart what has been going on in the wage area. This is essentially average straight time earnings, seasonally adjustted with interindustry shifts eliminated. This gives us a view of what the average rate of increase is and, as you can see here, we are running well under the inflation rate through most of the most recent years, and even the large pickup that occurs in part with the ending of phase four still keeps us at a rate which is not in excess of the rate of inflation. This is one of the reasons why I indicated yesterday at another meeting, I find it very hard to believe anyone who looks at numbers like this and says it is wages which is pushing up the price level.

Thank you, Mr. President.

PRESIDENT FORD: Thank you very much.

Now, it seems to me that, appropriate for us to get into some technical discussion of economic policy. It has been mentioned, I think, by virtually every speaker: the issue of tight monetary policy.

This has been, in the past, a traditional part of the problems of inflation.

At this time, I would like to ask Mr. Lane Kirkland of the AFL-CIO to make any observations and comments in this area or any other area.

(Draft of Mr. Kirkland's statement follows.)

MR. KIRKLAND: Mr. President, I am sure it comes as no surprise to you that the "tight money" is a current problem of this economy.

It seems to be an appropriate, strong and the relevant source of inflation.

This is equivalent to feeding people with a dose of arsenic, leaving the patient, I think, with a worse condition than he had before.

Beyond that, it was a crime not too long ago that used to be regarded as usury. It represses private enterprise, curtails productivity, creates unemployment, and accelerates, compounds inflation.

As has been pointed out, the price of borrowing money, the cost of borrowing money is a strong element in the price structure.

It adds tremendously, and has added to the cost of Government, the budget of government at all levels. The Federal Government spent $5 billion as additional cost of raising money last year, without any compensating expansion of services and benefits to the public.

It transfers income effectively from the affluent to the least affluent. It saddles the young people, families with a long-term burden of debt. It increases the cost of education and housing.

I think we need to look squarely at the causes of inflation. Those causes certainly do not stem from easy money and low interest rates. In fact, this country grew in a general easy availability of spending.

Another source of inflation is the practice of blackmail and extortion at the hands of retailers.

There is the devaluation of the dollar -- whether that was imprudent or misguided. There is the mass commodity exports, the prospect of present exports stemming from the devaluation.

I think what should also be squarely recognized is speculation, profiteering of the industries. I think those are the central sources.

We, of course, have our views, some of which have been stated, of what the appropriate monetary policy ought to be in the current state of the economy. Certainly, what is getting to be a massive outflow of credit from this country in search of even higher interest rates abroad -- I think it is a trend that has been pointed out by Mr. Brimmer of the Federal Reserve Board, publicly -- that the rate of increase is something like $8 billion in the past few months.

That should be stemmed and checked. We have the resources available to meet the needs of this country. Reports favor and strongly advocate the exercise of powers that I think are on the books to allocate credit at the bearable rates of interest to those areas of the economy that have suffered most from the consequences of tight money, primarily in that crucial area of housing, the area of urban needs, transit, public utilities, and other areas of foremost priority, in terms of access to credit and in terms of purchases and objectives of this country.

We believe there should be -- and it is long overdue -- a general easing of credit across the board so as to make it more generally available at lower rates of interest and I think that view is coming to be widely shared.

I know that one of the easiest things in the world is to say what the solution is to any given problem, and what the right thing to do is, but the hard part, the most difficult part is to get people to do it. I think, Mr.

President, that is the primary task of leadership.

Thank you very much.

PRESIDENT FORD: Thank you very much, Mr. Kirkland.

It has been suggested as a further participant in this aspect of the discussion, I should ask John Lyons of the Ironworkers for any comments.

John, would you like to make any observations or comments?

MR. LYONS: I would like to address myself to the charts that were on the board, and particularly with respect to the one chart, The Public Utilities and Plant Expansion Equipment.

And my observation is what that fails to show, looking at the overall growth in plant expansion is the fact of the necessity of balance, balance between industries and balance between segments of the country, and leave time.

When you take these into consideration, and you look at the thing which was developed recently, and that is the almost $2 billion worth of cutbacks in utility industries, and what is going to be the impact of that shortly down the road, with respect to plant expansion. What is the impact of that in regions of the country where the construction industry is thrown into chaos basically by a serious depression?

In other parts of the country, by that same balance, or lack of balance, when other on-going construction programs are stimulated to very, very great extents to -- by other construction programs that still fit into the overall picture, showing a total of outlay but not having it being the total outlay of major imbalance.

And the fact that the construction activity is thrown on certain parts of the country in volumes four and five times what that part of the country or that industry has ever seen before.

And yet, at the same time, the cutbacks in other parts of the country is such that you have a devastating -- in all parts of the industry you have a devastating impact.

So, when you look at the picture of an increased volume of plant expansion, and say the picture looks good, and you don't look at the picture of what is the balance of that volume of work, you get the distorted picture.

And I think that these are the things that we have got to in some way in Government develop a capability to evaluate what we are really looking at.

PRESIDENT FORD: It seems to me, Mr. Lyons, that there are two problems, among I am sure others.

One is short range problem. With these cutbacks, and using your figure of $2 billion, we do lose jobs.

Now I haven't seen the translation of that cutback to jobs per se, but I am surely certain that it is substantial and that those cutbacks have had an impact now, and I am certain in the future, will have on our employment.

Number two, with the cutbacks in the proposed electric utility field, it means obviously in two years, or four years, we will have less of a capacity to produce electrical energy. And, with the growth in demand that has been traditional, and I suspect will increase, it could precipitate a serious electrical energy problem down the road at some point.

The reasons for the cutbacks are varied. One difficulty getting equity capital at rates that can be justified in passing along the cost to the consumer.

Number two, a number of utilities, I know, feel that state regulatory agencies have not been as responsive in time or in rate increases that would justify a utility seeking to get capital so that they could construct their necessary facilities as they see the demand down the road.

I have discussed this matter with some Governors and urged that the state regulatory agencies act promptly, act equitably, with the long range problem that I think all the statisticians tell me is that we will need more electrical energy in the years ahead and are currently -- or is currently in the program.

So, it seems to me that we ought to find some way to help reinstate, if possible, some of these utility construction programs for unemployment at the moment, and energy capacity in the future.

Thank you very, very much.

The next commentator would be Mr. Hunter Wharton of the Operating Engineers. Mr. Wharton?

MR. WHARTON: Thank you, Mr. President.

Speaking of controls, I am glad to hear you say that, because I expect the entire time of the controls on the construction industry will be rational.

The bad part about it, only controlled wages have been controlling the price of the job, and the contractors went on their merry way with their thin bids, and say, "Aren't we fabulous?" And stock was the only thing that was controlled.

One thing that might have been said worthwhile about the construction industry is that there were people from the construction industry trying to do something about the construction industry, which is not the prevailing practice usually.

The other area that I would like to say a word about is that I know it is causing a considerable amount of unemployment, and that is the environmentalist.

There is millions and millions of dollars worth of work being held up, not because the money is tight, you can't get it, because we do have the money, but the environmentalists are holding up the jobs.

Now, certainly I am in favor of retaining as much as we can of our past, but certainly, when you walk in and hold up the whole progress of an area because you can't put a bridge here, or you can't change the course of a stream or something, I think it is very, very harmful.

Now, through my 40 years in this construction business, they always looked to the construction industry to start things rolling when it was bad; because there is about, I think the record will show, five to six people -- for every one employed in the construction industry on the actual job site, there is five or six who have to back him up.

So the construction industry, I think, is the greatest source of picking up some of the load of unemployment.

So, that would be my contribution, if any, Mr. President.

PRESIDENT FORD: Thank you very much, Mr. Wharton. The Congress did in many of these construction areas, impose the requirement of what is commonly called an environmental impact statement. These impact statements have to be thoroughly prepared, honestly evaluated.

I would hope that they could be expedited -- letting the chips fall where they may in the evaluation. But, any untimely delay, once all the facts are accumulated, I think is unfortunate.

I know this is true in a wide variety of areas, and if we can expedite and still get good reports, I think we ought to do so.

Are there any other comments in this particular area? We have several others that we want to get into, and I will be glad to move to the next subject, unless there is --

MR. WARD: Mr. President?

PRESIDENT FORD: Yes, sir?

MR. WARD: My name is Martin Ward. I am General President of the Plumbers and Pipefitters International Union.

I would like to make a few comments on the matter of construction as pointed out by both John Lyons and Hunter Wharton.

We do have considerable difficulty in the construction industry because it is nice to look at the charts and see that the average unemployment is 5.4.

But right now in the construction industry it is double that. And even with the unemployment double the national average, we are still being faced with cutbacks in the utility companies.

Now, coupled with the fact that the housing industry is absolutely nill as far as employment is concerned, the unemployment figures would be considerably higher if it were not for the fact that we are absorbing people who normally would be working on housing and using them on utility jobs.

So, with the cutback in utility construction -- and it is getting to be more and more every day, despite what the charts show -- we need a little bit of attention in the construction industry.

I would like to get back to a recommendation made by Leonard Woodcock, who suggested that there maybe ought to be taskforces in those sections of the economic segments that are in trouble.

I think the construction industry could well do that.

It is very difficult as a union involved in construction union activities, or construction activities, to piece all the things together, because there is no central agency in Government where we are able to get information as to scheduling of jobs, location of jobs, and things of that kind.

And, I think a lot could be done in the construction industry with a task force that would be looking in, first of all, to stabilizing collective bargaining within the industry. And, you won't be able to do that unless we can stabilize employment.

But if we could get people in the construction industry together, maybe with a little push from the Government, to start to look at our problems in the construction industry -- and when the construction industry is in trouble, the country is in trouble -- because of the economic force of the construction industry, I think we could do some of these things.

And, I think again that if they are going to cut back on utility construction, then we are going to have to start looking at pouring some money into the housing field to take up the matter of unemployment.

Now I know, of course, that we are criticized considerably, the construction industry, for our waste rates; but, if you have a high waste rate and you are unemployed, it doesn't mean a hell of a lot.

So -- and when there is unemployment, in order to meet increases in cost of living, that is when we get that pressure to increase wages higher.

So, if we can start looking at creating employment in the housing field and build something that is really necessary for the country, and start to look at the utility field, because the longer some of these utility jobs are postponed, the more difficult it is going to be to get them on line in time, and you are going to be talking about more manpower shortages, more overtime, and more things contributing to inflationary trends.

And I would respectfully request that the President might even consider setting up a Cabinet post for construction in his Cabinet.

PRESIDENT FORD: Thank you very much. Yes?

MR. SHANKER: Albert Shanker, American Federation of Teachers.

I would like to speak for a moment on the effect of the tight money policy. I think that it has not only effected the poor but the teachers across the country -- hundreds of thousands of them who are earning salaries like $6,500, $7,500, $8,500, $10,000 a year -- are no longer able to buy a modest home, a home with a mortgage of $25,000 a year, which under a 10 percent interest rate, which just isn't available now, it would be something like $225 a month in payments.

I would like to point out what is happening to the schools and other public services as a result of these interest rates; because, not only do companies borrow money, and individuals, but Government borrows money, too.

The state governments need money to operate, and city governments and school boards need that money, and they have to go out in that money market.

They build buildings, and they have to borrow money on a short-term basis for operations.

Now, I know that just within this last year, and I use one city, my own, as an example, but I am sure that it is true all over the country, interest rates on bonds started at the beginning of the year, the city was able to get some money at 5.1 percent interest.

Well, the last bonds that were sold a few weeks ago, went at 7.69. So, it went from 5.1 to 7.69. Now that results in hundreds of millions of dollars in additional interest payments that will have to be paid by the City of New York just for those bonds.

Now, short-term money has even been worse during this period of time, going up very, very rapidly.

Now, esentially, that means that the taxpayers, instead of paying for public services, instead of paying for public service jobs for smaller class size, for facilities for children, hundreds of millions of dollars are going into interest payments instead of going into public services.

Now I would like to very strongly suggest that if the United States Government can provide interest of 6 to 7 percent to the Soviet Union and other countries in terms of providing a favorable trade relations, we ought to be able to provide interest rates like 6 percent to our own citizens so that they can buy homes, or interest rates like 6 percent to the cities of our nation, and the states of our nation, so that they can provide the services that are so necessary.

PRESIDENT FORD: Thank you very much, Mr. Shanker. Did anybody else have any particular comment on this subject? If not, the next suggested topic would be wage price policy. I have indicated quite clearly, with emphasis, that I am personally opposed to the reimposition of wage price controls.

I think, however, it is appropriate that we discuss it, and I certainly will respect your observations and comments. It seems to me, at this point, it would be proper for Mr. I. W. Abel to make whatever observations that he would like to make on this subject.

MR. ABEL: Thank you, Mr. President.

I want to join in what President Meany has said with respect to your position on wage price controls and income policy and programs, and I would express the hope that you don't let anyone change your mind with respect to that.

PRESIDENT FORD: Will you all support me real strongly?

(Laughter.)

MR. ABEL: Well, I think we gave a lot of support to the abolition of the controls we had imposed upon us a couple years ago.

We all served and did as best we could to meet what was the stated objective at that time, but, as too often is the case, found that other people were not serious about our objective, and we at Labor ended up being the complete sacrificers.

As a result, not only were the wage price controls abolished, but later, when we attempted to give some guidance and assistance, or be helpful in some measure, with the Council of Economic Advisers, we found again that this was a futile effort, and it too had to be abolished.

So, I would urge you on the basis of our own experiences that we not try that route again. I would, of course, echo what has been said on many of these subjects by all who have spoken before.

This is a long subject matter, one that we could spend days on, and covering all aspects of it. Many phases have been touched on, but I won't endeavor to repeat.

I would, in the way of suggesting alternatives to economic or income policies, suggest that maybe more serious thought be given to reversing what appears to be the Government policy of economic restraint to one of economic expansion.

Certainly, our society has been built on the basis of improving our economy and providing a better standard of life for people.

The only way we have accomplished that is by producing more and making more available, not only in the way of goods and services, but opportunities.

I get, then, to the point of unemployment. Certainly, this country cannot afford expanding unemployment. As Marty Ward has just said, some of our greatest skills in this country are being wasted today. This country can't afford to waste.

You were in our City of Pittsburgh this week, attending a very important transit conference. Every major community in this country needs a transit system, and the only way they are going to get it is through encouragement and the help of the Federal Government.

This in turn will then provide job opportunities for the utilization of these skills we are wasting. Action has been made by Jack Lyons and others about the need for expansion of our power system.

Just a few miles below the point you spoke of, on the Ohio River, we have had under way in the last several years the development of huge atomic power plants, and on several occasions, there have been strikes by the construction workers, which created great consternation on the part of many people because of the urgent need for the powers that these plants are producing.

Just the other day, those plants were brought to a complete halt because of tight money policies, saying that we no longer can afford to carry on with the needed expansion of the utility problem.

On the other hand, their people are receiving utility bills increased 40 to 70 percent. So, I say to you that serious thought should be given to these kinds of things.

I talked the other day, up at the Economic Committee of Congress, about the need of Government giving serious attention now to getting on with the job of rebuilding our rail system in this country.

We spend billions upon billions of dollars in national defense, but let the very urgent need of rebuilding the railroads and transport system to back up this defense system go to pot. Now, I know, and I think you know, and I think your economic advisers know, that private enterprise, even at the old interest rate, can't bring together the capital that is going to be needed to rebuild the rail system.

The Federal Government must, and I think now is the time to do it; rather than expanding unemployment and curbing further our economy, we should use these periods to get on with this much needed work.

I could go on and on, and I am sure others could, pointing out to you the important work that we, as Americans, need, as a country, as cities, as individuals.

I get, now, to one more point, and then I will conclude. About the time we invoked the wage price freeze and the phases three or four years ago, we did start talking about ways that the Government could be helpful in expanding our productive facilities and the production of goods and services in this country to provide this better life.

I participated, and others around this table participated, but I say to you, there was pretty much of a lackadaisical attitude in taking this matter seriously.

One great effort I am reminded of is an abortive publicity stunt. Now, this would not contribute, and it was aborted, as I say. And finally, the whole thing collapsed because Congress refused to appropriate a few million dollars to get on with the important study and assistance in the field of productivity.

I think it was Mr. Miller who mentioned the importance of operations of industry and companies at capacity, and expanding industries.

I happen to represent the workers in the basic steel industry that has been, fortunately, operating at capacity for the last two or three years.

The steel industry in this country should be expanding. We have increased productivity in the steel industry. We have active productivity committees, joint committees, and we have expansion. And our industry, the basic steel industry, is the only industry in this country that has expanded its productivity in the last several years. Most of them have dropped back.

Certainly, when you produce at capacity, you produce at lower unit cost of production, and this is vitally important.

I think, perhaps, we are one of the only major economic industrial countries that doesn't have an ongoing effective productivity program sponsored by the Federal Government.

I would certainly urge, Mr. President, that you give serious thought to revitalizing a federal productivity committee made up of representatives of industry, labor, government, and economy, and I think members of Congress, so that they might better appreciate the need and be a little more liberal in appropriating the needed monies for that kind of activity, rather than some of the things that, in my judgment, are most wasteful, and which I won't take the time this morning to talk about.

PRESIDENT FORD: Thank you very much, Mr. Abel. I am glad to report that the Congress, a month or two ago, did reestablish or reinstate the productivity committee or commission authorization.

At the present time, if my memory is correct, there is an appropriation being considered by the Congress for the actual funding of this productivity board or commission.

I believe it is important, it can be helpful, because it was a combination -- or, it was through the cooperation of both labor and management that it operated in the period of several years ago.

It will be funded, I am sure. I think the request or the amount is somewhere in the range of $2 million for the actual implementation of the authorization legislation.

I can assure you we will push on that action once the Congress makes the money available, and I am told it will be very shortly.

MR. MEANY: Mr. President, may I speak very frankly?

PRESIDENT FORD: Surely.

MR. MEANY: I was a member of the Productivity Commission. I think we had three meetings. The thing was dead. It didn't act at all.

But, strange to relate, 12 or 14 months after the last meeting, we got the annual report of the Productivity Commission.

So, if we are going to have a Productivity Commission, let's have it. Let's have some meetings. Let's don't let it be a staff operation.

I have all due respect for the staff people, but this committee did not function; it just didn't function. We had three meetings, at the very most, and that was the end of it.

I think the last meeting might have been two years ago.

PRESIDENT FORD: I don't believe in sham. I think the Congress, when it permitted the Commission to die, took cognizance of just what you are saying. With its reestablishment, as far as I am concerned, we will put people on there that will, hopefully, have a different performance record.

MR. MEANY: I think the Congress merely recognized the fact that the committee had arranged for its own judgment.

PRESIDENT FORD: One other comment, Mr. Abel. We do have to revitalize. We have to upgrade our railroad system in this country, particularly in what they call the Northeast Corridor, and I am not excluding some other areas.

But the need is perfectly obvious in this part of the country. There is legislation now for the expansion of Amtrak which, I think, has passed the House and is being considered by the Senate, or vice versa.

This does include the improvement of the railbed, it does include the purchase of more operating equipment, it does include a wide variety of other recommendations.

I can assure you that we recognize, in the Executive Branch of the Government, that we have to find alternate means of transportation to meet our current needs and the prospective ones.

One other observation, if I might. This cutback in electrical utility construction -- and this, of course, includes the request for nuclear power plants. We have a pretty bad record in this country in the time from the inception of a power plant as an idea by a utility to its actual groundbreaking and subsequent completion.

I think the figures show that by the time the application is submitted until we actually end up with power on the line, it is about a nine or ten year process.

That is inexcusable. We cannot afford it, either for reasons related to employment, or for reasons related to a need for energy.

I have talked personally with the Chairman of the AEC, who does tell me that they have taken administrative actions within the AEC to condemn this delay in the consideration of applications.

But, if my memory is accurate, there is legislation before the Congress which would permit the AEC to even accelerate to a greater degree the consideration of these applications.

I think that is absolutely necessary. The proposed procedures would have no adverse impact whatsoever on the safeguards that are needed for safety.

There would be no adverse impact on the proper consideration in these applications for the environment. We seem to have had an impact here of a lot of paperwork shuffling; nine and ten years, an unbelievably bad record.

So, between what has been done administratively and what must be done by the Congress, we hope to expedite the applications, which means production, which means jobs, which means energy.

MR. ABEL: Could I make one more observation?

PRESIDENT FORD: Surely.

MR. ABEL: With respect to both productivity and the cost factor -- and that is to urge that there be a look taken at our export policies, and I am speaking not just of grains -- grains are important -- but I use as an example the export of scrap steel and scrap copper.

Certainly, this is an important ingredient in the making of steel. As you know, some of our companies must operate strictly by scrap, and some of them today are forced into the position of making scrap using the facilities that should be making finished goods to provide scrap so that they can maintain their furnaces.

It is being exported primarily to Japan and, as a result, has increased the price of scrap from $40 a ton to something like $160 a ton. A comparable situation exists in the copper industry.

And I certainly think something can be done there by the Government to protect the interests of the people of this country and our industries, rather than the export market and those who are out to make a fast buck in handling these kinds of materials.

PRESIDENT FORD: I know the scrap price was abnormally high in the figure that you indicated, but I did see just the other day that the price was substantially down, I think in the range of some $70 or $80, compared to the $150 or $160 that it was a month or two or so ago.

But we will take into consideration that recommendation.

Now, we have another -- yes?

MR. KIRKLAND: While we are talking on the subject of wage and price controls, we are, of course, very reassured to hear your views on the matter, but we find it difficult to forget that we have heard similar views expressed, and woke up one morning with the wage freeze and price freeze.

You are going to be, and are, subjected continually to advice from all quarters, including elements of the media and the academic world, but this is still the proper solution, and anything short of that is delinquency, I think, primarily, because they really have no other solution.

I would suggest that when you hear that advice from any quarter, the wage side of it is very simple; that is very easy to control, as has been pointed out.

But I think you should demand specificity on the price side. Ask, "What kind of price controls do you propose?" and what prices and what incomes are going to be covered, and what are going to be immune and exempted from this onerous system?

Are you going to cover farm prices? Are you going to control beef prices? Are you going to control landlords? Are you going to control doctors' fees, lawyers' fees, the lecture fees and consulting fees and foundation grants of itinerant economists?

(Laughter.)

MR. KIRKLAND: Get that all spelled out, and don't let them get away with the simpler prescription price controls, because the fact of the matter is, we have never had, under the system we just escaped from, wage price controls in this country.

It was a fiction and a fraud. The elements of exoneration and the elements of compounding of previous cost elements into the system for the benefit of the person at the top end of the mark-up process passed as price control, but it did not in fact exist.

So I suggest again that when you get this prescription, demand the particulars, and let us see what those particulars are before we make a judgment.

PRESIDENT FORD: I would agree with you that most Americans have had a good lesson in economics in the last four years. Some of the panaceas that were sought in the past I don't see having quite as much favor in the future.

So, I see no prospect -- and I have said it once, I have said it several times -- of succumbing to those kinds of panaceas in the problems we face today.

Yes?

MR. STETIN: Mr. President, I come from an industry -- the textile workers, textile manufacturing industry -- and I can't say I speak for every single worker, because the bulk of them, 600,000 of them, are down in the southern part of this country. So that the bulk of the industry is unorganized, its workers are denied the simple, fundamental right to belong to unions.

They don't enjoy industrial democracy and, as a result, the impact on wages and conditions of work has been such that their wage structure is, on the average, approximately $65 a week, when you take into consideration wages and fringe benefits. That is the average in all manufacturing.

I make mention of this because in the wage price freeze that we were supposed to have, from August 1971 until they were lifted, workers were frozen in their wage scales. Their wage scales are low.

The employers have had an unusually high degree of profits. What has been true of the textile industry has been true of practically every industry.

Now, I happen to be one of those who believed that wage and price controls were needed, and it is my feeling that they are going to be needed in the future.

But you can't have them unless you have controls on profits, interest, dividends, executive salaries, and all that entails, when the average working man, earning as little as he does, sees and feels that his government is in the hands of the rich and the powerful and the multi-national corporations.

Now, somebody here this morning made reference to the need for economic planning. Somebody made reference to the need for productivity commissions. I spoke recently to a man, David Cole, who just completed a study on the National Commission on Industrial Peace.

There is one contribution this Government, this administration, under your leadership, Mr. President, can make. That is, to ask industry to stop conspiring against the rights of workers to enjoy industrial democracy.

Workers can make a far greater contribution if they are involved in the potent process of what goes on in the making of a product in a factory. And, unfortunately, this doesn't prevail in our society.

Labor is kept at arm's length. Labor has been kept at arm's length by Government. And I submit to you, Mr. President, that the idea of involvement, not at a summit meeting alone, but throughout the entire year, of involving working people and their organizations at every step of the way.

And it is obvious that in the last five and a half years, labor was not involved. Oh, yes, we were told we would get a seat on a wage or a price commission, but in the important decision-making processes of what is now taking place in the world with multi-national corporations, I submit to you, Mr. President, that this type of thing ought to go on all year long.

I don't mean this kind of large, mass meeting, but I think the labor movement ought to be involved. There ought to be an industrial setup of involving labor, management, and Government, because in the present context of the conflicts in the world between our way of life and the Communist and Fascist ways of life, we in the United States are going to be judged by the way we take care of our own society.

We have a major contribution to make, and as far as I am concerned, workers' wages were controlled, the employers' profits were not controlled.

Somebody here suggested we ought to have price rollbacks. I am for it. We ought to have controls on profits, and we ought to do something about dealing with the problems that I have just mentioned.

PRESIDENT FORD: Thank you very much.

MR. CHESSER: Thank you Mr. President. I would just like to reemphasize what my colleague Mr. Kirland mentioned about the rail industry and transportation. As you know, the northeast rail network, at least is in the beginning being preserved by the action of the Congress, but I am not so sure we have had the right kind of study to preserve this system. I think there are too many that really believe that the industrial northeast is dead, or that it has declined to at least a point where industry has moved south and will not be the -- as prominent in the northeast as it has been.

I think this is a fallacy. It is bad judgment and poor thinking. I would hope that this Government took a little bit better look at this situation because it appears at this time that they may destroy part of that rail system that today appears to be not needed in this network. Once it is destroyed, once it is taken up, it will not be replaced; or if it is, at three times the cost it would take to preserve it, or, let us say, mothball it, at the present time.

If this country of ours today -- which it is capable of doing -- if it were in production at its capabilities today, we would be in a catastrophic situation because it would absolutely be impossible to transport the goods that this country could produce.

I believe we will be in that kind of production, but we are lagging on this other end and we in our industry feel that the one major cause, here, of course, is high interest rate, tight money. We have been able to keep pace to a degree, at least, with new equipment because it is purchased by trust funds, but the real problem in the industry is the track in the roadbeds which either, by bad management, poor judgment or lack of funds, has deteriorated to the point that today some carriers, and some in the northeast -- the Penn Central -- has all the business that they can take care of.

Now, with the production that we are capable of, we would have a real problem because the track, the roadbed, will not take care of it. So I would hope that some of these folks that are responsible for this high interest and tight money -- because we haven't been -- in this industry, it has not been available, at any rate, for track and roadbeds. So I hope some of these people -- maybe it would do well if they would get on a pair of overalls and get out and be the recipient of some of their policies, maybe.

I do agree, and certainly reemphasize, that it seems to me that this great country of ours ought to be a showplace to the world. And, as has been said here before, if we can furnish reasonable interest rates to foreign governments -- to communist governments, if you please, and still say to our people "You are going to pay 10 and 12 percent," that is not much encouragement. It does not give you much argument to argue against communism, which is a deadly, deadly thing, as far as the labor movement is concerned and as far as our country is concerned.

One more word back to Amtrack, Mr. President. The greatest mistake that was ever made -- and we knew it was at the time, and we argued with the Administration at that time -- there is one line in the Amtrack legislation, that legislation that created Amtrack -- that was so wrong that it said this must be a corporation for profit. No way, Mr. President, at this particular time, and in the foreseeable future, will it be a corporation for profit. Every country in the world that moves people by rail subsidizes, at least in the beginning of such a movement.

It is not such a bad word because this is a mobile country. We have got to move -- we have to move our people. So, in that sense, it is not a subsidy. It will build the economy and the sooner we come to know this, to realize it, we will not find it necessary to go to Japan to ride a good passenger train. We can do it in this country. We can do greater things in this country, if we have the opportunity.

Thank you, Mr. President.

PRESIDENT FORD: Thank you very much.

We had hoped we could cover several subjects in this morning session. Why don't we hear a few more speakers and then adjourn for lunch.

MR. HARDY: I'd like you to hear this, because I represent the organization of low-paid workers. And in this category there are 13 million low-paid workers.

They have been victims of double-digit inflation since July of 1972. During this period grocery prices arose 31 percent, and gasoline prices 50 percent, and the consumer price index, 18 percent.

And what this means is that these people, making from $1.90 to $3.81 an hour are existing on diets of potato soup, rice and beans.

But even these prices have skyrocketed --more than 100 percent in the last two years.

Now, I come from Los Angeles. It's my hometown. And you can imagine what a 50 percent increase in gasoline prices has done to the economy in Los Angeles, and especially to the working poor.

Now, when we talk about these working poor, we are not talking about people on welfare. You take care of the people on welfare with foodstamps. They're fed.

I'm talking about people that have to live and exist on $1.90 to $3.00-$4.00 an hour,and when they find that the increase in their wages -- and by your figures, the Bureau of Labor statistics -- in the last year they got an 8 percent increase in wages, and prices have gone up 11 percent.

Out of that increase it took more taxes, and that cut their earnings even more. Now, we passed the minimum wage bill.

And some of you gentlemen from the Congress were very helpful in helping us pass it. But even the minimum wages have eroded since the passage of that -- $1.90, and some of them haven't even received that.

Now, when we talk about the Federal Government, the Federal Government, the Office of the Budget proposed a 5.5 percent increase.

And when you look at 5.5 increase and the cost of living has gone up 11.2 percent, and then you put this increase back from October to January, it is not a good deal for the Federal Government to use against these workers.

Now, I would like to talk about the people we represent right near this White House where we are meeting. The janitors have been on strike in some of the office buildings around this city.

And they got $2.05 an hour. They went out on strike because they got a lousy ten cent an hour wage increase.

Now, how can these people exist on this type of a wage, type of a salary. And these are the working poor, 13 million of them.

Now, you know, you look around and you are talking about government jobs and unemployed. You are going to help the government jobs.

But you can right now create 8 million jobs for nothing if you enforce the law that are on the books of this country.

If you stop the illegal immigrants from coming into this nation from Korea, from Thailand, from the last boatload of the Chinese came from Hong Kong.

You bring these people in. We got employers out in Los Angeles recruiting in Manila in the Phillipine Islands, and we've got an unemployment rate of Los Angeles for the minorities of around 10-11 percent.

Our own people are going without jobs, and the employers are recruiting. And to get the recruitment necessary somebody from the Federal Government has to okay it.

Now, this is wrong. Now, we think that there has got to be something done about low-paid workers, and I think one of the things that could be done is tax relief to the low-paid wage earner, either through the personal exemption or raising the minimum standard deduction, or some other appropriate method.

Now, let's talk about the oil companies. This Administration -- and it's not your Administration, Mr. President: you inherited it.

You've got people over in this Office of Energy, instead of having blood, got oil. And they are only interested in protecting the billions of dollars of profit from the oil companies.

Now, this is your problem in this country, oil. And somebody has to stand up to the oil corporations because they're greedy.

They are taking too much. They are too powerful. And these grocery chains, the food processors, what do we find?

They are a monopoly. They set their own prices, and you can't do a thing about them. We were discussing the other day about help to people.

And I am not against the farmer or anybody else, but in 48 hours you passed the two biggest dollar bills to help the cattle farmers of this nation.

And here we have 13 million people that every day are working and tightening their belt because there is no other way for them to exist.

Now, we think there is an answer to it. We talk about farm subsidies. Let's say, all right, you are going to cut it back a little, but let's look at the working poor, and forget the poor. Let's take the whole United States.

The price of flour in 1971 was 60 cents for five pounds of flour. Today it's $1.03. Now, we say to you, "Take flour, milk, bread, potatoes, rice, sugar, hamburger, and chicken, the meat-eater commodities, and we buy that and we subsidize the grocers for this price.

And we hold the price down on these ten commodities for everybody. And you'll see very shortly that the price of food will go down.

And it's the only way it can go down. Now, we have an Administration that you have inherited, and I just say this here.

They have had a track record, and the track record states that you've got to do something, Mr. President. It's your ballgame now.

And, as you've said on the TV, the buck stops here. I agree with you. We all want to help you. We appreciate you calling us in here.

Maybe you don't like the way I hand it out, but if you will look at these people and you work with it, you go and look at these poor people in the nursing home. And you look at the high cost of medical care, and you look at these people that are working to take care of these people getting a lousy $1.90 an hour. And then you say you are paying them too much.

No, that isn't where the costs of medical care are going. And this is what we are trying to bring home. Inflation is tough on the working poor, 13 million of them.

And I happen to represent the industry that a vast majority are in. And I think -- I'll give you these papers -- that you should look at -- some way has to be figured out to feed these papers.

There's no other way. You can't go out -- right here in ten office buildings they are picketing for a lousy dime, right in Washington, $2.05 an hour.

How the hell can you exist on that. And in the hospital industries, the nursing home field, $1.90 an hour. And this is what we've got to talk about.

You've got to take care of these people, Mr. President. And the illegals that are in this country, let's stop them.

Let's go down to Los Angeles and say, "All right, we'll put the border patrol to work." And let's put Americans that are here paying their taxes and give them the jobs.

Eight million illegal immigrants in this -- illegal nationals or whatever you want to call them -- in this country taking American jobs,and we have unemployment in

California.

Thank you.

PRESIDENT FORD: Thank you very much, Mr. Hardy.

If we could, say, have one or two at the most, and then we'll adjourn for lunch and conclude.

MR. WURF: I'd like to address myself to the question that deals with public employment and the specific problem of the poor that you've mentioned.

Now, Mr. Chairman, I'm the President of the American Federation of State, County, and Municipal Employees, and I've been asked to prepare a three-minute document.

It will be a new record for me in terms of a statement, but I will stay within those limitations.

PRESIDENT FORD: Okay, thank you.

MR. FILBEY: Mr. President, I'm going to forego the fact -- I think we are grateful that you've called this meeting and give us a chance to say some important things.

And I am going to say things sharply, and simply, and to the point. It appears that this Administration -- explanation: your Administration -- that it determines policy at this point -- to use some of the money saved to finance a public service employment program.

That is a program that will have direct impact on the income or lives of more affluent Americans. We could provide a possibility that those in the middle income levels and the lower income levels could have a modicum of relief from unemployment, but it is also a program that would cut already inadequate programs in education, health, welfare, manpower training,and other assorted programs which are so important and to which so many are dependent in our society.

I question whether this consists of the values that we claim for our society to finance a program that would be for the affluent -- or at least for those who one would hope would be affluent, as inflation is wiped out as their claim to affluence out of the immediate present bracket now available to the poor while meeting the wealth of the more fortunate Americans as such.

Second, budget cuts in these social programs inevitably will lead to high unemployment. A public employment program set up to deal with unemployment is no solution in that case, because the effect is to simply lay off people whose jobs depend on Federal money, and this obviously includes thousands of state and local government employees who are breaking the unemployed in the newly created public service jobs.

This is the kind of job recycling that will be of no benefit to the national employment picture. I am not an economist, but it seems obvious that a cut in four or five billion dollars in the Federal budget will have an insignificant impact on inflation since $5 billion accounts for roughly one-third of one percent of the total spending of this country.

So if there is to be cutting in the Federal budget without in any way diminishing our national defense capabilities, I think your statements about concern about the national abilities are to be supported.

But we do have a genuine concern that there is fat there that has to be cut out, and that the defense department not get an immunity from the kind of oversight that other programs seem to get.

Fourth, the Administration has an obligation in its attempt to provide for the predicament of economic upheaval to channel economic assistance to those areas and individuals most severely hit.

A public service jobs program can do this if it is formulated so that the jobs and the money for those jobs are allocated on this basis.

In other words, Federal funds should be concentrated on the cities and states where unemployment has already had a most devastating effect, even though it means less populous and less affected communities would receive less assistance.

Finally, it is important to say that any created public job maintain prevailing wages and working conditions.

To do less would work a hardship on the existing public work force. Financing public service jobs through Federal grant money would be self-defeating.

It would take new money, and new money can best be provided through adjusting our Federal tax laws to provide relief to low and middle-income Americans and to close loopholes that allow immediate revenues to trickle away.

I can get very specific about this. The Administration should move to replace the income tax exemption system to a system of tax credits.

The numbers that we are recommending is a credit of $200 per head,which would benefit most families earning $15,000 or less.

Further than that, the social security payroll tax that we ask today is probably our most regressive Federal tax.

It should be replaced with a progressive structure that removes the ceiling on taxable income,and it may be possible to exempt people in the lowest portion, the lowest paid people in our society if we lift the ceiling.

I believe the number is $13,500.

By repealing the oil depletion allowance which would serve a better purpose, the Federal Treasury would draw some $2 billion a year in new revenue.

Closing the asset depreciation range loophole would net another $3.5 billion. That revenue, along with the one billion already in the pipe horn,would finance a $6.5 billion public jobs program, the level of activity that we think the present economic situation calls for.

In summary, what I'm saying, sir, is that in terms of what you have already said,philosophically, whereby, in terms of job programs,that we disagree very fundamentally in moving towards cutting the Federal budgets with no useful effect, perhaps, in terms of hindsight psychology.

That the poorest of the poor would pay, that this business of establishing a job program, and at the same time, a throwing out of a public, in essence, removing the input that they would have on our economy and adding to it in terms of welfare and other legislation that would be necessary for these people is unpredictable.

In essence, what I want to sum up with, and I'll try to keep it down to three minutes. I don't know if I succeeded, but I sure tried.

The American workforce has taken a beating in the last few years. American workers are patriotic, strong in spirit. They want to help right the nation's economic ship.

But we have to do it on terms that are equitable and even-handed.

In that regard, I associate myself very strongly with what Mr. Meany said this morning.

PRESIDENT FORD: Thank you very much, Mr. Wurf.

We'll have one more, Mr. Francis Filbey, and then we'll retire and enjoy some lunch.

MR. FILBEY: Mr. President, you have just saved an operation of the vice president of the AFL-CIO that parallels the operation of the House of Representatives.

I am the Junior Vice President of the AFL-CIO. My two senior collegues entered ahead of me. I wanted to get back to what the gentleman further down at the end of the table said about the transportation, particularly about the restoration of the rail traffic in the Northeast Corridor as it applies to a section of the Federal Government which, I'm sure, gives you a great deal of problems, which, namely, is the Postal Service.

I would associate myself not only with the remarks made by my previous speakers concerning several Federal and state and county municipal employees, but also with the transportation people.

It is our belief, and we have consistently said this to the Congress and to the officials of the U.S. Postal Service, that your Postal Service in this country began to deteriorate when trains began to be taken off the tracks in the Northeast Corridor and in other parts of this country.

If the recommendations made by the brother from the transportation union were to be complied with as a Northeast Corridor, rail corridor, were to be re-established, I am convinced, and I am sure that anyone who has any experience in the Postal Service is convinced, that, certainly, the complaints -- and there are thousands and thousands of complaints which are received which concern the Postal Service, particularly in the Northeast, the heavy business part -- would be eliminated almost overnight by the restoration of en route distribution of mail on the train.

In the old days, and many -- some -- members of Congress that are here have been around long enough -- and you were -- to know that we had the best Postal Service in the world not too many years ago.

But as the trains were taken off, alternate methods of air transportation of mail took place is when problems in the Postal Service began.

And I would hope that if the suggestion concerning the re-institution of real rail transportation, not only in the Northeast Corridor, but in various other parts of the country, that it might be well for the Postal Service to get away from the idea that we have to fly everything and put it back on the train so that it can be delivered the next day.

Thank you very much.

PRESIDENT FORD: Thank you very much, Mr. Filbey.

I think the discussions, the recommendations, the observations have been helpful and beneficial.

We would like now to retire for luncheon in the State dining room. I, unfortunately, will not be here this afternoon, but Ken Rush who is the counsellor in the cabinet for Economic Affairs,will be here.

And he will continue covering the subjects of public service employment, the subject of productivity, and other matters that are of importance on the agenda.

I am delighted to have you come and join me and the rest of you for luncheon.

Let's call it quits for the morning.

AFTERNOON SESSION 1:15 p.m.

MR. RUSH: Before we leave the subject matter we have just been discussing, the wage price policies, Mr. Grospiron would like to make some remarks concerning that.

MR. GROSPIRON: Thank you, Mr. Chairman. Much has been said about the petroleum industry's profit system, and I think that a set of examples ought to be given to bring this right into focus.

One is, I think it is highly improper that the Federal Energy Office, as a Governmental spokesman, advocates price increases in gasoline.

All right, on the other hand, I would like to make a comment with respect to the price of crude.

I think the oil industry has proven through the years, Mr. Chairman, that it is fully capable of jacking those prices up a fair profit.

They have been making tremendous profits in recent times presumably on the basis that they hated to explore for oil in this country, to go on the Project Independence program, to make this country more self-sufficient, not only in its oil supplies, but also in its manufacturing facilities, namely the building of refineries.

I think a recent case in point which disproves some of what the petroleum industry has been saying, and certainly I have been waiting to find out exactly what they were going to do with this money as the President, for workers organized within that particular industry.

And I find that here is a major oil company, one of the multinational oil companies, who has made an announcement that they are going to take some of these profits and buy Montgomery Wards.

I think that they have made a face then in doing that, with respect to the support of the Government, behind their support of price increases. And I think that it is time that the Government equally spoke to that problem and chastised them for taking advantage of the American public.

Some who are willing to pay as much as $2.00 a gallon for gasoline, not willingly, but because they have to. Now, that then indicates that there has been a little reason to examine their profit system.

I am fully convinced that, Mr. Chairman, although it may not sound very good and may sound self-serving from the standpoint of coming from a labor leader, but I am fully convinced that the American workers, organized and unorganized, have made their share of sacrifice.

The people that I represent, and the people that I talk to in organized labor and workers in general, feel that there is a great credability gap on looking at their needs.

They feel that they have demonstrated -- they have demonstrated by their sacrifices, by their absorption of these price increases, paying more and more for foods and other durable goods, that they have been truly patriotic citizens of this country.

I think that Government has found adequate ways and means to regulate labor, either through the Labor Management Act or other legislative devices, when it felt that labor needed to be looked at and labor needed a few curbs.

I have never felt that labor needed any curbs on it realistically, certainly not in my union. It is too damned hard to run. It is a tough job.

And we do not have this sort of problem. But industry, who is based in this country, operating throughout the world -- and I speak mainly of the petroleum industry, as one example. It can apply to steel and it can apply to drugs and others.

The multinational conglomerate set-up has amassed tremendous profits and tremendous powers. And I think that this whole thing needs to be looked at, first from a standpoint of the antitrust laws, which are not working adequately, and have in many ways become a farce, certainly in the area that I am familiar with, and also in the area of the whole profit system, which I think our President of the labor movement has spoken to many times, in a very eloquent fashion, and I think with a hell of a lot of good sense, in speaking for all of us labor skates.

I think that if we are going to, at a time when goods are short, ignore responsibilities to regulate prices until we get this thing in line, at least on the short haul, I think that we will be falling down on our responsibilities.

I have listened to the Defense funding as to the need to keep that up. And, if you are going to keep that up, and ignore cutting any real substantial cuts in that, then you have to look at the profit system.

Certainly, in some ways, it is contrary to our free enterprise system. I think our free enterprise system in this country is in grave jeopardy, and I think that we have a responsibility over all to say this.

Pull business out in a situation -- out of this situation where it can do a job in supplying products--and it can provide meaningful jobs to the people in this country.

We have people who are high paid, who are having to moonlight at night, hold two jobs, and there just aren't that many jobs available.

The whole stock market system is in a hell of a shape.

Profits increase; stock prices go down. Everything is topsy turvy.

I think that you are going to have to look at some radical measures. The normal measures are just not going to work.

So, therefore, I support the president of our labor movement in saying that you have got to have some new ideas and new concepts, and ideas that have not been tried before. Otherwise, we are going to go down the same road, and we will end up with impossible controls again, asking the workers to take it in the neck again.

The people I represent have informed me in no uncertain terms that they have to have as much as $2.50 an hour per year, which sounds fantastic.

I think when we get into that area, you can see where we are going to have another spiral.

I will close it off with that. I know that I have taken quite a bit of time. But I think the industry that I represent, that is worked with, is as good a barometer as some of the ills of the profit system in this country.

And I am not saying that some of them don't need it. I am saying that overall we have got to look at the total thing within any industry and other major industries, and that is where the real power comes from, and put some regulations in that will bring about some confidence from the American people.

I thank you for allowing me that much time.

MR. RUSH: Thank you very much, Mr. Grospiron.

MR. STALL: May I just add a comment to the previous speaker? I will be very brief.

Relative to the oil industry, I deeply regreted hearing the other day one of the people sitting in the conference of this nature would be an economist, discussing the aspects of Maritime shipping for oil, without giving the total picture.

He would, in fact, by his statement deny the right of the rest of the American society to participate in the benefits of a basic industry, one of a very large nature.

I would commend to the attention of the Senators and the House of Representatives members present that in discussing matters of this sort relative to the oil industry, that they give some consideration to a few other items.

First, is a virtual monopoly enjoyed by the oil industry by the vertical integration system used, from the oil head to the point of consumption.

Next, I would commend to those who are responsible for our taxes and our budgets to take a good look at the foreign tax credit of the oil companies.

They are greatly concerned over the cost of a Maritime transport with American workers, both shore and on ship; but let the same people who are concerned take a good look at the amount of money involved in the foreign tax credit.

Next, let us take a good look at another point within the oil area. It is the foreign depletion tax, as a distinction from the domestic depletion tax. It runs into considerable money, and increases the additional oil facilities in production areas for Saudi Arabia, and nice friendly places like that, without making one single cent of contribution to the development of American industry for Project Independence

These are some of the things. Also, when you look at the oil industry, and I don't say this in a nasty sense or an unfriendly sense, but I think that it is a part of American society, and I would direct this to the director of budgets, the tax people, and everybody else. If we are to be examined and found lacking or to be denied, then we should have an equal voice in this situation and we should all make an equal sacrifice.

I submit to you, for example again, that the money that was allowed for foreign taxes -- for foreign depletion taxes or check off -- I think that that is outrageous. It does nothing to do us any good except to put us further in the grasp of the King of Saudi Arabia, or the Shah of Persia.

So those are the people in the legislative sense and in the administrative sense. When you get to considering these points, why should we regard one part of the American scene as the holy cow?

After all, energy today, I submit to you, is the real long-range problem of this country. The short-range problem, of course, is the economy.

But even in the heart of the economy question, lies the question of energy. I can recall two years ago, when some of the same people who thought like Mr. Hume said the other day.

We are talking about the tremendous cost of oil, and, therefore, no American should be allowed to have a gainful employment.

At that time, Mr. Chairman, oil cost three dollars a barrel. Today it costs $12 a barrel and the American still doesn't have one job. I will point out another matter of economics to those of you who are responsible for the economy of this nation. We are now spending 98¢, or almost that, for transportation of oil into this country. Ninety eight cents out of every dollar goes to exportation, in this case Liberia and Panama. Ninety eight cents out of a dollar. The cost of the transport of oil is tremendous. And the American worker, and most important, the American economy is getting nothing out of that. So, I just want to get this in the record, Mr. Chairman. I don't want to make a street harangue about it -- so that those of you, the economists and others, if you are going to discuss one aspect of these things, I think, in all fairness -- to be fair -- we should consider all aspects.

MR. RUSH: Thank you very much, Mr. Stall.

Well, I think we had better move on now to the -- an issue that we have talked about somewhat before and that is the public service employment. I am sorry that I had to miss the early part of this morning's meeting, but I was up before the Senate on my confirmation hearing -- the Senate

Foreign Relations Committee. But I understand the President did give his thinking on public service employment somewhat as a means for helping unemployment.

I wonder if Mr. Floyd Smith would be in on our discussion of this and other alternatives for the unemployed.

MR. SMITH: Well, yes, Mr. Chairman. I believe that during the morning session it was proved to us how essential and important jobs have to the economy of this nation.

Practically every speaker this morning, and up to the present time, whatever the subject was he was talking about, it all wound back around the job -- unemployment.

One of the things that so many of us overlook is that when we talk about unemployment, we are not only talking about the economic problem, but there is a broader impact upon the American family by unemployment. One, for instance, is the social-economic cost includes not only lost wages, but family breakups. We're talking about increased alcoholism and we are talking about suicides within these broken families and families that are unemployed.

Now, we have had a pretty good study in my organization, and no one union has the monopoly on unemployment, or unemployed members. We have all, over a period of time, been faced with this unemployment.

Now these areas that we must think about in trying to take care of the unemployed group of people, and we have only to a certain extent -- one, is extension of unemployment compensation when people become unemployed in areas where they have used their unemployment compensation to extend to Federal Government -- extended number of weeks of payment.

Or, let us take the point that the President this morning pointed out. Compensation, or rather the Government becoming employer on works programs -- now, people do not want social security or unemployment, they do not want relief, they want work. And to me it makes more sense to create work projects for unemployed people where the Government is going to pay the bill, either for while they are working or they are going to pay it on extended unemployment compensation. They pay either way. But the individual, the people and the Government will receive more back by paying for Government work projects that are established.

While we are talking about work -- Government projects, it wasn't too many years ago that we were in -- I was involved in quite a discussion over the building of the SST -- the supersonic airplane. Everybody did not agree with me that we needed it. At that time my main purpose was fighting for jobs, jobs for people. The component parts and everybody involved in continuing the supersonic plane was in the neighborhood of around 175 thousand jobs. Now, this was all people. This was not people of only organized labor, this was all workers. And 48 states of this nation were involved, that had jobs, that would contribute to the continuation of the SST. I was told -- they said, "That's $290 million, Smith, and we got another area for it. Why don't we take the $290 million and explore the possibilities of clearing the air and the water of the pollution." I am all for it, but what we are wanting is jobs.

But, you know what? They were talking about something -- some kind of an agency that would explore. I am still waiting for that agency. And nobody told me yet what they did with $290 million that they say they were going to use for exploring or for getting some government agency or some company to go into the area of cleaning our water and our countryside and the air. Now they say, how much of this can we do? Well, all I know is, I have been in certain parts of the world -- I was in Tokyo when you couldn't stand on the fifth floor of a hotel room and see across the street, about 180 yards away; I have been in certain parts of cities of this nation of ours where it has been practically the same thing. And we are talking about future generations.

So we are talking about jobs. We are talking about creating something that will supply work for people. Export of our work -- multi-nationals -- you can say, "Why worry about it?" Well, I worry about it because they are exporting, they are eroding our work. They are taking not only our expertise, our expert people, know-how -- they are now moving complete plants and ignoring -- closing up the plants within the cities of this nation, and leaving thousands to fifteen hundred, and higher, with no jobs available. And then they say, "What we'll do then is retrain." You don't retrain unless you talk about relocating. And when you relocate you are talking about relocating people that are 50 years old, or older. And when you talk about that, then who is going to subsidize or buy the homes that they have paid for, so that they don't have to start all over?

And this comes back down again to jobs, work -- and I would like President Meany and everybody else who has spoken here, I have never been able to figure out how you can say that you can solve the economy of this nation by unemployed people. To me it seems that if everybody works, they will pay some kind of taxes, and the more people that are working, the more taxes come in.

And I believe that this nation of ours is in a position where we can continue to create jobs and have jobs for our workers, as my colleague, Brother Hardy stated. When we are talking about $1.91 an hour, it is pitiful, isn't it? Let's do just a little, short, arithmetic. There are 2080 work hours a year --average 40 hours a week. And let's take for granted that a man will lose 80 hours a year, so he is going to work 2000. And we say -- statistics show that a family of four has to have somewhere around -- better than

$4,000 a year for a family of four just to subsist and be able to stay even, on the poverty program. And we are talking about $4,000 a year -- at 2,000 hours a year, I have got to have $6.00 an hour to make that $12,000. Show me how many people who make $6.00 an hour.

Unemployment has a lot of impact on our society, upon our economy; it is the most damaging thing to this nation. And it is also very damaging when we find a company that without any notice more than a 30-day, and sometimes less than 30 days, notifying their employees, "We are closing this plant as of October 1" and removing all machinery, all know-how, all experts, from here to some company that is in competition of around 25¢ and 30¢ an hour, compared to even our $1.91 an hour, if it is that low.

Mr. Chairman, there is a lot that can be said on employment. I have not even really started, because you could spend all day -- and two days, in fact, talking of the evils of unemployement and what we can do. And there is not enough worry, I don't believe, by the majority of people on the harm and the evil of unemployment to the citizens and the people of the United States of America.

MR. RUSH: Thank you very much, Mr. Smith.

I wonder if Mr. C.L. Dennis would like to address this subject?

He had to leave?

Would anyone else like to talk about public service employment?

MR. HARDY: I would just like to make a few remarks. Public service employment -- you are talking about 175 thousand jobs, and you have got over 5.5 million people out of work.

So, I just say that it is not enough. The wages are too low, and I think the Government should realize that the public employment jobs are really being created in the cities and counties where they have a freeze in hiring, and you are creating no jobs. The city of San Francisco and Los Angeles froze all hiring because they want to stop the -- give the taxpayer a break, as they say it down there. And you are not going to create any jobs there, you are going to replace good jobs of civil service people with low paid workers at $7,000 a year, which is poverty wages for these typesof people. These types of people that are out of work don't need the jobs that was talked about -- the machinists -- you need $4, $5, $6 an hour to do something for them.

MR. RUSH: Thanks very much, Mr. Hardy.

Anyone else like to talk on this subject?

If not, we will go on to the question of productivity which Mr. Abel addressed very thoroughly this morning, and where he has been a pioneer in really helping to increase productivity in the steel industry.

However, productivity growth as a whole has lagged below the earlier post World War II period of the last eight years, and this is a serious problem.

I was interested -- we all were extremely interested in President Meany's comments also. If we have a Commission, then the Commission ought to meet and be heard.

Mr. Miller, would you like to address this subject?

MR. MILLER: Yes, thank you, Mr. Chairman.

I would like to confine my remarks on productivity to that of coal mining which I am more familiar with. I don't speak for the rest of the labor movement in that respect.

I would like to lay the groundwork for my response to this particular problem by going back to the early 1950's when coal mining in this country went through a period of automation and created, or put on the migratory road around, throughout the country 450 thousand coal miners, with no concern, no regard for their livelihood, which caused a lot of undue suffering, because no one wanted to address themselves to the real problem.

Then, in the middle 50's, the coal mining industry iteself, the operators, tooks some steps and systematically, through the latter part of 1950, eliminated the only viable training program they had. And there was a period in 1955 to about 1970 that they did very little hiring. And as a result, they called on the reserve of coal miners who could not get a job anywhere else throughout the country.

The process of eliminating any kind of a training program -- by 1970. They were able to recruit, in my opinion because of the high rate of unemployment during that period, quite a few young fellows, to the point today where, I think, that we have about half of our working membership under 30. And this points up another problem. The coal industry itself is always complaining about productivity. And the two areas where they ought to have been mindful and ought to have done something about it was in the area of no training -- which the work force today is much less experienced than it was earlier, the early 1950's. And they have real serious management problems. And certainly they ought to be aware of it. But they have done nothing about it, except try to plague the public with a lot of rhetoric and be very critical of our membership. I am now in bargaining with the operators, and they are saying to me that we have got to be careful about inflation -- that it is our obligation and duty as a country to worry about it. And my response to that was -- it looks to me like if you were worried about inflation, you would quit rolling the damn prices up like you do. The prices -- their profits in the last year have risen from the lowest rate of any company that I know of -- 52 percent -- they earned a 44 percent increase in profits.

Now, if that's any real concern about the inflation that we are dealing with here today -- that we are talking about, consistent with productivity, I don't accept it.

And it is consistent and, I think, fair to say that, as has been said before, at the risk of being repetitious, the oil industry today owns 70 percent of the coal property in this country. And I don't think I have to say here what their sole interest is. They are not really concerned about this country either, except to make more money and to exploit the people.

But, to get back to the immediate problem of productivity in mining, if they would set up a viable training program, or if they hadn't eliminated the one they had during the 50's, there wouldn't be any problem today -- they would have experienced miners. Some of these people got to learn that a miner today is not someone -- or not an object with four legs and a tail, such as they referred to in the past. It is a highly sophisticated industry today and requires a lot of training, a lot of skill, to operate these monstrous machines they've got, if we are going to get an efficiency out of them.

And I am not comfortable being in a position where I have to tell them what they ought to be doing. They ought to have the good sense, if they had any business about them, to deal with these problems.

But in our demands we placed upon the operators now, we are attempting to deal with this problem to set up a training program that is meaningful and will develop the skill that is necessary. Now, if they want to increase their productivity, they must recognize these problems. And I am fairly confident that we are going to continue to create the awareness among the interests we deal with.

But, this is the way to do it.

They are also very generous in laying the blame for some of their problems on enforcing the 1969 Mine Health and Safety Act, and that too is viewed by myself and our membership as a lot of hogwash.

First of all, the law is not being enforced, and if it was, their productivity would be increased. It has become abundantly clear to some operators now that their most productive mines are their safest mines. And my contention is that it doesn't cost them anything.

But the two major problems, to make a point here, is that they must have some kind of training program, and they must deal with their manual problem.

I don't propose to deal with that problem. That is their worry, and it is about time they dealt with it.

But until they do, one thing that they have got to understand is that the membership of the union I represent, those who mine coal, are not going to accept the rhetoric and criticism by the operators and their lack of response to the real problems they have.

If they want to sit down and resolve the problems, my door has been open. I put them on notice when they come in my office. I don't sit down and agree with them on everything.

That is what I have to say about productivity. I worked in mines in my career in mining where the production rate was 60-70 tons per man, and that is something they talk about now, but it was in reality several years ago.

You want to be mindful that you can't accept whatever they say with any great degree of reliance as being a fact.

I said some time ago, I very seldom catch them in the truth. But we are going to hope to try to solve that problem for them.

I don't accept with any reasonable rationale that they must have a profit increase over one year of 844 percent. The current market price of coal -- the spot market priee -- of metallurgical coal has risen $70.20 a ton.

They are finally beginning to say that they are making a little bit of money. I had one gentleman in the office about three or four weeks ago, and he said, "Well, we are eventually going to get down to the bargaining table, and you know that we are making money."

I said, "Well, it's good to hear you admit it."

But I have the same concern about the coal mining industry in this country as I do about the oil industry, and as has been said here before, it ought to be looked into.

When the increase in the cost of mining coal is passed on to the general public, the utility price goes up. It is up here, and it is up everywhere. The electric bill here, where I live in Washington, D. C., went up 40 percent in just a short while, and this all comes right back.

The general public picks up all the tabs. I think, in a common interest to deal with the new energy program, there ought to be some kind of a commission set up with authority. It won't be worth a nickel if it is going to be set up as a paper organization or something -- a commission that is going to operate with mirrors.

But there ought to be some commission set up to deal with the steel energy program on a long-range basis. Now, I don't accept with any reasonable rationale that oil interests are going to buy into coal property or coal companies are going to invest in any mines and not look up the road. They know what their problems are. But they have other problems that they create, and I think that they ought to be looked into.

They ought to deal with the problems they create and try to provide the fuel and energy needed to get this country in a position of self-sufficiency with some public reliance, some concern for the general public.

They ought to do it -- and I am not advocating here that they do this without some reasonable profit. But once again, I don't think 844 percent profit is reasonable. They are not going to get by with it.

That is about all I have to say. Thank you, Mr. Chairman.

MR. RUSH: Thank you, Miller.

MR. TONELLI: Mr. Chairman?

MR. RUSH: Yes.

MR. TONELLI: I represent the workers in the paper industry, and I firstly want to say that I concur with everything that my colleagues have said here thus far today, especially, brother Abel, when he mentioned that the steel industry is running at 100 percent capacity.

Let me say that the paper industry, which is the fifth largest industry in the United States, is running at 101 percent capacity, and with all of that, we have a tremendous amount of unemployment.

That comes to pass for two reasons. One is because there is greater consumption for paper, greater use for paper. And two, companies don't have the resources to be able to make the necessary expansion in order to meet the needs that are required today.

The reason that they can't make the expansion is because of the tight money policy. You don't build a paper mill today with peanuts. The last mill built by the Weyerhaeuser Company in Oklahoma cost $300 million.

On the other hand, that mill produces 3,000 tons of paper a day. Under the old system of making paper, before technology came into being, that operation would have employed between nine and ten thousand workers.

So we, too, have a grave problem from the standpoint of unemployment. I must touch on this just a little bit; I know that we have talked about it this morning, on the matter of freezes on the prices and wages and guidelines and what-have-you.

Sure, they said that we had to conform to a guideline of 5.5 under Phase 4, and a ceiling was set on paper sold in the United States. For example, pulp went for $195 a ton.

Industry found it more lucrative to send it abroad, at $450 a ton, than turn it around and send it back to America and pay $700 a ton for it.

You talk about a one-way street. Why, this is incredible. If we are going to have a freeze, as President Meany said, it has got to be from A to Z. It can't be just a mumbo-jumbo situation such as we had with Phase 4 and beginning with Phase 1.

We talk about additional productivity. When these productivities are increased, what do companies do in the way of rewarding the employee with greater incentive for these increased productivities?

I don't see any extra bonuses or any extra pay voluntarily put in the envelopes of the employees, the members of our union.

All I know is that every paper company last year -- their profits ranged anywhere from 40 to 75 percent over and above the previous years.

One of them went to 110 percent. Steel and paper were almost at the bottom of the totem pole, from the standpoint of profits.

Last year, I think steel was 76 and paper 75, or vice versa. But the workers got no extra compensation. We were locked in with the guidelines of 5.5. We had to negotiate with a large company employing some 60,000 workers for six and a half percent for this year and next year.

I just met with this big company Monday to see if

I couldn't move them to 10 percent. Believe me, the productivity has increased tremendously, but what are companies doing to reciprocate, where the unions are lending this cooperation to get greater productivity?

And I must agree with what has been touched upon here on multi-nationals. I read in "The New York Times" Sunday where Taiwan is expecting to increase its national gross product by $3 billion in the next eight or nine years, and it is all going to come from the United States.

So, something, gentlemen, has to be done in the chambers of the Senate and the Congress to see to it that jobs after jobs are uprooted and transferred to Taiwan, to Korea, to Tokyo -- yes, and into Mexico.

These are the things that we need to come to grips with. The shoe industry has disappeared from America. I have been to Taiwan; I raised some money for Taiwan. I have seen what is there. Every industry that is in America is there today, and there will be more.

So, what kind of a break are we going to use to put some kind of a stop to these runaway companies, these multi-national companies?

So, these are the things that we need to come to grips with and are serious, serious matters. Unless we do, our unemployment is going to increase, between technology and runaway companies, to these foreign countries, where they build factories for them, they give them tax exemption, they guarantee them there will be no union troubles in five or ten years. I think that the Congress and the Senate need to give a very serious look to these kinds of things that are confronting us.

In the paper industry, we have a tremendous amount of unemployed, because companies -- the need is there, but the companies don't have the money to expand because of the tight money policy.

These are the problems.

Thank you.

CHAIRMAN RUSH: Thank you very much, Mr. Tonelli.

I wonder if Mr. Ward would like to address this subject?

MR. WARD: Are we on the subject of productivity?

CHAIRMAN RUSH: Yes.

MR. WARD: I am getting a little mixed up, because everybody is talking about --

CHAIRMAN RUSH: Yes.

MR. WARD: I am glad to have the opportunity to talk a little bit about productivity, because, particularly in the construction industry, we know so little about it that anybody could be an expert on it.

I got to be an expert on it many years ago on a construction job, when I got my first lesson in productivity.

The foreman for the laborers assigned the laborer to dig a hole for a footing, and the Project Manager came along and said, "How long will it take this one man to dig the hole?"

The answer was, "It will take him four hours."

So the Project Manager said, "Why don't you put two men on, and it will only take two hours?"

And the laborer foreman said, "Why don't we put four men on, and we won't have to dig the hole at all?"

(Laughter.)

MR. WARD: That is what creates unemployment. But, insofar as the construction industry is concerned, we have had many discussions and many attempts to measure and study productivity on construction work.

It is very difficult to really determine whether you are increasing productivity or not in the construction field.

First of all, we think that a number of things could be done in the construction field to increase productivity from the standpoint of -- as I mentioned earlier this morning -- to try to stabilize employment in the construction industry, to try to work out arrangements with employers where the jobs are planned better, where the employers are furnishing the tools and the equipment on time, so that the people who are actually doing the construction work are not standing around and being blamed for low productivity.

But again, the construction industry is so fragmented that in order to really find out what is occurring in the construction industry, you have to go to some of the different Government agencies as well as the industry itself.

If we are going to even make studies on productivity in the construction industry, attempt to do better planning in the construction industry, and increase productivity in the construction industry, which we are all interested in doing, we are going to have to have some Government office in which the problems of the construction industry are centralized.

The way it is now, you go to one office of Government to talk about productivity, you go to another one to talk about -- excuse the expression -- "Davis-Bacon" rates and things of that kind.

So, we think that in keeping with the policy of all unions, we are interested in higher productivity, because we recognize that wage rates tied in with higher productivity are not inflationary.

But I think that in the construction industry there ought to be more effort made by the industry itself, by both the unions and the employers -- and again, I don't know how you do this without a little help from the Government to get into these things and see what we can do to not only see what the productivity factors are now, but also to see what we can do to increase it.

Thank you.

CHAIRMAN RUSH: Thank you very much, Mr. Ward.

Mr. Gleason, would you like to address this subject?

MR. GLEASON: Yes, Mr. Chairman.

I would like to talk on productivity and inflation at the same time. I think we are in a different situation than many of the unions.

I think the shipping industry now, especially in general cargo and trade, is at the greatest times we have ever had in our history.

And in the interest of following out the recommendations of Mr. Meany and the A.F. of L. Council that we get a contract early without a strike, we got one on June the 28th which was a good agreement -- the first contract we ever got in 28 years without a strike.

So we had more wars with management than Napoleon had with the Russians and the rest of those guys for a great number of years.

But we got it, and it looked very good. It was over $3 an hour when we got it on June the 28th. But, you know, everyday, as you look at it now, it decreases a little bit because of the cost of inflation. But we have got the contract and we are going to stay with it for three years. We didn't think a strike at this time would help the company.

What we did with unemployment was, we handled it ourselves. In our contract, we increased our productivity from one gang of 18 men on a ship doing 18 tons per gang per hour, to 300 tons per gang per hour.

But if any displacement was taking place in there, if any man was displaced in the industry, if any industry had a guarantee in full pay for the rest of his life unless he retired or was pensioned off, we provided for that. It increased our productivity.

But what we kind of feel bad about, if we make these agreements kind of early, four months ahead of time, for stability reasons, where exporters and importers can continue to ship and receive their freight, an erosion sets in because of inflation, and there is a tendency there to get a quick contract.

You will go down the line, and keep the companies on the string until you get the best you can at the last minute.

So, what we have got to look for here is to cut inflation, cut that inflation, and if we cut it, I think, with the request that was made here by Mr. Meany, Mr. Abel, and the rest of those this morning, for a productivity committee and that we get this in operation and if inflation is cut, I'm sure we'll create jobs and I don't think we ever want to go back to WPA or those kind of jobs again and leaning on shovels and stuff like that.

I don't think they make these shovels that strong anymore anyhow, to lean on. I think what we've got to do is do something that's constructive to get inflation under control and maybe we have to do something with those guys with the white sheets over there, them sheets that they're talking about and I think here that we can do something about it if we get ourselves organized, and I'm sure now if this is not a dress rehearsal today and we mean business and we organize ourselves, then I think we're on the right road.

MR. RUSH: Thank you very much, Mr. Gleason.

I think we might now move on to a subject that has been concerning us a great deal and I'd like to call on Mr. Roy Ash to give about a 15-minute presentation of the composition of the federal budget and our plans with regard to that.

MR. ASH: Thank you very much. A number of you have commented in one way or the other on your view that Federal expenditure should not be reduced.

I know the President appreciates those expressions, and I know that he especially appreciates the reasoning that you have provided in expressing yourselves that way.

But let me, at the same time, give you as the best I can, some facts about Federal expenditures, and some of the reasons that it is important to make some, but limited cuts at this time.

First, I think it is important just to deal with the perception of Federal expenditures. There is no such thing as Federal Government money.

The only thing there is is tax payers' money, and most of that tax payers' money is the hard-earned dollars that have been cashed away from your constituents, from your members and I think you would agree that it is important that we spend that money as prudently on their behalf as it is that we expect them to spend their own.

And, for that matter, if we spend more of the tax payers' money than we take in -- that is, run a deficit -- the net effect is to create another tax, the tax of inflation, which again falls right back onto those same people that are your constituents, and your members.

So, it is, I think, important that we keep in mind that we are talking about tax payers' dollars, not about some Federal dollars that stand independently of all the people of this country. It is their money.

As a key part of the battle against inflation, the President has set a firm objective and committed a national effort to reduce Federal expenditures to below the level of $300 billion for this fiscal year, the one ending next June 30th.

The budget, as you may know, has been $305 billion, and with revenue expectations of somewhat less than $300 billion, there was already a built-in deficit and an indication that it would be very prudent fiscal policy to close that gap and to get expenditures down.

I would be the first to say that cutting the budget is the only battle ground in the war in inflation -- there are a number. And a number have been identified here this morning.

But, I do want to make it clear that a number of us believe that it is important to achieve the President's budgetary objectives.

First, if we do so, we will reduce the Federal Government's demand on the limited amount of credit that there is available in the credit market of this country.

In the process, take some of the pressure off of monetary policy, and together, these two actions themselves will contribute considerably, we believe, to keeping interest rates down. After all, when the Federal Government is going in and bidding up the price of money, and it does bid it up every time it has a deficit, then that itself contributes to just the point that was mentioned so much here this morning, keeping interest rates down.

Also, I think, that you would agree that if it is a time when the people of this country, all across this country, have to carry some portion of the burden of dealing with the solving of the problems of inflation, it also necessary for the Federal Government to show its own prudence, and particularly to show prudence in how it spends the hard-earned money of tax payers.

Also, I suppose if we, ourselves, are prudent in the expenditures of tax payers' money, and in doing so, we help keep down inflation, we will tend to make some of those contracts of the kind that Mr. Gleason mentioned more worth it than if inflation continues and drains away from the values of those contracts.

And, then another point, and another very key reason, and it was one that I was going to come back to a while later, in keeping Federal expenditures down this year, is most of all a small change of course this year, may seem only small, it may seem like it is not terribly significant. We could go one way or the other. But, if one looks out ahead in the years 1976-7-8-9 and '80 and beyond, unless we do change the course that we are on, we will find that the problems we are today talking about, will be small compared to the ones that we foresee in the future. It is essential to change course.

So, let us look at the '75 budget, and some of the selected background data, to give you an idea what the issues are in achieving the President's objectives for fiscal year 1975 and for the years ahead.

I think each of you have some charts in front of you, and I will go over them with just a few brief explanatory comments.

The first chart covers the Federal Government expenditure from years 1961 to fiscal year 1975, that is for the last 15 year period.

I think it is interesting to note in looking at that bottom line, it starts off at about $100 billion number, the amount that was spent in 1961, that this republic, in the whole life of this republic, the first 150 years of this republic, through 1930, only spent $100 billion cumulatively for all of those years.

Yet, in 1961, in one year, we spent $100 billion, and of course, it went up as you can see in the charts to spending $300 billion per year now.

So it is obvious that the country is larger, the economy is larger, the role of government is larger, and unfortunately the value of the dollar is less. Yet, to move up from $100 billion to $300 billion in 15 years is a very vivid example of exponential growth at work.

But then as you look at the other line on the chart, there is a quite different picture.

When we look at the Federal budget in a constant dollar basis over the last 15 years, you may not agree on which is the cause and which is the effect, that is Federal spending and inflation, but if we do adjust Federal expenditures for inflation during that time, we have a different picture.

We show that during the first half of that 15 year period we have a 50 percent growth in Federal Government expenditures -- that is, the full growth of Federal Government expenditures on a constant dollar basis, took place for over a period of time starting, say, in 1961, running through 1968.

Yet, in the second half of that 15 year period, since 1968, on a constant dollar basis, adjusting for inflation, Federal Government expenditures have been just about flat.

They have gone up just about the rate of inflation. We will argue later the cause and effect relationship between these, but nevertheless on a constant dollar basis

Federal Government and its expenditures and expenditures of tax payers' money have been flat for a considerable number of years.

But this is no consolation. It is no consolation because during that same time, we have had fairly significant deficits, largely because of the Tax Reform Act of 1969, and the 1971 tax change, the net effect of which was to reduce revenues and even as we were holding expenditures relatively level on a constant dollar basis, holding expenditures relatively level, revenues were not keeping up -- and as a result we were generating some deficits.

Let me look now at another chart which shows you another phenomenon in a different sort of a way. How much money have we been taking away from the people of this country, the workers of this country and what they otherwise could have consumed in goods and services for their personal consumption and instead spending that money for Government.

In effect, we relate Federal expenditures to gross national product.

For a number of years, in the early '60's, we were spending about 19 percent or so of gross national product. In effect, taking away from the people of the country about 19 percent of what they might otherwise have consumed and spent -- and spending it for Governmental functions of one kind or another.

But it stepped up sharply in 1968 to a 20 percent plus. Well that is a fairly significant number, given the fact that we have a -- more than a trillion dollar gross national product level. It has stepped up considerably from the 19 then to the 20 percent plus number.

It was effected largely by the Vietnam war, as we all know. But for that matter, even as that war was over and we began to reduce expenditures for that war, the level didn't go down. And therein lies a story, because the level of Federal Government expenditures still continued at the new higher level.

Well, what is the problem. The problem, of course, is the simultaneous change of mix of what we have been spending the tax payers' money for.

We have reallocated priorities. Defense reductions that have been taking place since 1968, have been supplanted by social program increase.

On a constant dollar basis, from the look at this chart, is a vivid explanation of what has been going on particularly since 1968, and again this is expressed on a constant dollar basis. So you get an idea of change without the effect of inflation cranked into it.

The test, which was on a 1975 constant dollar basis, was the equivalent to $92 billion in 1961, is down to $88 billion in 1975.

Defense has been on a constant dollar basis, going down. It went over a peak in the Vietnam war, but it has come down to even lower than that.

In fact, Defense is the smallest percentage of gross national product for 25 years since 1960. Or it is down one third from its peak in 1968.

All of the cost of Government, interest and all of the non-Defense costs, also as you will note, are a little bit less than they were in 1961.

They went over a peak when we got a big space program going in the mid-sixties. But, on the other hand, today, compared to 16 years ago, are also a little bit less.

What has been happening and what is significant when considering the actions that are necessary to achieve the President's goal for the 1975 budget?

Payments to individuals, payments to states and local governments during that 15 year period have more than tripled. It has almost doubled in fact from 1968, and now represent more than 50 percent of the total.

You can see those in numbers, and again on a constant dollar basis, payments to individuals, which were $53 billion in 1975, dollars in 1961 have gone up to $166 billion and more than half of all the money that we have spent.

What is happening here is that the role of Govenment -- the fundamental role of Government -- has become less and less running Government, and running Government operations itself, including Defense, and mostly the Federal Government is becomming a transfer agent.

We are collecting dollars from groups of tax payers and groups of the population. Many of them are the people that you associate with and you relate to, and in turn paying those same dollars out to somebody else to spend. That is the new role of Government,a transfer agent by which we collect dollars and pass over those dollars to somebody else.

We can't ignore this, I am not pointing whether this is good or bad, I am just pointing out the facts.

We can't ignore this fact, in looking at 1975 and the future years, as to what we intend to do about expenditures.

But, most important of all, this new class of Government activity has a strong built-in political momentum for exponential growth into the years ahead.

You look at these programs which now are taking on a bigger, bigger portion of the Federal Government outlay, as you attempt to change them and change their course, somewhat as you might look at an aircraft carrier. It has a very big built-in momentum.

It is very difficult to turn an aircraft carrier in a mile, in a thousand yards, or any other small distance. You just can't, even if you give it full rudder. You are not going to change very much.

But if you intend to be in a different place ten miles from now, or 100 miles from now, you better well start turning right now, recognizing that this is the phenomenon that we are dealing with in these kinds of programs.

The role that we are dealing with is a very big built-in momentum for exponential growth that the taxpayers of this country are going to have to deal with in the years ahead, unless we change course, even a small bit, this year.

With that background, let's look at the particular composition of the 1975 Budget, not by agency or programs -- we don't want to complicate it by that -- but by the type of actions necessary to achieve the goal the President has set out.

First, in that $305 billion budget, you can see the total -- well, you can't see the total because the numbers are too small -- but I think you each have the chart that shows this in particular. You can see that I have accounted for the full $305 billion budget for this year, not by program, but by the kind of action.

Let's take the first three items that add up to $81.9 or $82 billion. We have a legal obligation to pay out $82 billion this year. We have a contract to do so -- interest on the public debt, a contract for public works programs that we have already entered into, whether it be highways, bridges, or whether it be purchasing airplanes or ships, or commitments to cities to finance some of their housing programs, for which we have a legal obligation to pay out $82 billion this year.

Unless we wish to default on those programs, we have an obligation to pay out $82 billion.

Let's take the next big group, $142 billion; $142 billion we also have a legal obligation to pay. These are the so-called entitlement programs. They start with Social Security, and go through Medicare, Medicaid, Food Stamps, aid to families with dependent children, and revenue sharing -- a number of other programs where we have a legal obligation to pay under existing law.

In effect, the law has prescribed the

benefit package, the law has prescribed the criteria for payment, for entitlement, and we have an obligation to pay so long as the law continues to be what it is.

There is $225 billion out of the $305 billion.

Discretionary spending? You would say, "Well, now, there is where we should be able to find some money. You have lots of discretion."

Well, the first item of discretionary spending, $57 billion, is defense. It is that part of defense that is not otherwise classified above as having already been obligated or, in one particular case, retired military personnel up under the entitlement programs.

We believe in this administration that we already have, as I indicated earlier, a minimum defense for the security of this country and all of its people. We have the lowest percentage of gross national product for 25 years that we are spending for defense.

We think it is low enough, and it is our position to hold to that course. Of course, we are going to continue to look for opportunities in defense, just like anywhere else in Government, and we will work them, and we will work them, and we will work them.

But on the other hand, what we don't want to do is to so change force structure or military preparedness that we change the whole balance of this world and create a bigger problem than we are solving. So, there is $57 billion.

Now, we get down to $35 billion, $20 billion of which is paying personnel, Federal Government, and civilian employees.

We are taking some action to hold the level of Federal Government employees, and I think you might know that, for good or for bad, the number of civilian Federal employees is 150,000 fewer now than it was five years ago, even as State and City governments have been rapidly growing.

There was discussion made of their freeze in some cases. The Federal Government has been holding fairly well in spending the taxpayers' money in putting more people in the Federal bureaucracy. In fact, there is 150,000 fewer than there were five years ago, not counting over a million fewer of military personnel than there were five years ago. Civilian itself is down 150,000.

Then, we get to all others, the little $15 billion number -- not that $15 billion is a little number, but relative to 305, it is five percent, just showing the difficulty of changing the course of this ship when you go through the different classes of items that make up these amounts.

And then, there is the revenue from offshore oil land receipts, and I will pass that for the moment. You can see how that fits into the total of your numbers. But let me just make two points, now.

That is, let's go back and look again at the entitlement programs, and let's look again at the $15 billion of the discretionary expenditures that maybe we should give some second consideration to when we think of what has to be done if we are to change the course of Federal expenditures.

The first one, the discretionary and non-defense programs -- you have the chart in front of you on that -- if you will pick up the items under there -- I guess it is the last chart -- I don't know which one it is, but the title is "Discretionary non-defense outlays," among those you have.

If you go down and pick out them, you will notice that half of those having to do with health, education, welfare, housing, veteran type programs, ones that have very strong support in many respects -- let's take the first one -- health, cancer research, biomedical research in general, but cancer research in particular.

This is the basis for spending a tremendous amount of Federal Government dollars, we believe, for good cause. Yet, it has to be listed as one of these discretionary items that needs re-examination, like many others do.

We have the space program, we have the atomic energy program. If we are talking about nuclear energy, we can't just turn and walk away from our major program for nuclear energy that we have going on.

I won't go through all of these, except to point out that when you get down to the $15 billion, you will find it isn't easy. Because I am sure, for every single one in that list, there is that strong reason to send those dollars, or some portion of those dollars, and there is certainly a strong political and constituent interest behind each.

The last chart deals with the so-called entitlement programs, the ones that I mentioned that add up to $142 billion.

Here, we have had an extra one brought into it, the one billion of legislative and judiciary, to make it $143 billion.

But again, what are they? And, look in the right-hand column, at the number of beneficiaries affected. Millions and millions of people across this country have become over the years the beneficiaries of those expenditures. Each of them, of course, feels that he has an absolute entitlement to not only the benefits here provided, but even greater benefits.

So, if you take Social Security, the biggest one, we are down to retirement, Medicare, veterans' benefits, Medicaid, the whole works.

I think you can see some of the problems that are implicit in changing the course of this budget. But I didn't come in with the intention of proposing here to you any solution, but in fact to point out the difficulty of arriving at a solution, to get whatever thoughts that you have.

Because if we are to have a long-term fiscal policy that does not add to our problems in out-years and that even does something for the short-term years to deal with inflation, we certainly have to look at a budget growth that is not growing at the rate that it has in these last few years.

Looking at the last few years, just to recall some numbers to your mind, this year, as you have seen, we have a budget of $305 billion; last year, it was $278 billion; the year before that, it was $246 billion.

These numbers are going up so exponentially that if we don't all together find some answers to the rate of growth, we are just talking about a little problem today, but we will be talking about an even bigger one in the future.

So, while you have been sharing some of your problems with me, maybe all I am doing is sharing some of mine with you, but they are just not my problems. They are problems of every taxpayer in this country, because again, there is no such thing as Federal Government dollars. They are only taxpayers' dollars, and those taxpayers' dollars are mostly the dollars of people that you relate yourselves to.

And I merely say, on their behalf, I think it behooves us all to look at how we spend those dollars, to spend them wisely, to spend them prudently, and to look for places where we can spend a few less dollars, have the inflation rate go down as a result and, certainly, keep the tax rate from having to go up to pay for the out-years as we might see them from here, if we didn't take any action.

Thank you.

CHAIRMAN RUSH: Thank you very much, Roy.

Mr. Meany?

MR. MEANY: On the first item, mandatory spending, net interest, $23 billion. That is for fiscal '73.

MR. ASH: That is right.

MR. MEANY: Now, does that mean that that is all the interest you contemplate paying up to the end of fiscal '73?

MR. ASH: That amount, Mr. Meany, represents that amount that the Federal Government paid to the public for interest. It paid from one pocket to another another $7 billion.

That is, we have major trust funds, as you know. They include the highway trust fund, the Social Security trust fund, and others, where the Federal Government takes $7 billion out of one pocket and puts it into the other, but that is netted out in these numbers, and this is the amount that goes out to the general public in paying interest on the debt, rather than just internal bookkeeping, transfer of that interest.

So, our number is $30 billion in total, but $7 billion is moving from one pocket to another of the Federal Government.

MR. MEANY: And with the increased interest rate that may be down the road, that figure could be much higher?

MR. ASH: It could be a little bit higher. I think the observation you make is quite proper. It is important to the Federal Government, important to the taxpayers to get inflation down, to get interest down, to save -- to hold, first at this 23, because even that 23 is under stress.

MR. MEANY: What are we paying now for our borrowed money?

MR. ASH: Well, we are paying all different rates, depending upon the particular --

MR. MEANY: What rate are we paying now?

MR. ASH: We are paying eight percent, plus or minus --

MR. MEANY: How much were we paying two years ago?

MR. ASH: We were paying considerably less than that two years ago. In fact, I have some interesting data. I just might give you some numbers here that will -- no, I don't have them with me.

But to show that interest, as a percentage of gross national product, has been pretty much flat for the last 15 years, but interest rates have been going up, even as Federal debt has been coming substantially down, relative to gross national product --

MR. MEANY: What is the point of relating it to gross national product?

MR. ASH: Only again to say that, how much money does an individual, on the average, in this country have to deprive himself of the goods and services he might otherwise privately consume in order to pay interest. He has to deprive himself today the same percentage of what he otherwise might consume in order to pay interest as he had to do, say, 15 years ago.

That is the purpose of relating it to gross national product.

MR. MEANY: Is there any way to control this?

MR. ASH: Get interest rates down by getting inflation down.

MR. MEANY: To keep the interest rates down, because this thing will feed on itself.

MR. ASH: Absolutely, and there is, really, the problem. It is essential --

MR. MEANY: Isn't there some way that a certain amount of the available credit will be set aside for Uncle Sam? In other words, couldn't we appeal to the patriotic streaks that, I am sure, are in our banker friends, to make a special --

MR. ASH: Mr. Greenspan, for whom I needn't speak, has written a very, very interesting and insightful analysis of the demand on this country's credit that is called involuntary demands. That is, those who must borrow whether they like it or not -- how this adversely affects our credit market.

The Federal Government, in rolling over its debts, is certainly an involuntary borrower; we have no alternative but to borrow unless we raise taxes.

These kinds of involuntary demands on the credit supply are themselves one of the forces driving up interest rates and, clearly, a reason to reduce the Federal deficit is so that we don't have that Federal Government in the credit market, demanding billions of dollars of borrowing each year to cover its deficits, because we drive up the interest rates when we are in those markets -- all the more reason to reduce outlays, reduce deficits, in the process get out of the market, and let the people in that need the money for better purposes than we use it -- the productive capacity that we have talked about today.

We need money there. We need money for housing. We need money other than for financing the Federal Government debt that we can possibly get ourselves into such a posture.

This is the key problem. Yes, sir, you have certainly identified it.

MR. MEANY: Well, what I am thinking of is, in terms -- something in terms of a campaign that started 30 years ago in the Treasury Department that we in the trade union movement were associated with and are still associated with.

In other words, we were selling -- I don't know what we called them at the time, but I know that back in World War I, we called them Victory Bonds, Liberty Bonds -- we were selling special bonds, and they were converted later to what we call E Bonds.

We were selling these bonds, and are still selling them, in industrial plants with a payroll deduction plan, with the complete cooperation of the trade union movement.

When this started, it was during war time, and this was a patriotic venture which everybody joined in. Now we've got a war, but we've got a different kind of a war. And I am wondering if there isn't some way to get this out to the American people, that Uncle Sam can get his money a little cheaper.

He got it cheaper during the war because we were selling these bonds to workers in industrial plants. It was less than what they could get in the savings and loan, in the ordinary savings bank, but we were selling them on a payroll deduction plan, and these plans, of course, have been continued.

Of course, the interest rates on the so-called E bonds have been adjusted upward by shortening the expiration of the bonds.

But I am wondering, on this particular item, if there isn't some way that this item can be brought down. Now, you are talking about $5.4 billion that the President wants to get off of Fiscal '75.

Within the last year, I am quite sure our debt service has advanced, taking the old rate and the new rate, at least $5 billion.

Now, shouldn't some special attention be paid to this, some special to the people of the country, to the bankers, or something, to get this particular item now?

MR. ASH: Well, certainly, we do have, as you know, Mr. Meany, continued Treasury Department effort. I don't think

Bill Simon is here. If so, he should speak for it. But, a continued --

MR. MEANY: He had to go on some show --

MR. ASH: Probably out selling E Bonds.

(Laughter.)

MR. ASH: I hope he is out selling E Bonds on that show.

But there are, of course, continued efforts of the Treasury Department to sell securities directly to a broad based public.

I think we would all have to recognize that that public today may be a little more sophisticated than it was in World War II times and finds other alternatives dangled in front of it, and is a little more perceptive of interest rates, particularly when they get up to these high numbers.

And, I must say, it is a difficult job -- more difficult than it was then -- but I certainly agree with you, and the Treasury Department agrees with you, and has moved interest rates up to pay to the individual lender higher interest rates, to attract as much money as is possible without at the same time taking advantage of individual investors or savers who do have alternatives.

MR. MEANY: Looking at the discretionary non-defense outlays and the so-called entitlement programs, as a practical matter, I don't think you are going to do much with those in an even-numbered year.

MR. ASH: Well, I have made that same statement, Mr. Meany, a number of times. This is an even-numbered year.

(Laughter.)

MR. ABEL: Roy, aren't we again seeing an example of the double standard we talked about in industry on E Bonds and H Bonds, which are now six percent, as against the nine percent you just paid for the recent bond issues in the higher denominations to the people who have more to buy higher amounts with?

MR. ASH: I agree that is a problem. There are people that provide a market for these treasury securities that prefer a Treasury security, in low amounts, though, in contrast to the big amounts, and it takes --

MR. ABEL: You know you can buy a $500 E Bond and you pay six percent. Our -- you would pay nine percent for a $1000 treasury note.

MR. ASH: There is no question but these are problems and there has been a lot of comment about what should be done. I could argue either way. Whichever side you want, I could argue the other side. But I agree with you --

MR. ABEL: The guys who got the most, fine, they get the most. The little fellow that can only buy in certain denominations from his government, he is going to get less consideration.

MR. ASH: That is something we want to look into.

MR. ABEL: I paid just as much for my E Bond as you have for your $10,000 bond, you know.

MR. RUSH: You are right. Mr. Finley you were next.

MR. FINLEY: It is hard, in a corner, to get into this thing. Mr. Chairman, I understand the need and the concern for reducing the budget. It should -- it sounds good but let me direct myself, if I will, with one aspect of the presentation of Mr. Ash. When you get all done it sounds simple. The only place we are going to solve our budetary problems is cut some expenditure on health, for child nutrition or education programs. I submit this is the wrong way to look at it.

This is not merely a problem of inflation, but as also was said earlier, it is a pmoblem of employment and it is a problem of the standard of living of our people. And it is a problem of who should bear the burden of the runaway inflation and of the unemployment that exists.

It seems to me to say that the burden of the federal government is to be said, "We'll have to cut down some education programs, cut down some health programs, cut down some child nutrition programs-- " I am reading the discretionary -- is an upsidedown way of approaching this problem.

Because you are hurting the people who can least afford it, who are now suffering the most under the problems of inflation. Now as submitted, if it is a problem of balancing the budget, not only look at it in terms of who pays our taxes,-- for example, in the last decade, in the 1960s, the tax load of the corporations and their proportion that they pay, dropped from 33 percent of the tax burden to 25 percent of the tax burden.

I submit the capital gains tax, the investment tax, all the tax programs that have been put into effect, have shifted the burden from those who could pay to those who can least pay our taxes.

I think we could probably reverse this and balance our budget by shifting our priorities as was said earlier, I think by President Meany and others, at the beginning.

The budgetary answer isn't saying I'll cut the programs and the appropriations from those who suffer the most now, but why don't we address ourselves to attacking those who can most afford to pay taxes and I submit if we would do this, if we would reform our tax system, overhaul it, the capital gains tax, the depletion tax, the corporate tax, the tax on multi-nationals, or rather, the tax benefits they now get, we could wash away the bulk of this problem.

We would put the burden where it belongs, on those who can afford it, and not put it on the backs of the people who already are the biggest sufferers from the mismanagement of our economy and I think this is the direction.

It's not charts. It's not numbers. It's a kid who doesn't have enough nutrition when he goes to school; the school lunch programs; you should put a picture of the kid on the board who is denied the school lunch program, not a picture of a graph going up and down and that's who we all deal with.

It disturbs me, if this is the program of our Administration, who thinks that their contribution, in terms of budget problems, is to cut those people the benefits and the programs on the backs of those who can least afford it today.

MR. RUSH: I appreciate your comments.

MR. QUIE: Dr. Ash, I'd like to ask you a question on that educational programs, if you know what you're talking about, because discretionary funds in education are much greater than that $1.1 billion and where do you get it down to that?

Title One of ESEA is $1.885 billion just for that one program.

MR. ASH: These are -- the parts of all of the total programs that aren't already contracted or committed or have become the obligation to third parties to the federal government at this time.

That is, we've already obligated or committed or given out to others, states, cities, and some cases, programs for individuals, an entitlement, where we had no remaining discretion in this fiscal year to deal with.

I'm talking about this fiscal year. We have amounts, of course, and this gets back to that technical side of the budget, the budget authority and outlays, that are greater amounts of authority, budget authority, that those give rise to outlays in future years, just as this year we're paying off, through outlays, amounts that were obligated in earlier years, so this is the amount of cash that would be spent this year as a result of obligations made this year, in contrast to the whole flow of money over a longer period of time.

There's the main difference on this and so many other of these programs have the same thing. You only $57 billion of the defense budgets here because the remainder of the defense budget is already under contract as a result of last year's actions so that's the -- the classification that I've used here is not the size of the program annually but the amount of remaining discretion there is this year on those programs.

MR. QUIE: Well, the entitlement programs then, that $143 billion, are those the programs you're talking about that are ongoing or that's something different again?

MR. ASH: No, we're talking about the non-entitlement programs.

MR. QUIE: The non-entitlement programs, what I'm going from before, are not discretionary. Is that how --

MR. ASH: That's right. The entitlement programs are a totally different breed, than the ones that are discretionary.

MR. QUIE: I want to point out where the rest of that education money is.

MR. ASH: All right. Separate from this meeting I can get you the scheduled program by program of what makes up those data.

MR. QUIE: Okay. The other question I have is that you're talking about something at least $5 billion and I guess it was a figure higher than that.

Now, the Congress -- the House has cut back the defense appropriations by $4 billion and the Senate Committee by $5 billion.

Now, what will that translate into in expenditure reduction if, say, either a compromise between the five and the four -- take a $4 1/2 billion cut in defense?

MR. ASH: That's a very proper question. Because of the long lead time and so many of the defense type of expenditures, the House version would generate a cash outlay reduction of about $1,400,000, the Senate version, about $2 billion, in between, about $1,700,000 or $1,800,000 would be the effect of the almost $5 billion budget authority reduction because so much of defense is long lead times.

You make a commitment today. You have a budget authority today and it doesn't result in cash until way down the road, so a billion-and-a-half to two billion, that's going to be affected by Congressional action this year.

MR. QUIE: The other three to four billion dollars, then.

MR. ASH: That is right. Correct.

MR. QUIE: Now, where are you going to get it?

MR. ASH: This is the shopping list. I asked you where do you think we should get it. We don't have our choice of where to get it.

MR. RUSH: Senator Packwood has a question, gentlemen.

SENATOR PACKWOOD: Let me ask Mr. Finley a question, because I think both he and Mr. Wurf put their finger on something earlier.

I sense a general agreement about a balanced budget except in times of extraordinary stress where we have to encourage demand and Mr. Wurf had some specific recommendations for cutting and raising revenue.

You, Mr. Finley, had some specific suggestions for taxing corporations and I think I would agree with many of them, especially the oil companies, which really gave us the greatest con job since Barnum last winter, but what happens when we increase those taxes on the corporation.

You can double the corporation tax on the Wonder Bread Company and they double the cost of Wonder Bread, which your members and everybody else's members buy.

I'm not sure that you are shifting the incidence of taxation very seriously by doubling the corporation tax unless, and nobody here has even suggested going back to it, we go to some kind of controls.

MR. FINLEY: Well, what about excise profit tax?

SENATOR PACKWOOD: Well, that's what we were coming to.

MR. FINLEY: Or the oil companies or something. I don't think there's a magic that every oil company has to make $600 million or a billion dollars after taxes.

SENATOR PACKWOOD: No, but that's the next question.

MR. FINLEY: I don't think they automatically have to pass it on to the consumer.

SENATOR PACKWOOD: I agree. They don't automatically --

MR. FINLEY: The fact they can do it is partially, I think, because there's a monopolistic situation and we've got no choice but that isn't because there's not a free market system.

SENATOR PACKWOOD: No. I think you and I totally agree and we would take the antitrust laws and either enforce them or change them if the present ones won't work.

But what is a fair return for a corporation?

MR. WURF: May I say something?

What's a fair minimum wage for a worker? If $2.10, and it was vetoed, if you remember, a year ago, is considered fair for a worker, I'll give you a good low figure for profits, too.

SENATOR PACKWOOD: What percent?

MR. HARDY: Two dollars on every dollar they make.

SENATOR PACKWOOD: Two dollars on every dollar they make?

(Laughter.)

MR. WURF: The important problem, the word discretionary and the word non-discretionary and Murray Finley very rightly said, a kid without food, a retiree with perhaps a retirement of $2,000 a year without medical care, these are the kinds of things that Mr. Ash is talking about and I suggest to you that it's a -- there's an argument whether there should be a budget -- you know, a cut or a non-budget cut, but what is troubling us is that the richest nation in the world, the important thing that Finley said, and he was specific as I was specific about other things, was that, in essence, instead of the Administration addressing itself to the disproportionate burden of taxes on the poor, on those who work, those who work and are not poor, and letting the corporations get away with blue murder is just outrageous.

The statistic that he pointed out, where, in effect, the proportion of taxes paid by the corporations goes down and down and down.

There's relief for them three times in a row by the present Administration and his predecessor Administration. And in essence, the load falls heavier and heavier on our people and when Mr. Meany bore down hard on the $23 billion we pay in interest, the kind of answers we get just simply are not the kind of answers that our members consider credable.

SENATOR PACKWOOD: No, they're not the kind of answers that I would give you in budget cutting and I agree with you about the charts and Roy Ash and I have talked with them and they seem kind of cold and impersonal but I'm not sure, as I sit on the banking committee and the finance committee, that increasing the corporation taxes and lowering individual income taxes, which I'll support, is going to result in a change of the incidence of who is paying the cost of government.

MR. WURF: The kind of thing Paul Hall talked about, I could go around this table. The kind of hustle that takes place, where they buy oil from the shakes and instead of buying it for dollars like I buy my groceries and you buy your groceries, it's called taxes and our federal government recognizes that hustle, and that these oil corporations are making profits out of this world.

This statement made by the President of the Mine Workers Union, their profits are going up into the -- you know, into triple digits.

SENATOR PACKWOOD: I saw that last year when we had the price controls and we have many American lumber companies that produce in the United States and in British Columbia, only there is no price freeze on imported lumber so they would simply slow down their production here.

You probably saw this in the paper industry and increased their production in Canada and ship it in here. Granted, nothing gained, shortages here, and price increases and what I would regard as excessive profits but until we come to a conclusion as to what roughly what a fair profit is, and I don't think it's a fair answer to say, what's a fair wage.

MR. WURF: Well, we're not going to deprive a kid of a school lunch.

SENATOR PACKWOOD: No, I'm not going to deprive him.

MR. WURF: Well, that was Mr. Ash's suggestion.

SENATOR PACKWOOD: Well, I don't think he's that heartless.

(Laughter.)

MR. RUSH: I think Mr. Hardy is the next gentleman.

MR. HARDY: The budget is $305 billion. Mr. Ash says he wants to reduce it to $300 billion. Now, that's about a two percent reduction, so Mr. Burns, who's not here and should be here, he's going to raise the interest rate.

Now, what the hell does it mean by reducing the budget at all, because it's going to be higher.

Instead, when you cut $5 billion -- $2 billion off or $5 billion -- you're going to end up paying more for the budget of 305.

You're not going to save anything because we're talking about the interest rate. Mr. Burns controls the interest rate, as I understand it.

Now, he controls everything that we live, eat and breathe when we work for a living, and he's too tight on it.

Now, let's talk about a balanced budget. Mr. Ash talked about it. Now, I think 1974 is the smallest deficit we ever had.

Forget we have the highest goddamned inflation in the history of our country. Now, it don't make sense. There's just no sense to your arguments and this is what I say.

Now, President Meany hit on one thing. We got high interest rates. We talked during World War I and World War II, we had war bonds, I know, I was a G.I. and you had to buy $10 worth to get a leave on the weekend or something, a G.I. bond and they had you by the b---.

Now, I just say this to you. The banks, as I understand it, the banks, they want to give you a loan and they want 12 percent, 14 percent.

Now, Mr. Ash, you loaned money out in $1,000 lots and they stood in line and you gave them eight percent and you had $1,000 to buy a federal reserve or federal note or something just about a month ago.

Now, it seems to me that that is the answer to this high interest rate. Now, if you can sell on the open market to the public and they stand in line and I think you sold $2 billion worth of bonds at eight percent and you wer paying nine and ten, and I still think you sold some last week maybe at the federal loan bank or whatever it is, maybe ten percent, I'm not sure, but isn't it far better to go to the public and get these bonds at $25 and $10 like you did to us in the service and we buy a $10 bond and you pay us eight percent instead of us putting our money in the banks and Christ knows they got more money than they ever can count and the same thing for savings and loan;

I think we should look about going to the American people and saying this is your government. We need your money but don't ask the poor worker to come up with $1,000 because you're shoving him out of the way.

But I think you can get money, all the money you want, for seven and eight percent, if you just go around and cut it to $25 bonds, Series E, or whatever you want and this is the answer and I don't that, no matter how you balance the budget, you're going to stop this inflation.

You have got to hit the oil companies with an excess profit tax. You've got to take them in there. You should nationalize the oil companies.

That's your answer. Until you do, you're not going to control it and I'm not an economist. I wish to hell I was, because I could do a hell of a lot better job than what is being done by the government.

MR. RUSH: I think Mr. Hall is next.

MR.HALL: Mr. Rush, I think that the previous speakers have covered my point. I was going to reply to your question.

I think you could look at the foreign oil depletion tax, the foreign tax credit, and the favored treatment of the big oil corporate structures.

There is the difference in your budget.

It is interesting, for example, not only do the oil companies have those advantages that our friends have been referring to, but at this very moment in the State of New York, in which I have the privilege of residing, not quite as good as Alabama, but it's pretty good, the -- all seven of the majors are under indictment for price fixing with the intent in mind of driving the small independent businessmen out of business.

Now, I don't want to belabor the issue, but I think that Murray Finley put the thing in the proper context. I would do it a little differently and say that you would have to look at both sides of the coin.

I think everybody wants to see the budget balanced for a great number of reasons, but not at the sacrifice of some of the people who are the most helpless.

I wonder and I keep wondering why that someone has not taken a good look at the structure of these oil people because in that area alone there are those tax-favored situations which have no benefit whatsoever to the American public, which are terrible liabilities and a terrible burden for them to carry.

And I would intend to urge those who are here from the legislative body to take a good look at this at the appropriate time and place. I think it's outrageous.

MR. STALL: Mr. Rush?

MR. RUSH: Mr. Shouker is next, gentlemen.

MR. SHOUKER: I would like to address myself to a point that Mr. Ash made and also one that Mr. Finley made and try to relate them.

Mr. Finley spoke of the human problems that are behind some of these budget concerns, and Mr. Ash spoke of the fact that the budget for various social services is growing and growing and is concerned with what would happen in 1976 and 1978 and 1980.

I think we are all concerned with that. I think if we all look at one page of this budget, and we see food stamps at $4 billion and public assistance at $4.6 billion, and rehabilitation at $3.1 billion, and medicaid at 6.3, and unemployment insurance at 8.3, we see a sum of money there which is about $25 billion and growing very rapidly.

This represents assistance to groups of people who for the most part, through no fault of their own, society has not reached early enough to help, and therefore, they are a burden on the taxpayer, and they don't feel very good about it themselves, being in this particular position.

And unless we can find a way of intervening early enough to do something about it, that number is going to grow and grow and grow.

We are going to find 30, 40, 50, 60, 70 billion in taxpayers' money going to people who are unable to work and unable to produce -- if you want to talk about productivity, probably the greatest lack of it is the huge number of people who aren't working represented in this particular category.

Now, how are we going to intervene to change this? I think that we recognize that programs designed to intervene after people have gone through school and can't read or can't write or can't count or haven't acquired certain skills, whether it's in the coming to work on time, or whether it's in job skills or something else, the longer you wait the less likely it is that any kind of a change is going to be made.

And it seems to me that what we've been doing here is we've been waiting until it's too late. We wait until the child leaves school, is an illiterate, and then we have Job Corps programs and aid programs and welfare programs, and we don't put that investment in at a time when the child is 3, 4, 5, 6, 7, 8, 9, 10 years of age, a time when that child's life could be changed so that when they grow up they will not be in this 25 billion category that is growing and growing, and this doesn't represent the amounts that state and local government also has to put into helping these people.

Now, that's what concerns me so much about any kind of a talk about cutting budget in an area where it's going to -- it seems to me that maybe if we are concerned with 1980 and beyond 1980, if we are concerned with eventually being able to trim some of these programs,we've got to make an investment now.

And maybe it will cost. It will cost for the next few years to reach the children that are at that particular age.

I would like to speak for a few minutes about a program that's been working and which will be in jeopardy as a result of budget cuts.

Back in 1967-68 all across the country thousands of para-professionals were hired in schools. In New York City we have about 10,000 of them.

They were all welfare mothers, unemployed, receiving all kinds of assistance. They didn't have a high school diploma.

As a result of their employment in the school system they got their high school diplomas. 6,000 out of the 10,000 are now enrolled in college programs.

2,000 of them will have college degrees next year. Now, here is an investment that was made. And instead of being unemployed and on welfare for the rest of their lives, they are going to be graduating, and if we had a job market where they could find a job, they would be employed.

Unfortunately, after having gone to college all these years they are about to graduate and get their degree only to find out that they will be part of the large pool of unemployed teachers.

Now, instead of cutbacks, why not a program of universal early childhood education to reach these young kids before it's too late, and to put to work these welfare mothers who became para-professionals and who are about to become teachers.

What I see is this concern about $5 billion now may do something now, but it isn't going to do anything about whether we are still spending money on public assistance and unemployment and food stamps and everything else.

We are not talking about a strategy of how do we start cutting down on these things five and ten and fifteen years from now.

MR. STETIN: I can't quite follow the logic that we were trying to fight this problem of inflation. We've talked about fighting the war on poverty, which hasn't been won yet.

I wonder what we did during the Second World War -- and I'm not an economist -- I wonder whether we thought about cutting the budget to win the war.

When we went into Korea, when we became involved in Laos, when we became involved in Vietnam, in Cambodia, and spent billions of dollars that were wasted, I wonder whether we took into consideration that we ought to cut down some of this.

It seems to me that in an area where the Government should have done something, because it is my judgment, and I've been around over 40 years in the labor movement, I remember when John L. Lewis was questioned by the Government because it was said he was slightly against the Government and against the American people.

But recently the oil industry conducted what I consider to be the most effective slight that anybody has ever conducted, either against labor or management or government; they conducted a slight against everybody together with the owners of the oil over in the other countries who blackmailed us.

And I am at a loss to understand why this

Government, in these last two years especially, when this slight was being conducted, and they doubled their price in order for us to get gas. We have done nothing about it.

To me, I think it is a national mistake to keep on muddling through in this area of inflation without some degree of regulation and control over profits and interest rates which played a major role -- and I was glad to hear Mr. Greenspan say that wages were not responsible for the inflation that we are involved in today.

It is these elements of prices going up and profits going up; I just had a man tell me the other day -- and I naturally can't mention the name or the company -- where it cost that corporation $1,250,000 for an increase in the wages of the employees. And he told me that he knows that this corporation increased their prices to their customers to the tune of $2,500,000 to make up for a cost of $1,250,000.

And as I said this morning, it is my judgment that we are reaching a state where you just can't have the free play of the economy, leaving it up to the corporation executives to decide, without any controls over them, and today, more and more these companies are part of the principle of the run away shop, and I come from the textile industry. I remember when there were 35,000 textile workers in the Patterson-Passaic area where I live -- and the principle of the run away shop, of one section competing with the other for lower taxes, and so they went to New England in the textile industry and then they went south, and now they are going overseas.

And, gentlemen of the Government, and I say to you that unless we deal with this multi-national corporation which is engulfing over us, unless our Government has a great word in what these gentlemen do when they go overseas, we are going to be in real trouble.

It is equally a mistake to try to fight inflation without achieving full production through national planning and making certain that every single human being in these United States who wants a job should be given a job either by private industry, or if private industry can't supply that human being with a job, then it should be Government as the last resort.

And if you want to call that some other name, I don't particularly care. As far as I'm concerned, when a man wants to work, and he can produce, we are losing billions of dollars that could have been in the gross national product, if we could develop a system in which every person works.

And one more thing, we talked about effective productivity. It's never going to be achieved with a constant conflict with the bulk of the American workers, especially in the southern part of these United States, and when they are denied their rights under law.

Gentlemen, I suppose I'm taking a little more time than I intended to, but I say to the Administration, we want to cooperate. We want to work with the Congress, and we want to work with the White House.

But by golly, you should do something about an effective system of regulation so that jobs are provided for anyone who wants to work.

MR. CHESSER: Mr. Ash, why do you list railroad retirement? There are one or two related items here in the Federal budget.

MR. ASH: Because, in this case, the Federal Government does pay the railroad retirement benefits to the extent that they are here listed in the budget.

MR. CHESSER: The Federal Government doesn't pay one penny of railroad retirement benefits. Not one red cent.

MR. ASH: It sure does.

MR. CHESSER: Where?

MR. ASH: Out of the Federal Treasury, out of the taxpayers' revenues that we collect.

MR. CHESSER: To railroad retirement?

MR. ASH: Yes, the railroad retirement fund is one that we pay out of to retirees of the railroad systems.

MR. CHESSER: But you are only a caretaker. The

Federal Government doesn't put one penny into it, not one penny.

It has been a contribution of the employees and the employer.

MR. ASH: The contribution hasn't been adequate to meet the obligations that the benefits schedules have imposed upon that fund.

MR. CHESSER: Oh, but you haven't put one penny into it, and don't leave that impression here. Because you can't prove that statement.

You haven't put one penny into it. In other words, just the opposite, Mr. Ash, we have subsidized that fund because you have not, the Treasury Department -- we fought them for years and years for us to pay us the going rate of interest,and we couldn't get it done.

And the Federal Government hasn't subsidized that fund one red cent. You owe us a lot of money, and we are coming to you for it.

MR. ASH: We can sit down and discuss the specifics and it will, maybe, take some time. But, certainly, the general taxpayer is contributing to that fund in order to --

MR. RUSH: Mr. Chesser --

MR. CHESSER: I've got to get this cleared up because I read in the press every now and then how much the railroad worker is costing the Federal Government in pensions.

And I defy any man in the Federal Government or in this room to prove to the taxpayer,to me, that he is paying one red cent.

We even pay for writing the checks.

MR. ASH: Let's get some time after this session we can go over the data to see if we --

MR. CHESSER: Our contribution and to the employer -- is to the railroad retirement fund. And if we are costing a cent, get loose of it because I can make more money.

All I know is how to switch boxcars, but I can make more money out of it than you have been making out of it or the Treasury Department has.

MR. ASH: I agree, we haven't been making much out of it.

MR. CHESSER: Because we've been subsidizing this government. Now, this is the facts, and those in the Congress that know something about this subject can tell you today on your note that you are talking about paying 8 percent on, you know what they are paying us?

About 5, if they are paying us 5. And that's our money. That's our money. And this Federal Government hasn't got a penny in there.

MR. SCHWEIBER: I agree with Mr. Chesser.

The main point that I would like to just raise, Mr. Chairman, is that I think one of the areas that we do seem to agree on is the effect that tight money and high interest rates have had.

And I happen to believe that while they well may solve some problems they certainly create a lot more than they solve.

And I think, just as the Wall Street -- I read an article the other day called "Stagflation", which, in essence, said that all the economic professors are throwing away and burning their old textbooks, and a textbook written as recently as a year ago is obsolete.

I think we ought to approach the economic problem before our country in that way, that we have to look at a new problem, a new challenge, and new solutions.

And every industry or businessman changes their technology every year or two, not every 20 years. And the basic economic approaches to our problems haven't really varied in 20 or 30 years, and no wonder we are in a mess.

I think we've got to be a little more selective and sensitive to these areas. Now, I think we've heard some good suggestions here today about credit.

And it would just seem to me that one very logical outgrowth of suggestions here, which is sort of composite while they are said, some kind of two-tier credit policy, a lower tier of interest rates on things that were essential for the survival of this economy. Housing is one of them.

I think areas that create jobs is another. I think that areas that reduce shortages is another. Energy might well be another, domestic energy, not foreign energy.

And I think let the second tier go on the matter of non-essential spending. The guy wants to build the second house or a swimming pool or some construction that we don't need, then let's do that.

We talk about two-tier goal system. This concept isn't new. We use it now on student loans. We've singled out student loans, and we say that is an important element of education.

Give us lower credit there. And it just seems to me we've gone on now 30 or 40 years with tight money always coming in. In fact, I think it's killing us.

Now, there are areas where we should have some tight money, but let's have the grace and the intelligence to see the difference and to change some of our policies in this area.

That's all I --

MR. RUSH: Thank you, Senator Schweiker.

Mr. Edwards, would you like to make some comments on this subject?

MR. EDWARDS: Mr. Chairman, I had a prepared statement I was going to read into the record, but this one has been chewed up so many ways by so many people -- and I agree, incidentally, with most that was said.

I have a question I would like to ask Mr. Ash. He said for the last 25 years, if I heard him correctly, defense expenditures have been going down, and that in 1975 this would be the strongest, perhaps, of the 25 years.

Our records indicate that it has been going down, defense expenditures, since the early '60s, but in 1975, according to your budget for defense, it will for the first time be going up.

That's question one. If I can do my second question, then I'll be off. And the question of tax advantages in the area of oil company operations, our records indicate that it will account for about $3 billion in 1975, or more than the Government is planning to spend on energy and research.

I think the Government ought to be doing more in this area so that the oil companies will not have an absolute monopoly over the consumer.

Those are my --

MR. ASH: I think I can answer at least the first one quickly and maybe even take a cut at the second one.

Defense expenditures in 1975 will be the lowest percentage of gross national product for the last 25 years. Also, on a constant dollar basis they will be a third lower than they were in 1968, and, as you observed, lower than they have been for many years.

It is true, though, in 1975 over 1974, before at least the Congress dealt with the defense budget there was a step back up of a small amount on a constant dollar basis.

But the Congress has affected its will on that, and I'm sure that you will see when we finally go into this year with appropriations fully in front of us that it will again set a new low record for defense expenditures.

So I think your data are right. There was a slight fill up, but, on the other hand, the Congress has even dealt with that.

To answer the other part of your point -- I think it's an answer. And it's also an answer to Mr. Hall. You may know that we did propose, the Administration proposed almost a year ago now the elimination of the foreign oil depletion allowance. It hasn't been dealt with by the Congress, but we did propose it.

Certainly, the windfall profits tax on the oil companies -- hadn't that tax been into effect from the day that it was proposed -- of course that's a little unrealistic because that gives Congress no time to act -- we would have collected a few billion dollars of those oil revenues that you've all been talking about here that have -- that the oil companies have earned the last few months.

And that would have gone toward some of the other points made of "Why not raise taxes?".

I guess the only consolation is we've seen a number of these things exactly the way that you are expressing them,did do so nearly a year ago, did initiate action in going those same directions. It hasn't yet come through the system.

But it isn't that we see it differently. We see it the same. We just have a little slow process at work to get the legislation that is necessary.

MR. LYONS: Another point. I think this charge here does show what the basic Government policy is, and that is that it desires to increase the services to the people over the recent years.

However, I think that's a good policy. However, if he would take a chart of population growth -- if we were to compare the same chart with population growth, I think you would show that we were going down, or at least totally mobile, not increasing at this rate, which, I think, we should have been doing.

And then I think if we would make at least two other comparisons, one, make a comparison with the dollars that we received by taxes into the Government back here in 1961, and the sources of those dollars, and then make the comparisons today with the sources of those dollars.

And you would see what is being said around here at the table, that the tax burden, the money coming into the Government, is actually being shifted away from the profits -- away from the taxes on profits that it was 15 years ago to the taxes on people.

And it is that shift that's creating that problem that all of the low-paid workers and the problems of the people who can't afford this inflation that we are on.

And a chart to that, I think, that goes industry by industry is specifically the same route -- who has found the loopholes in these systems?

As a lot has been said about oil here today, that I imagine that there are a lot others who have found the loopholes for multi-nationals and others that are today paying a much less share of the total tax burden than they did before.

And that's the area that should be corrected. But I think to lay this out against the population would be a more clear picture of what is the Government doing for its people.

And I think that it is doing less.

MR. ASH: I think if you turn to the third chart, we can mentally adjust the third chart to answer that question, because, certainly, we know the population that has increased from 1961 to 1975 has been, let's say -- let's see, 15 percent, or some small amount.

Defense has gone down. Interests and other has gone down. Payments to individuals and grants to state and local governments have tripled, which is really the payments to individuals and, obviously, the population has far from tripled in the last 15 years.

So that there has been a very very substantial increase in payments to individuals and grants to state and local governments that in turn repay those amounts to individuals,compared to population.

So I think that that third chart makes the point very clearly that there has been a very significant increase per capita -- very significant per capita -- of payments to individuals, whether directly or through state and local governments.

MR. DELLUMS: Mr. Chairman, I wanted to join Mr. Chesser in this portion of the -- on the retirement tax. If Mr. Ash is able to prove that there is any other taxpayer's money involved in the railroader's tax, I want to be on the mailing list of that crew.

I suggest that they check the Railroad Retirement Act and the Retirement Tax Act of 1937, I think you will find out that Mr. Chesser is 100 percent correct.

MR. ASH: We've had a little discussion up here. It may be illegal when everything else is going on. But that we are -- I am going to provide him the information I have.

And I particularly would like to learn his view of this, because it is a point that we would want to make sure that we all saw it as nearly alike that the data will allow.

And we are ready to exchange data and analyses of those data.

MR. CHESSER: Well, I think the act itself, as Mr. Dellums has mentioned, takes care of just what you are talking about, and there is no provision in the act anywhere at the present time that any of that money would be -- would come from the Federal Government.

So it's just not there.

MR. KIRKLAND: I think a part of this program --

MR. ASH: No, it never has an interest fund like the social security, but it is our trust fund. But you are not treating it very trustworthy, is that right, at the present time.

MR. KIRKLAND: Part of this problem, and part of what I could regard as a heavy bias in this presentation.

of the budget, and I am not suggesting that Mr. Ash intended it.

Some years ago social insurance systems were consolidated in the budget. The heavier element of that increase represents an exemption of the fact that the old age and survivors insurance system, receipts and expenditures, outlays as well as railroad retirement and other social insurance systems incorporated in it.

And although they are financed essentially by the payroll tax. We regard this as a mistake, as giving an erroneous, completely erroneous picture of the Federal role, and, in fact, the only appropriate element of the budget that ought to be reflected in this kind of a presentation would be any contributions from general revenues by the Federal Government to these funds which are financed from the payroll tax.

MR. ASH: I should think that's consistent with the point I was making earlier, that the Federal Government's role has changed from just running the government operations to collecting a lot of cash, and particularly social security cash, and repaying it so that we are just a conduit or a funnel.

MR. KIRKLAND: Yes, you are only a funnel, but you show expenditures. You show the proceeds and the payments of the pensions to people who financed it out of their payroll taxes as a human resources outlay of the Federal Government. And I think it gives a completely distorted --

MR. ASH: And, in fact, even the non-social security human resources programs have gone up almost exactly the same proportion as social security that has tripled in the 15 years.

So,either way it cuts about the same in proportionate increase or per capita increase.

MR. RUSH: I think, perhaps, we might move on.

There are participants in our meeting room that haven't had a chance to speak or who have not elected to say anything.

I wonder if Mrs. Comer would like to give us any new policies or ideas with regard to the subjects that we have or those outside the subjects that we've discussed?

MRS. COMER: I just wanted to kind of reenforce some of the arguments that have been made for not cutting people's programs.

In my view, any cutback on the food supplement program for expectant mothers and children age 1 to 6 would be indefensible when we know that protein deficiency could and does result in permanent damage.

And massive dosages in later years will not correct the damage in zero to 6 years of age. And so while Mr.

Shouker,and I agree with him totally, worries about the education, I worry about the damage that might be brought about by malnutrition, by not properly feeding.

And I understand that there is a thought by the Government to cut back to age 4, and I would beg you to reconsider and not cut back.

On the issue of prices I called for a Congressional probe on the price increases, and I would ask again that we have a Congressional probe on any of the price increases on the basics, on the basics that people need, on beans, on sugar, on gasoline, on antifreeze, on these very basic foods and commodities.

I would call for a Congressional probe and let all the facts be aired publicly, let everyone know where the gouging is.

And in this way we would inhibit corporations from just going out and cutting or raising prices to increase all their profits.

I would ask that contracts be opened again and we deal with this inflation the way we should in negotiations because the cost of living adjustment has not properly covered our people, our retirees and senior citizens.

This is about all I have to say.

MR. RUSH: Thank you very much,Mrs. Comer.

Has anyone else not spoken? Does anyone else wish to address any other subject?

If not, I shall like to, on behalf of the President and on behalf of all of us in the Administration, to thank you very much for what I consider to be a very productive and a very useful conference.

We've had some excellent ideas come out of this conference that will be given very serious weight and which will be discussed at the summit.

And, of course, we'll be participating in all the other pre-summit meetings that we are going to have.

And I know that the President is anxious to have the input of all segments of society and of our economy, but particularly, one of the most important ones, which is, of course, the labor movement.

So I want to thank you very much and I am looking forward to working with you for the rest of this summit and for the rest of the -- for the years to come.

Thank you.