

REMARKS OF SENATOR HUBERT H. HUMPHREY  
MORTGAGE BANKERS ASSOCIATION OF AMERICA

Washington, D.C.

February 23, 1976

It is a great pleasure and honor to have been invited to serve as the keynote speaker for your Washington meeting this year. I also would like to thank you for offering me wide latitude in my choice of subject matter.

With your permission, I will address my remarks this evening to a review of the economic situation and outlook as I see it.

I have titled my talk "Economic Opportunities," because I believe we face great opportunities throughout the remainder of this decade -- opportunities to return to full employment, to achieve a reasonably satisfactory degree of price stability, to improve the economic health of government at all levels, and to improve the soundness of our financial system. The challenge before us is to insure that these opportunities are not thrown away.

In discussing an abstract subject such as economics, I find it helpful to use analogies. One helpful analogy is that of a mountain climber.

The desired situation of truly full employment coupled with reasonable price stability can be thought of as the top of the mountain. Throughout the years since the end of World War II, we have been climbing toward that peak. Occasionally we have come within shouting distance of our objective. Often we have slipped back.

In 1957-58 we slipped rather badly. Most of the time, however, we have operated -- if not at the top of the mountain -- at least somewhere on the upper slopes. As mountaineers we have demonstrated enough sense of balance to avoid any death-defying plunges back to the base of the mountain.

In 1974 we lost that sense of balance.

Buffeted by a combination of food shortages and quadrupled world oil prices, we failed to exhibit the quick response to sudden danger which is the hallmark of a good mountaineer. The result was that in the final months of 1974 and the early months of 1975, the economy found itself in an alarming state of free flight, plunging down the mountain. Great uncertainty existed as to how far we might plunge before we somehow managed to arrest the fall.

Mercifully, we exhibited at that point a certain amount of professionalism and competence. Congress acted quickly on a major tax cut and on other measures which brought the precipitous slide down the mountain to a halt and provided the push necessary to turn around and begin the long climb necessary to recover the ground we have lost.

But one does not suffer such a tumble down the mountain without some nasty consequences.

In 1975, approximately 75 million of our citizens -- over one-third of the total population -- experienced at least one spell of unemployment by someone in their immediate family. Additional millions experienced part-time employment, reduced overtime, and great uncertainty regarding their job prospects. All of us experienced the devastating inflation which preceded and accompanied the plunge in output.

Gross National Product fell 14 percent below its potential. And I need not tell you what happened to the residential construction industry. You know only too well.

In light of the injuries we inflicted on ourselves by our plunge down the mountain, it is a great tribute to the resilience of the human spirit and of our economic system that we were able to turn around and begin the climb back up.

In the second half of last year real output grew at a rate of 8.6 percent, the unemployment rate was brought down from a peak of 8.9 percent last May to its January level of 7.8 percent, and the inflation rate, which exceeded 13 percent at the end of 1974, was 6.5 percent in the fourth quarter of last year. That is good progress. But it regains only a small fraction of the ground we lost during the fall down the mountain. Measured in terms of the relation of actual output to our potential, we have recovered less than 20 percent of the lost ground. Falling down does not take long. Climbing back is hard, tedious work.

The choice -- the challenge -- the opportunity that we face at present is this: we can continue the climb, or we can stay precariously balanced at our present spot, far from the top of the mountain, or we can fall farther.

Is it so important to keep climbing toward the top?

The best reason that could be given for the attempts to climb Mt. Everest was the famous remark: "because it is there." Not all of us would see that as a compelling reason. Indeed, few of us have ever really wanted to attempt to scale Mt. Everest.

But our economic mountain is different. There are important reasons to strive for the top. The damage done to our social fabric by excess inflation and unemployment is so great that strong motivation exists to reach the clear air and hospitable environment of the mountaintop.

This is a mountaintop on which jobs -- good jobs -- are available for all who seek work; on which decent housing is available for every family; on which personal savings and income are not continually threatened with erosion by inflation, and on which the benefits of full employment spill over into lower crime rates and improved mental and physical health.

Should we choose to continue climbing this mountain or should we settle for clinging to the slope somewhere near our present spot?

I am an optimist, an adventurer. I urge that we continue the climb and to do so at the most rapid pace which we are capable of sustaining.

I stress sustaining, because this climb is going to take several years. A sudden rush which cannot be sustained over the long haul will accomplish nothing but economic exhaustion and risk another spill.

Incredibly, the policies now being proposed by many in the current Administration constitute a vote for staying about where we are, for clinging precariously to the mountainside far from the top, or for approaching the summit at such a snail's pace that we may not live to get there.

My assertion requires some explanation. I am obliged to introduce one technical concept into the discussion in order to make my point. This concept is the notion of our potential growth rate.

Every year the labor force grows -- due to growth of the adult population and the trend toward increased labor force participation of women. In addition, our productivity increases at a trend rate of just under three percent per year. Adding these two factors together, the "potential" growth rate determined by labor force growth and productivity gains is about four percent per year.

Growth in line with our potential is necessary just to keep even -- to keep from sliding back down that mountain. If the unemployment rate is 7.8 percent at the beginning of the year and output grows four percent during the year, unemployment still will be 7.8 percent at the end of this year.

So whenever I hear the comforting statement that the economy is poised to grow in 1976, I say "Yes, but how fast?" In the judgment of many economic forecasters, the output growth which would result from Administration policies this year and next would be just about sufficient to hold unemployment where it is, or to bring it down very, very slowly. To return to my analogy, our progress up the mountain would range from slow to infinitesimal.

There is a choice. Some relatively straight-forward, perfectly reasonable measures are available which will help us up that mountain without risking another fall.

The Joint Economic Committee, of which I am Chairman, will present in its forthcoming 1976 Annual Report a set of policy proposals designed to keep us moving steadily up the mountain. Some of the elements likely to be included in those recommendations are:

--First, a monetary policy which makes ample credit available to the private sector; a policy which prevents any major rise in short-term interest rates and brings longer-term rates down. Such a monetary policy is particularly crucial because of the benefits it promises for the residential construction industry.

--Second, a budget policy which does not hold us back on that climb up the mountain. The President's recommended budget, which would slash real service levels in virtually every civilian area of the budget, would deprive us of the support the economy must have if it is to keep climbing.

I don't wish to be misunderstood. There is no need to embark on a spree of new spending. We don't wish to charge a few inches up the mountain and then fall down again. There is a need, however, to maintain the overall level of civilian services fairly close to their present level, making the necessary adjustments for inflation and changes in the unemployment rate.

--Third, a price-incomes policy which holds price increases to the necessary minimum and sets standards for wage settlements which permit reasonable real wage gains but do not permit wages to become the source of a fresh increase in the inflation rate.

Please note, I did not say controls. I am opposed to wage-price controls. They are neither necessary nor desirable. What I advocate is a policy which seeks the voluntary cooperation of business and labor in a mutually beneficial program to steadily reduce the rate of price increase.

--Fourth, a jobs program. At present we are so far down the mountain that even the best of monetary and fiscal policies can bring us to full employment only over a period of several years. During those years we should not allow the unemployed to sit idle and draw welfare checks. The enormous income transfer payments we are making to the unemployed are sapping the strength we need to keep climbing that mountain.

Let me remind you that the Federal budget impact of each one percent of unemployment is approximately \$17 billion, perhaps even more. Each one percent unemployment results in a loss in tax revenues of \$12 billion or more. Increased recession-related spending for Food Stamps, Unemployment Compensation, Welfare, and the like adds, at least \$76 billion.



If the Administration's estimate of 7.7 percent average unemployment in 1977 is correct, the Federal budget cost of high unemployment will be about \$63 billion in 1976.

These figures clearly show that our budget deficit is a recession deficit, not a spending deficit.

If we enact an adequate program which provides temporary employment on locally-initiated work projects and emergency public works, those who otherwise would be unemployed can contribute to the production of useful goods and services and at the same time preserve the skills and work habits which will enable them to help later on with the final climb to the summit.

We should have a shelf of public works projects available at all times. When unemployment levels rise above a trigger level in a region of the country or nationally, these important projects would automatically go into action.

The time to build and refurbish public facilities is not when the economy is booming with tight labor and materials markets. Public facilities construction will be much less inflationary if it is heaviest during periods of economic slow-down.

If we ultimately are to reach a situation of full employment and reasonable price stability, we will need the efforts, the skills, the good work habits of every available American. A reserve army of the unemployed is of little use climbing a mountain. It is just excess baggage.

These then are the four basic elements of an economic policy which will enable us to seize the opportunities presently before us: an accommodative monetary policy, a supportive budget policy, an active -- but voluntary -- price-incomes policy, and a temporary emergency jobs program of adequate size.

Nothing radical. Nothing really new and different. Just steady, skillful, intelligent, diligent application of a few tried and true principles.

There is no short-cut to the top of the mountain. Just step-by-step until we get there.

It may surprise you that I have treated progress toward full employment and progress toward price stability as part of the same objective. Aren't they in conflict? Isn't there a trade off between them? Can they really both be found on the same mountain-top?

There has been too much talk of "trade off." The inflation was worse when output was falling. When output began to grow again, the inflation rate dropped dramatically. Numerous factors contributed to this.

One important factor, however, was the productivity gains which came with the beginnings of economic recovery. These productivity gains help hold down unit labor costs.

Unit labor costs rose at an annual rate of less than two percent during the three recovery quarters we have so far experienced -- the second, third and fourth quarters of 1975. This compares with a rate of 14 percent during the quarters when output was falling.

Economic growth and less inflation go hand-in-hand. They are not enemies.

We do have opportunities for simultaneous progress against several economic evils. Those opportunities can be seized. Or they can be thrown away. The choice is ours.

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IT IS A GREAT PLEASURE AND HONOR TO HAVE BEEN INVITED TO  
SERVE AS THE KEYNOTE SPEAKER FOR YOUR WASHINGTON MEETING THIS  
YEAR. I ALSO WOULD LIKE TO THANK YOU FOR OFFERING ME WIDE  
LATITUDE IN MY CHOICE OF SUBJECT MATTER.

WITH YOUR PERMISSION, I WILL ADDRESS MY REMARKS THIS  
EVENING TO A REVIEW OF THE ECONOMIC SITUATION AND OUTLOOK AS  
I SEE IT.

I HAVE TITLED MY TALK "ECONOMIC OPPORTUNITIES," BECAUSE I  
BELIEVE WE FACE GREAT OPPORTUNITIES THROUGHOUT THE REMAINDER OF  
THIS DECADE -- OPPORTUNITIES TO RETURN TO FULL EMPLOYMENT, TO  
ACHIEVE A REASONABLY SATISFACTORY DEGREE OF PRICE STABILITY, TO  
IMPROVE THE ECONOMIC HEALTH OF GOVERNMENT AT ALL LEVELS, AND TO  
IMPROVE THE SOUNDNESS OF OUR FINANCIAL SYSTEM.

h THE CHALLENGE BEFORE US IS TO INSURE THAT THESE OPPORTUNITIES

ARE NOT THROWN AWAY.

(*unique circumstances  
Recession - instate*)

⊗ L IN DISCUSSING AN ABSTRACT SUBJECT SUCH AS ECONOMICS, I FIND

IT HELPFUL TO USE ANALOGIES. L ONE HELPFUL ANALOGY IS THAT OF A

MOUNTAIN CLIMBER.

L THE DESIRED SITUATION OF TRULY FULL EMPLOYMENT COUPLED WITH  
REASONABLE PRICE STABILITY CAN BE THOUGHT OF AS THE TOP OF THE

MOUNTAIN. L THROUGHOUT THE YEARS SINCE THE END OF WORLD WAR II,

WE HAVE BEEN CLIMBING TOWARD THAT PEAK. L OCCASIONALLY WE HAVE

COME WITHIN SHOUTING DISTANCE OF OUR OBJECTIVE. L OFTEN WE HAVE

SLIPPED BACK.

L IN 1957-58 WE SLIPPED RATHER BADLY. L MOST OF THE TIME, HOWEVER,

WE HAVE OPERATED -- IF NOT AT THE TOP OF THE MOUNTAIN -- AT LEAST

SOMEWHERE ON THE UPPER SLOPES.

As MOUNTAINEERS WE HAVE DEMONSTRATED ENOUGH SENSE OF BALANCE TO  
AVOID ANY DEATH-DEFYING PLUNGES BACK TO THE BASE OF THE MOUNTAIN.

In 1974 WE LOST THAT SENSE OF BALANCE.

BUFFETED BY A COMBINATION OF FOOD SHORTAGES AND QUADRUPLED  
WORLD OIL PRICES, WE FAILED TO EXHIBIT THE QUICK RESPONSE TO  
SUDDEN DANGER WHICH IS THE HALLMARK OF A GOOD MOUNTAINEER. THE  
RESULT WAS THAT IN THE FINAL MONTHS OF 1974 AND THE EARLY MONTHS  
OF 1975, THE ECONOMY FOUND ITSELF IN AN ALARMING STATE OF FREE  
FLIGHT, PLUNGING DOWN THE MOUNTAIN. GREAT UNCERTAINTY EXISTED AS  
TO HOW FAR WE MIGHT PLUNGE BEFORE WE SOMEHOW MANAGED TO ARREST  
THE FALL.

MERCIFULLY, WE EXHIBITED AT THAT POINT A CERTAIN AMOUNT  
OF PROFESSIONALISM AND COMPETENCE.



CONGRESS ACTED QUICKLY ON A MAJOR TAX CUT AND ON OTHER MEASURES

WHICH BROUGHT THE PRECIPITOUS SLIDE DOWN THE MOUNTAIN TO A HALT

AND PROVIDED THE PUSH NECESSARY TO TURN AROUND AND BEGIN THE

LONG CLIMB NECESSARY TO RECOVER THE GROUND WE HAVE LOST.

BUT ONE DOES NOT SUFFER SUCH A TUMBLE DOWN THE MOUNTAIN

WITHOUT SOME NASTY CONSEQUENCES.

In 1975, APPROXIMATELY 75 MILLION OF OUR CITIZENS --

OVER ONE-THIRD OF THE TOTAL POPULATION -- EXPERIENCED AT LEAST

ONE SPELL OF UNEMPLOYMENT BY SOMEONE IN THEIR IMMEDIATE FAMILY.

ADDITIONAL MILLIONS EXPERIENCED PART-TIME EMPLOYMENT, REDUCED

OVERTIME, AND GREAT UNCERTAINTY REGARDING THEIR JOB PROSPECTS.

ALL OF US EXPERIENCED THE DEVASTATING INFLATION WHICH PRECEDED

AND ACCOMPANIED THE PLUNGE IN OUTPUT.

2 GROSS NATIONAL PRODUCT FELL 14 PERCENT BELOW ITS POTENTIAL,

AND I NEED NOT TELL YOU WHAT HAPPENED TO THE RESIDENTIAL Housing

CONSTRUCTION INDUSTRY, L YOU KNOW ONLY TOO WELL,

L IN LIGHT OF THE INJURIES WE INFLICTED ON OURSELVES BY OUR  
PLUNGE DOWN THE MOUNTAIN, IT IS A GREAT TRIBUTE TO THE RESILIENCE  
OF THE HUMAN SPIRIT AND OF OUR ECONOMIC SYSTEM THAT WE WERE ABLE  
TO TURN AROUND AND BEGIN THE CLIMB BACK UP.

L IN THE SECOND HALF OF LAST YEAR, REAL OUTPUT GREW AT A RATE  
OF 8.6 PERCENT, THE UNEMPLOYMENT RATE WAS BROUGHT DOWN FROM A  
PEAK OF 8.9 PERCENT LAST MAY TO ITS JANUARY LEVEL OF 7.8 PERCENT,  
AND THE INFLATION RATE, WHICH EXCEEDED 13 PERCENT AT THE END  
OF 1974, WAS 6.5 PERCENT IN THE FOURTH QUARTER OF LAST YEAR. L THAT  
IS GOOD PROGRESS.

L BUT IT REGAINS ONLY A SMALL FRACTION OF THE GROUND WE LOST

DURING THE FALL DOWN THE MOUNTAIN MEASURED IN TERMS OF THE

RELATION OF ACTUAL OUTPUT TO OUR POTENTIAL, WE HAVE RECOVERED

LESS THAN 20 PERCENT OF THE LOST GROUND. FALLING DOWN DOES

NOT TAKE LONG, CLIMBING BACK IS HARD, TEDIOUS WORK.

L THE CHOICE -- THE CHALLENGE -- THE OPPORTUNITY THAT WE

FACE AT PRESENT IS THIS: WE CAN CONTINUE THE CLIMB, OR WE

CAN STAY PRECARIOUSLY BALANCED AT OUR PRESENT SPOT, FAR FROM

THE TOP OF THE MOUNTAIN, OR WE CAN FALL FARTHER.

L IS IT SO IMPORTANT TO KEEP CLIMBING TOWARD THE TOP?

*I think so.*

L THE BEST REASON THAT COULD BE GIVEN FOR THE ATTEMPTS TO

CLIMB MT. EVEREST WAS THE FAMOUS REMARK: "BECAUSE IT IS THERE."

NOT ALL OF US WOULD SEE THAT AS A COMPELLING REASON, INDEED,

FEW OF US HAVE EVER REALLY WANTED TO ATTEMPT TO SCALE MT. EVEREST.

BUT OUR ECONOMIC MOUNTAIN IS DIFFERENT. THERE ARE

IMPORTANT REASONS TO STRIVE FOR THE TOP. THE DAMAGE DONE TO

OUR SOCIAL FABRIC BY EXCESS INFLATION AND UNEMPLOYMENT IS SO

GREAT THAT STRONG MOTIVATION EXISTS TO REACH THE CLEAR AIR AND

HOSPITABLE ENVIRONMENT OF THE MOUNTAINTOP.

THIS IS A MOUNTAINTOP ON WHICH JOBS -- GOOD JOBS -- ARE

AVAILABLE FOR ALL WHO SEEK WORK; ON WHICH DECENT HOUSING IS

AVAILABLE FOR EVERY FAMILY; ON WHICH PERSONAL SAVINGS AND INCOME

ARE NOT CONTINUALLY THREATENED WITH EROSION BY INFLATION, AND ON

WHICH THE BENEFITS OF FULL EMPLOYMENT SPILL OVER INTO LOWER CRIME

RATES AND IMPROVED MENTAL AND PHYSICAL HEALTH.

L SHOULD WE CHOOSE TO CONTINUE CLIMBING THIS MOUNTAIN OR  
SHOULD WE SETTLE FOR CLINGING TO THE SLOPE SOMEWHERE NEAR OUR  
PRESENT SPOT??

L I AM AN OPTIMIST, AN ADVENTURER. I URGE THAT WE CONTINUE  
THE CLIMB AND TO DO SO AT THE MOST RAPID PACE WHICH WE ARE CAPABLE  
OF SUSTAINING *with safety.*

L I STRESS SUSTAINING, BECAUSE THIS CLIMB IS GOING TO TAKE  
SEVERAL YEARS L A SUDDEN RUSH WHICH CANNOT BE SUSTAINED OVER THE  
LONG HAUL WILL ACCOMPLISH NOTHING BUT ECONOMIC EXHAUSTION AND  
RISK ANOTHER SPILL.

L INCREDIBLY, THE POLICIES NOW BEING PROPOSED BY MANY IN THE  
CURRENT ADMINISTRATION CONSTITUTE A VOTE FOR STAYING ABOUT WHERE WE  
ARE, FOR CLINGING PRECARIOUSLY TO THE MOUNTAIN SIDE FAR FROM THE TOP,



OR FOR APPROACHING THE SUMMIT AT SUCH A SNAIL'S PACE THAT WE  
MAY NOT LIVE TO GET THERE.

MY ASSERTION REQUIRES SOME EXPLANATION. I AM OBLIGED TO  
INTRODUCE ONE TECHNICAL CONCEPT INTO THE DISCUSSION IN ORDER

TO MAKE MY POINT. THIS CONCEPT IS THE NOTION OF OUR POTENTIAL  
GROWTH RATE.

EVERY YEAR THE LABOR FORCE GROWS -- DUE TO GROWTH OF THE  
ADULT POPULATION AND THE TREND TOWARD INCREASED LABOR FORCE  
PARTICIPATION OF WOMEN. IN ADDITION, OUR PRODUCTIVITY INCREASES  
AT A TREND RATE OF JUST UNDER THREE PERCENT PER YEAR. ADDING

THESE TWO FACTORS TOGETHER, THE "POTENTIAL" GROWTH RATE

DETERMINED BY LABOR FORCE GROWTH AND PRODUCTIVITY GAINS IS ABOUT  
FOUR PERCENT PER YEAR.

GROWTH IN LINE WITH OUR POTENTIAL IS NECESSARY JUST TO KEEP  
EVEN -- TO KEEP FROM SLIDING BACK DOWN THAT MOUNTAIN. IF THE

UNEMPLOYMENT RATE IS 7.8 PERCENT AT THE BEGINNING OF THE YEAR

AND OUTPUT GROWS FOUR PERCENT DURING THE YEAR, UNEMPLOYMENT STILL  
WILL BE 7.8 PERCENT AT THE END OF THIS YEAR.

SO WHENEVER I HEAR THE COMFORTING STATEMENT THAT THE ECONOMY  
IS POISED TO GROW IN 1976, I SAY "YES, BUT HOW FAST?". IN THE

JUDGMENT OF MANY ECONOMIC FORECASTERS, THE OUTPUT GROWTH WHICH

WOULD RESULT FROM ADMINISTRATION POLICIES THIS YEAR AND NEXT

WOULD BE JUST ABOUT SUFFICIENT TO HOLD UNEMPLOYMENT WHERE IT IS,

OR TO BRING IT DOWN VERY, VERY SLOWLY. TO RETURN TO MY ANALOGY,

OUR PROGRESS UP THE MOUNTAIN WOULD RANGE FROM SLOW TO

INFINITESIMAL.

L THERE IS A CHOICE. L SOME RELATIVELY STRAIGHT-FORWARD,  
PERFECTLY REASONABLE MEASURES ARE AVAILABLE WHICH WILL HELP US  
UP THAT MOUNTAIN WITHOUT RISKING ANOTHER FALL. o

L THE JOINT ECONOMIC COMMITTEE, OF WHICH I AM CHAIRMAN, WILL  
PRESENT IN ITS FORTHCOMING 1976 ANNUAL REPORT A SET OF POLICY  
PROPOSALS DESIGNED TO KEEP US MOVING STEADILY UP THE MOUNTAIN,  
L SOME OF THE ELEMENTS LIKELY TO BE INCLUDED IN THOSE

RECOMMENDATIONS ARE:

L --FIRST, A MONETARY POLICY WHICH MAKES AMPLE CREDIT AVAILABLE  
TO THE PRIVATE SECTOR, A POLICY WHICH PREVENTS ANY MAJOR RISE IN  
SHORT-TERM INTEREST RATES AND BRINGS LONGER-TERM RATES DOWN. L SUCH  
A MONETARY POLICY IS PARTICULARLY CRUCIAL BECAUSE OF THE BENEFITS  
IT PROMISES FOR THE RESIDENTIAL CONSTRUCTION INDUSTRY.

L --SECOND, A BUDGET POLICY WHICH DOES NOT HOLD US BACK  
ON THAT CLIMB UP THE MOUNTAIN L THE PRESIDENT'S RECOMMENDED

BUDGET, WHICH WOULD SLASH REAL SERVICE LEVELS IN VIRTUALLY

EVERY CIVILIAN AREA OF THE BUDGET, WOULD DEPRIVE US OF THE

SUPPORT THE ECONOMY MUST HAVE IF IT IS TO KEEP CLIMBING.

L I DON'T WISH TO BE MISUNDERSTOOD L THERE IS NO NEED TO  
EMBARK ON A SPREE OF NEW SPENDING. L WE DON'T WISH TO CHARGE

A FEW INCHES UP THE MOUNTAIN AND THEN FALL DOWN AGAIN. L THERE

IS A NEED, HOWEVER, TO MAINTAIN THE OVERALL LEVEL OF CIVILIAN

SERVICES FAIRLY CLOSE TO THEIR PRESENT LEVEL, MAKING THE NECESSARY

ADJUSTMENTS FOR INFLATION AND CHANGES IN THE UNEMPLOYMENT

RATE.

(~~voluntary~~)  
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L --THIRD, A PRICE-INCOMES POLICY WHICH HOLDS PRICE INCREASES

TO THE NECESSARY MINIMUM AND SETS STANDARDS FOR WAGE SETTLEMENTS

WHICH PERMIT REASONABLE REAL WAGE GAINS BUT DO NOT PERMIT WAGES

TO BECOME THE SOURCE OF A FRESH INCREASE IN THE INFLATION RATE.

L PLEASE NOTE, I DID NOT SAY CONTROLS. I AM OPPOSED TO WAGE-

PRICE CONTROLS. THEY ARE NEITHER NECESSARY NOR DESIRABLE. WHAT

I ADVOCATE IS A POLICY WHICH SEEKS THE VOLUNTARY COOPERATION OF

BUSINESS AND LABOR IN A MUTUALLY BENEFICIAL PROGRAM TO STEADILY

REDUCE THE RATE OF PRICE INCREASE.

*Presidential  
Leadership!*

4 --FOURTH, A JOBS PROGRAM. AT PRESENT WE ARE SO FAR DOWN THE

MOUNTAIN THAT EVEN THE BEST OF MONETARY AND FISCAL POLICIES CAN

BRING US TO FULL EMPLOYMENT ONLY OVER A PERIOD OF SEVERAL YEARS.



L DURING THOSE YEARS WE SHOULD NOT ALLOW THE UNEMPLOYED TO SIT IDLE  
AND DRAW WELFARE CHECKS. THE ENORMOUS INCOME TRANSFER PAYMENTS  
WE ARE MAKING TO THE UNEMPLOYED ARE SAPPING THE STRENGTH WE NEED  
TO KEEP CLIMBING THAT MOUNTAIN.

L LET ME REMIND YOU THAT THE FEDERAL BUDGET IMPACT OF EACH ONE  
PERCENT OF UNEMPLOYMENT IS APPROXIMATELY \$17 BILLION, PERHAPS  
EVEN MORE. EACH ONE PERCENT UNEMPLOYMENT RESULTS IN A LOSS IN  
TAX REVENUES OF \$12 BILLION OR MORE. INCREASED RECESSION-RELATED  
SPENDING FOR FOOD STAMPS, UNEMPLOYMENT COMPENSATION, WELFARE, AND  
THE LIKE ADDS, AT LEAST <sup>#5</sup> BILLION. (Thurs (tele + local) \$5 Billion)

L IF THE ADMINISTRATION'S ESTIMATE OF 7.7 PERCENT AVERAGE  
UNEMPLOYMENT IN 1977 IS CORRECT, THE FEDERAL BUDGET COST OF  
HIGH UNEMPLOYMENT WILL BE ABOUT \$63 BILLION IN 1976.

h THESE FIGURES CLEARLY SHOW THAT OUR BUDGET DEFICIT IS A  
RECESSION DEFICIT, NOT A SPENDING DEFICIT.

L IF WE ENACT AN ADEQUATE PROGRAM WHICH PROVIDES TEMPORARY  
EMPLOYMENT ON LOCALLY-INITIATED WORK PROJECTS AND EMERGENCY  
PUBLIC WORKS, THOSE WHO OTHERWISE WOULD BE UNEMPLOYED CAN CONTRIBUTE  
TO THE PRODUCTION OF USEFUL GOODS AND SERVICES AND AT THE SAME  
TIME PRESERVE THE SKILLS AND WORK HABITS WHICH WILL ENABLE THEM  
TO HELP LATER ON WITH THE FINAL CLIMB TO THE SUMMIT.

h WE SHOULD HAVE A SHELF OF PUBLIC WORKS PROJECTS AVAILABLE  
AT ALL TIMES. WHEN UNEMPLOYMENT LEVELS RISE ABOVE A TRIGGER  
LEVEL IN A REGION OF THE COUNTRY OR NATIONALLY, THESE IMPORTANT  
PROJECTS WOULD AUTOMATICALLY GO INTO ACTION.

THE TIME TO BUILD AND REFURBISH PUBLIC FACILITIES IS NOT  
WHEN THE ECONOMY IS BOOMING WITH TIGHT LABOR AND MATERIALS MARKETS.

PUBLIC FACILITIES CONSTRUCTION WILL BE MUCH LESS INFLATIONARY IF  
IT IS HEAVIEST DURING PERIODS OF ECONOMIC SLOW-DOWN.

IF WE ULTIMATELY ARE TO REACH A SITUATION OF FULL EMPLOYMENT  
AND REASONABLE PRICE STABILITY, WE WILL NEED THE EFFORTS, THE  
SKILLS, THE GOOD WORK HABITS OF EVERY AVAILABLE AMERICAN. A  
RESERVE ARMY OF THE UNEMPLOYED IS OF LITTLE USE CLIMBING A  
MOUNTAIN. IT IS JUST EXCESS BAGGAGE. !

*Summary* THESE THEN ARE THE FOUR BASIC ELEMENTS OF AN ECONOMIC POLICY  
WHICH WILL ENABLE US TO SEIZE THE OPPORTUNITIES PRESENTLY BEFORE  
US: AN ACCOMMODATIVE MONETARY POLICY, A SUPPORTIVE BUDGET POLICY,  
AN ACTIVE -- BUT VOLUNTARY -- PRICE-INCOMES POLICY, AND A TEMPORARY  
EMERGENCY JOBS PROGRAM OF ADEQUATE SIZE.

NOTHING RADICAL. NOTHING REALLY NEW AND DIFFERENT. JUST  
STEADY, SKILLFUL, INTELLIGENT, DILIGENT APPLICATION OF A FEW  
TRIED AND TRUE PRINCIPLES,

THERE IS NO SHORT-CUT TO THE TOP OF THE MOUNTAIN. JUST  
STEP-BY-STEP UNTIL WE GET THERE.

IT MAY SURPRISE YOU THAT I HAVE TREATED PROGRESS TOWARD FULL  
EMPLOYMENT AND PROGRESS TOWARD PRICE STABILITY AS PART OF THE  
SAME OBJECTIVE. AREN'T THEY IN CONFLICT? ISN'T THERE A TRADE-OFF  
BETWEEN THEM? CAN THEY REALLY BOTH BE FOUND ON THE SAME  
MOUNTAIN TOP?

THERE HAS BEEN TOO MUCH TALK OF "TRADE OFF." THE INFLATION  
WAS WORSE WHEN OUTPUT WAS FALLING WHEN OUTPUT BEGAN TO GROW  
AGAIN, THE INFLATION RATE DROPPED DRAMATICALLY. NUMEROUS FACTORS  
CONTRIBUTED TO THIS.

ONE IMPORTANT FACTOR, HOWEVER, WAS THE PRODUCTIVITY GAINS WHICH CAME WITH THE BEGINNINGS OF ECONOMIC RECOVERY. THESE PRODUCTIVITY GAINS HELP HOLD DOWN UNIT LABOR COSTS.

UNIT LABOR COSTS ROSE AT AN ANNUAL RATE OF LESS THAN TWO PERCENT DURING THE THREE RECOVERY QUARTERS WE HAVE SO FAR EXPERIENCED -- THE SECOND, THIRD AND FOURTH QUARTERS OF 1975.

THIS COMPARES WITH A RATE OF 14 PERCENT DURING THE QUARTERS WHEN OUTPUT WAS FALLING.

*unit labor cost increase*

ECONOMIC GROWTH AND LESS INFLATION GO HAND-IN-HAND. THEY ARE NOT ENEMIES.

WE DO HAVE OPPORTUNITIES FOR SIMULTANEOUS PROGRESS AGAINST SEVERAL ECONOMIC EVILS. THOSE OPPORTUNITIES CAN BE SEIZED. OR THEY CAN BE THROWN AWAY. THE CHOICE IS OURS.

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