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SOLAR ENERGY DEVELOPMENT BY SMALL BUSINESS

Mr. PACKWOOD. Mr. President, I rise today to ask unanimous consent that a copy of my testimony submitted to the Senate Select Committee on Small Business concerning solar energy be printed in the RECORD.

The PRESIDING OFFICER. Without objection, it is so ordered.

(See exhibit 1.)

Mr. PACKWOOD. The Nation's true future in energy is often clouded by differing views on the contribution from each of our energy resources: Petroleum, fossil, geothermal, hydroelectric, wind, wave and tidal, and solar. Let me say that of these energy resources that are available for us to tap, the most enduring, clean and widespread one is solar energy. At the current time this Nation is only using a fraction of the available sunlight which shines upon the Earth. I have and will continue to support increased funding for the Energy Research and Development Administration to be devoted to solar energy.

Most recently I have written to ERDA in support of a research proposal submitted by the University of Oregon Solar Center to study the various energy collecting abilities of certain solar collectors and reflectors.

Mr. President, I hope the Senate will favorably consider the \$169,318,000 we recently authorized to be spent for solar energy research and development during the 1976 fiscal year and 3-month transition quarter next fall.

There is hardly a better investment we can make for the long-run energy supplies of this Nation if we act affirmatively on this specific budget item. As the Energy Research and Development Administration has recently estimated, the country's total energy demands could be met by 7 percent if we properly develop solar technologies now. Together with my support for small business emphasis in this area and adequate appropriations during the formative years in solar energy cultivation, I am hopeful we can move ahead to a more stable, clean, environmental balance in supplying energy to this country and the world.

EXHIBIT 1

OPENING STATEMENT BY SENATOR BOB PACKWOOD

Mr. Chairman, without a doubt, solar energy is our cleanest, most constant energy source for the future. Whether we are speaking of solar heating and cooling in the Pacific Northwest or the southern latitudes of the country, we have a tremendous energy resource to tap if we take the correct approach now.

The recommendations from this Committee's hearings in May on the problems of small business in developing solar energy have my full endorsement, and I have every intention of seeing that they are carried out.

The history of solar technology's beginning in the last twenty years is replete with innovations by the small businessman and the individual inventors who saw the future for solar energy. It is a sad chapter in this story to find bigger and more concentrated business interests taking the lead away from the smaller interests in the Country.

It is this very type of individual initiative and discovery which is leading the Pacific Northwest's efforts to establish a sound base-line of information on the potential for solar energy use in the Northwest.

Although most people would discount the potential for solar energy in the Pacific Northwest, I believe this is quite inaccurate. On the weatherbeaten Oregon coast, an enterprising home owner, Henry Mathew, has constructed, at relatively little expense, a solar collection surface using hardware store materials, and a large sub-surface holding water tank, which has reduced his electrical energy use by over 25 percent annually. Presently, a \$189,000 two-year grant proposal is awaiting acceptance by the Energy Research and Development Administration for continued monitoring and testing of solar collectors and reflectors in the Northwest by the University of Oregon Solar Center. This proposal is a fine example of a small group of scientists that are willing to take on the bulk of researching solar energy. This Committee's responsibility is to see that the funds and incentive remain for them and others.

This year the State of Oregon created the Oregon Department of Energy to manage the State's energy development and use. I have written this Department today to advise them of our Committee's efforts for solar energy development and the importance of emphasizing the continuing work of the innovator and small businessman.

Mr. Chairman, thank you.

THE AMERICAN INTELLIGENCE COMMUNITY AND THE FUTURE OF U.S. FOREIGN POLICY

Mr. CLARK. Mr. President, the issues being examined by the Select Committee on Intelligence are vital ones for the future of American democracy. The debate on these issues has just begun, and only tentative conclusions can be reached at this time.

Last week, the distinguished Senator from Minnesota (Mr. MONDALE), who serves on the Select Committee, offered what I believe to be a most interesting beginning to this vital dialog. His speech, delivered at Denison University in Granville, Ohio, outlined what he believes to be many of the past problems in our intelligence activities, and suggested a variety of possible reforms. I believe this speech deserves careful attention.

Each of us must arrive at our own decision on the extent of past abuses in the intelligence community and the need for future reform. Senator MONDALE's speech should aid in this process through its thoughtful examination of many of the pressing issues surrounding our intelligence activities.

I also commend to my colleagues an editorial which appeared in today's Minneapolis Tribune, commenting on the Senator's speech and on the need for responsible discussion of future policy alternatives in the area of American intelligence operations.

Mr. President, I ask unanimous consent that the speech of the Senator from Minnesota (Mr. MONDALE), and the Minneapolis Tribune editorial be printed in the RECORD.

There being no objection, the speech was ordered to be printed in the RECORD, as follows:

THE AMERICAN INTELLIGENCE COMMUNITY AND THE FUTURE OF U.S. FOREIGN POLICY

(By Senator Walter F. Mondale)

I would like to discuss with you this afternoon a crucial aspect of foreign policy which for too long has been sealed-off from the normal give-and-take of a democratic society—the overseas foreign intelligence operations and activities of the United States.

I want to say at the outset that I am a firm believer in the need for a Central Intelligence Agency. In today's world it clearly is necessary for us to collect intelligence abroad, to analyze it carefully, and to make it available to our senior policy makers. I am prepared to concede also that there may be a role for covert action from time to time—when our most vital interests are jeopardized and no other means will do.

However, having said this, it is clear that some very serious problems have arisen in the functioning of the United States intelligence community. The Senate Select Committee on Intelligence, of which I am a member, has been examining both the strengths and weaknesses of America's intelligence apparatus. If I dwell today on the problems, I do so to provide a basis for discussing some of the reforms that I believe are needed. It is not simply to suggest that enormously valuable work has not been done by our intelligence agencies through the selfless dedication of thousands of Americans.

First the problems. Over the last thirty years, American clandestine intelligence activities have often amounted to a secret foreign policy—usually supporting our public policy, but sometimes running contrary to what the American people were told its government was trying to do in the world. The CIA was the basic instrument of this secret foreign policy, and in many places in the world its operatives became a secret American diplomatic service. Its operatives had intimate and independent contact with important foreign leaders and a stature often rivaling, and sometimes exceeding, that of our Ambassadors.

Periodically our foreign intelligence operations went beyond covert diplomacy. They became an instrument of secret warfare—in Guatemala, Indonesia, Indochina, Cuba, the Congo and Laos. Straying from its intended purpose of supplying our leaders with the best possible intelligence on which to make foreign policy decisions, the CIA became an instrument and an actor in that process.

Your previous speaker, Secretary Rusk, has been quoted as saying that "the process of government is a struggle for power among those holding public office." The CIA, through its operational activities became a participant in that struggle, occasionally to the detriment of its essential function of supplying sound intelligence.

For example, intelligence on the prospects for such operations as the Bay of Pigs and so-called "pacification" in Vietnam was tragically wrong—in part because of CIA deep involvement in these operations.

The resort to clandestine instruments of manipulation, coercion, and interference in the affairs of other countries may have been essential to our security at one time. But over the years, it became increasingly marginal. Today we find it has damaged our credibility, tarnished our prestige and undermined our power in the world.

The United States is now blamed for nearly everything—from the murder of King Faisal to supposedly bankrolling rich European Socialist parties in their efforts to help the Portuguese. We bear a serious burden for the past activities of the CIA. Democratic and progressive leaders in the world often shy away from supporting the United States for fear of being smeared with charges of association with the CIA.

Equally important, CIA support for the most odious dictatorships and "destabilizing" efforts aimed at democratic governments have undermined popular American support for our involvement in foreign affairs. If that is what is meant by shouldering world responsibilities, many Americans would rather not.

There have also been problems in effectively managing our multi-billion-dollar intelligence bureaucracy so as to avoid waste and ensure objective intelligence. Decisions on what information to collect are often the result of the bureaucratic priorities of the many collecting agencies—and often not made on the basis of national requirements. The great bulk of our intelligence budget is spent on collection, a much smaller amount is spent on information processing, and a relatively infinitesimal, and inadequate, amount is spent on the crucial task of analyzing the information so we know what it means. Finally, there are serious problems in ensuring that the intelligence agencies have sufficient independence and integrity to tell the whole truth no matter how unpleasant this may be for our political leaders.

But the most important problem is that the concept and the techniques of our intelligence activities abroad have been turned against the American people at home. As the late Stewart Alsop observed in connection with Watergate: "to transfer such secret service techniques on an obviously planned and organized basis to the internal American political process is a genuinely terrifying innovation."

Yet we now know that there was even more than Watergate—there was also Operation Chaos, COINTELPRO, mail openings, illegal break ins, wiretaps, buggings, anonymous slander, phoney front organizations, agent provocateurs, strong-arm stuff and maybe worse.

The use of these covert actions and counterintelligence techniques on American citizens had their roots in the real concerns felt by the American people in the Second World War and in the depths of the ensuing Cold War. But it was in the late 1960's when this activity really blossomed.

Two Presidents, one a Democrat and one a Republican, treated as disloyal those Americans who protested the foreign policy and the war the government was then pursuing. The apparatus of government intelligence was focused inward in an effort to shift blame away from the failures of our foreign policy and onto some of its citizens.

And the practice spread. Black activists and civil rights groups came under surveillance; labor leaders and Congressmen were monitored and files were kept on them. Even Richard Nixon had his mail opened. In fact nobody was safe.

Repeatedly, the White House badgered the intelligence agencies of the government to find connections between foreign agents and war protesters and other political activists. Repeatedly, they failed to find significant evidence that opposition to the war, the drive for civil rights or that unrest in the cities was due to foreign manipulation. Nonetheless, the White House continued to press for intelligence to fit its fantasies.

The result, however, was an attempt to chill political dissent in this country and to stifle the constitutional right to the free expression of views essential for our democracy to survive.

This use of intelligence techniques to thwart the democratic process has profound implications for our future foreign policy. First, it affects the realism and wisdom of our foreign policy. If we permit by resort to the tools of counterintelligence—to treat American citizens exercising their rights as though they were foreign agents—then we can tragically delay the process of facing up to world realities.

Second, the degree of public support for foreign policy is seriously affected. The

American people cannot be expected to show much enthusiasm for full participation in world affairs if those who differ over policy are to be treated as traitors. It gives foreign policy a bad name. Americans are going to be reluctant to support an activist foreign policy unless they have confidence that some of the secret instruments of foreign policy are under effective control and will not be turned against them.

In dealing with these problems, the basic task of the Select Committee is to restore the confidence of the American people in the United States intelligence community. The intelligence community cannot do this for itself.

No amount of internal reform and Executive orders can substitute for a new Congressional charter for these agencies, backed up by vigorous Congressional oversight. We must ensure that our intelligence agencies are under certain control, accountable, and acting within the law. They must not be allowed, in the name of foreign policy or national security, to abridge the Constitution and the Bill of Rights.

To this end, the Select Committee on Intelligence Activities has undertaken the first in-depth examination of the CIA since its founding almost thirty years ago. We have been meeting for almost nine months. Five months remain before our mandate expires on the first of March next year. Already the files and records of the Committee are larger than any single investigation previously conducted by the Senate. The number of pages of testimony on the subject of assassination alone is approaching that of the Watergate proceedings. We have a Committee staff of over one hundred.

The main issue that is emerging is that of accountability.

There is a disturbing pattern of secret agencies unaccountable to the President. There is an even more frightening pattern of Presidents using these agencies to evade accountability to the law, to the Congress, to the Constitution and the American people.

This lack of accountability threatens the very basis of our democratic system. During the House Judiciary Committee proceedings considering the possible impeachment of President Nixon, Representative James Mann put the problem starkly. "Americans revere their President, and rightly they should. We would strive to strengthen and protect the Presidency. But if there be no accountability, another President will feel free to do as he chooses. The next time there may be no watchman in the night."

Reestablishing this bond of Presidential accountability to the people must be the Select Committee's ultimate task.

And if we can achieve this, I believe we will also be making major progress involving more technical questions such as whether our intelligence effort has the right priorities and whether the intelligence produced is objective, effective, and worth the money spent on it.

The question of accountability is central. We make an enormous concession in our democratic society to let government agencies operate in secret. Now, I accept that secrecy is sometimes necessary, particularly in the field of intelligence. But we cannot tolerate both secrecy and lack of accountability and expect to survive as a democratic nation.

Pinning down responsibility for many of the actions the Committee has uncovered has been like nailing jello to a wall. Subordinates say they were told to do it; higher officials can't remember it. Over and over we find that something happened but nobody did it.

Who is accountable in such cases? Who is out of control? The agency? The White House? The President?

We've been through all the available records, and they are a mess. Of course, one wouldn't assume that normal business files would be kept on this sort of activity.

But more important, the record system is designed to leave a mess. The basic principle of intelligence operations is deniability—to insulate the President from responsibility—to make it appear that this government isn't doing what it is doing—to make sure the buck doesn't stop with the responsible officials in our government. Deniability is the enemy of accountability.

As a result, it is possible to conclude that the agencies are often off on their own like a "rogue elephant." But there is a suspicion possibly unjustified that the rope was slipped off the elephant by the Chief of the Park Service himself.

The truth is that the system is designed so that it is too often impossible to ascertain the truth. The truth is that the system is unacceptable.

We have found examples in which Presidents have used our intelligence agencies to secretly exceed their authority under the law and the Constitution.

We have found cases in which the agencies have, apparently on their own, exceeded or violated Presidential orders. The case of the CIA's failure to destroy its biological weapons—the shellfish toxin—is a small, but illustrative, example.

We have found that the agencies have sought Presidential authorization of illegal actions in which they were already engaged—the Huston Plan is a case in point.

It seems that the possibilities are endless. And as far as I can tell, they all happened.

What can be done about the problem of accountability? What can be done to meet the problems I have outlined? My answers are still tentative and are certainly subject to revision as we go further in our investigation. But I wanted to spell out some ideas in order to begin the dialogue on the kind of fundamental changes that I believe are required.

I would suggest consideration of the following steps:

1. First, I would suggest taking the clandestine services, the spys, the covert operators, the whole "dirty tricks" department—out of the CIA. This is the only way to get effective control over these activities.

There have been many suggestions to take such covert action—the overthrowing of foreign governments, all that sort of thing—out of the CIA, but to leave the covert collection, or espionage job, in the Agency. We have been taking a close look at that, and it's frankly impractical. You really can't draw a line between espionage and covert action.

People who will give you information and betray their country in that manner will also do odd jobs for you later on, if you want some covert activity. Moreover, the whole apparatus of secrecy—safe houses, secret writing, clandestine contacts—is the same in both cases.

We would be fooling ourselves if we tried to exert control over covert action and ignored the fact that the same kinds of things are done under different labels, such as intelligence, or even more, counterintelligence.

2. This whole covert side of our intelligence operations should be made accountable to a politically responsible official of the Executive branch, such as the Secretary of State. We should abolish these phantom groups—the most recent of which is the 40 Committee—that are supposed to exercise control but which, in reality, serve to insulate the most senior officials and the President from accountability. A new Cabinet-level body, chaired by the Secretary of State, should sign off on *all* our clandestine activities abroad, including intelligence and counterintelligence, which at present receive no systematic high-level review. Accountability would replace deniability—which was a naive and unworkable concept anyway—and seasoned and sober judgments would hopefully replace reckless and impractical ones.

3. In the field, we have to make the American Ambassador fully responsible for all the

intelligence operations that are going on in his country. Otherwise, we can exert all the control we like in Washington, but we will have no assurance that in fact control is being monitored in the field.

Some might argue that there are certain Ambassadors who can't be trusted with this kind of information. Well, my view is that maybe this will lead to a better class of Ambassadors and end the practice of using our overseas posts for political payoffs.

4. I believe we must make the budget for these clandestine activities come out of the State Department and the Defense Department budgets and be subject to strict impersonal authorization. That way, we can help assure that secret intelligence operations are truly essential to our defense or our diplomacy.

5. I believe we should consider reducing our overseas complement of the clandestine service substantially over the next several years. I believe these slots should be transferred to the Foreign Service so it can do a better job of political and economic reporting on an open basis. All agencies agree that the primary and most valuable source of intelligence, apart from our technical systems, comes from the Foreign Service. Yet they are badly hamstrung by lack of personnel training and operating funds. I believe a special account for these purposes must be added to the State Department budget.

6. This doesn't mean that we should abolish the Director of Central Intelligence. Quite the contrary. His role should be strengthened. He should continue his responsibilities as the central point of analysis for all intelligence information and have greater authority to manage the technical collection programs. In addition, he should be given basic managerial responsibilities over the budget of the intelligence community.

Only in that way can our requirements for intelligence really be linked-up with the way we spend our money. As it stands now, there is a tendency for each agency to get its share of the pie and go off on its own, doing what it knows how to do best, regardless of what the requirements are of the government as a whole. This, in fact, was the original role for establishing a Director of Central Intelligence to serve as a central point for analyzing information and for coordination and management.

7. I believe the Director of Central Intelligence also should be given an explicit charge to keep the Congress informed of intelligence developments as they unfold. For the Congress to play its rightful role in the shaping of national policy, it must have as good information as the Executive.

8. To reestablish the integrity of our national intelligence estimates, I believe we must restore some version of the Board of National Estimates. This board was abolished by Richard Nixon when he didn't like the news that he was getting from the intelligence community. It was a board of eminent and highly qualified intelligence analysts, diplomats and statesmen, who tried to come to some wise and sober judgments on the significance of our intelligence information.

Nothing is more important than having objective intelligence. But objective intelligence requires objective people, unfettered by fears for their careers and not susceptible to White House or parochial agency pressure. We need to reestablish a board that can perform that function.

9. The intelligence agencies should have their rules clearly spelled out in law. We need to pass stiff laws that will attach tough criminal penalties to violations of their charters or of other laws of the United States. We have to make it as clear as we possibly can what activities are permitted by these agencies. We must make it equally clear that all other activities are forbidden unless explicitly authorized by Congress. We can't

put ourselves in the position of trying to imagine and rule out all possible activities that could conflict with our principles and our Constitution. If additional authority is needed, they can come to the Congress for it.

10. Finally, we must establish an effective Congressional oversight mechanism. I believe it is fair to say that if we had done a better job of oversight, we might have come to grips with these problems a great deal earlier. This oversight body, whether it be a joint Committee or separate Committees of the two Houses of Congress, should be composed of representatives from the other Committees responsible for these matters—Armed Services, Foreign Relations, Appropriations—as well as several members drawn at large from the two Houses. Membership of the Committee should rotate so that the Committee does not become captive to the intelligence community. A critical aspect of this oversight is that this Congressional Committee be allowed access to all relevant information. The unwillingness to trust a duly-constituted Congressional body with information relating to the intelligence of the United States betrays the same lack of trust of the democratic process that led to the abuse of the agencies by turning them against American citizens.

I believe there is no more fateful set of decisions to be made by the Congress in the field of foreign affairs than those that will be addressed by the Select Committee and ultimately by the Congress. No more important step towards reestablishing America's credibility and America's respect, and therefore America's power, can under effective control and accountability.

Moreover, it is essential for the continuation of democratic support for our involvement in foreign affairs. Only through the most careful safeguarding of our liberties will the American people again feel that their government deserves the trust so essential for the conduct of an effective foreign policy.

I am convinced that we can rebuild this trust only by ensuring that no one individual can abuse it. As James Reston has noted, "we have a system that we shrewdly designed to be strong enough for leadership, but in which power was diffuse enough to assure liberty." Through the reforms I have suggested, and others that may also be needed, I hope we could help assure both continued leadership and continued liberty.

But beyond these measures of institutional reform lie the ultimate questions of what kind of President, what kind of foreign policy we are to have. Regardless of institutional arrangements, it is very hard for the members of the intelligence community—or anyone else in the federal bureaucracy—to say "no" to the President. And it is almost impossible if the President invokes the imperatives of foreign policy and national security.

So it comes back to our basic approach to foreign policy. Will it be dominated by fear and suspicion? Will it be characterized by outsized ambition and an American solution to every problem? Will it be warped by the illusion that while we jealously control our own history the history of others can be manipulated by a few dollars, a few guns or a few lies?

Or will we approach the world with a more open mind and a more generous spirit? Will our leaders learn to live with democratic dissent at home and to accept diversity in our dealings abroad? Will we once again be the foremost example of liberty in the world?

I hope so. I believe it would restore a new measure of proportion and restraint to our future foreign policy.

Without this restraint, the entire structure and uniqueness of our democracy may be endangered.

With it, we will enter our third century of democracy better equipped to meet the chal-

lenges to domestic liberty that international tensions inevitably produce.

What is at stake is nothing less than our continued success of our democracy. As John Gardner has observed:

"When our nation was founded, there was a holy Roman Emperor. Venice was a Republic, France was ruled by a King, China and Japan by an Emperor, Russia by a Czar and Great Britain had only the barest beginnings of a democracy. All of these proud regimes and scores of others have long since passed into history, and among the world's powers, the only government that stands essentially unchanged is the Federal Union put together in the 1780's by 13 states on the east coast of North America."

Preserving and enhancing this Union must be the enduring goal of our Foreign Policy. We must be sure the instruments of foreign policy do not betray it. Re-establishing the accountability of our intelligence community and our President to the people is essential to the continued well-being of the American republic.

[From the Minneapolis Tribune, Oct. 9, 1975]

COMMONSENSE PROPOSALS ON INTELLIGENCE

Although the report of the Senate Select Committee on Intelligence is several weeks from completion, the pattern of its critical conclusions is becoming clear. Together with a House committee's similar investigation—which has not progressed as far—and the Rockefeller Commission report earlier this year, the Senate committee's findings show a history of abuses that clearly need correcting. It is not enough to say that intelligence agencies are probably no longer negotiating with the Mafia for the execution of foreign leaders on an enemies list or opening congressmen's mail. That such actions could have been condoned at high levels without tripping a common-sense fail-safe mechanism in the government shows that fundamental changes are needed.

But what kind? As an introduction to what will surely be a sharp debate on the subject, Sen. Walter Mondale in a speech last week made a number of suggestions that point the way. Mondale, a member of the Senate committee, did not belittle the need for intelligence. He even conceded that "there may be a role for covert action" (the "dirty tricks" side of intelligence work) "when our most vital interests are jeopardized and no other means will do." Having established his credentials as one who recognizes intelligence to be a vital component of national security, Mondale went on to outline problems and his suggestions for dealing with them.

The problems are familiar: a record of intelligence agencies involved in such travesties of foreign policy as secret wars and in such domestic outrages as illegal break-ins. Mondale is on firm ground when he describes the central issue as accountability—"... secret agencies unaccountable to the president... (and) presidents using these agencies to evade accountability to the law, to the Congress, to the Constitution and the American people."

Some of the Minnesota Senator's proposals for better accountability are familiar. For instance, he suggests that Congress should define the rules for the agencies more clearly in law and that more aggressive and diversified oversight committees assure compliance. He calls for centering responsibility for all clandestine activities abroad in a politically responsible official, perhaps the Secretary of State, outside the intelligence agencies themselves. At the same time, he says, the director of central intelligence should be given the greater authority intended, but now denied, over defense and other intelligence agencies besides the CIA.

Among less familiar proposals, one strikes us as especially noteworthy because it so well illustrates the need for common sense. Mon-

dale suggests a substantial reduction in the number of U.S. intelligence agents overseas—not to reduce U.S. intelligence capabilities, but to transfer more to the State Department Foreign Service. Most intelligence work is the gathering, transmittal, analysis and collation of information by skilled observers. Most of the work of embassy staffs involves just that. Given increased training and operating funds, Mondale says, there's no reason why the foreign service can't perform more of the function that is already one of its chief responsibilities. That may not be a headline-catching reform, but it's an example of the kind that we think should be made.

CAPITAL FORMATION

Mr. McCLURE. Mr. President, it has come to the attention of the Budget Committee Task Force on Capital Formation, of which I am a member, that serious shortages of capital due to a lack of investment could result in the immediate future. Charles McQuillen, my staff economic analyst, has written an excellent article concerning a short run analysis of the Federal budget and its effects on capital formation. I commend this article to my distinguished colleagues herewith:

CAPITAL FORMATION

Capital accumulation has been the keystone of American economic success. The flexible and productive investment of our national savings has permitted a people who inhabit only 7% of the world's land area and constitute but 6% of its population to produce 33% of the world's goods and services. Serious questions have developed in the last year or two concerning our ability to continue to marshal the large amounts of capital which must be invested between now and 1985 if we are to maintain and enhance our material level of well-being. Many forecasters agree that between now and 1985 we must invest some 4.7 trillion dollars. Many factors affect the availability of long term capital and this article will not attempt to deal with them. It is important, however, to recognize that the long run is but a series of short runs and that what we do during the next nine months will either set our feet firmly on a path consistent with such long term goals or cause us to deviate from them now and thereby prejudice their ultimate achievement.

Perhaps the greatest single deterrent to saving and investment is inflation. High and sustained levels of inflation lead to a reluctance on the part of lenders to supply capital at anything near "normal" interest rates. In the short run, interest rates will heavily reflect inflationary expectations. Currently we are faced with a situation in which both short and long term interest rates are high and rising—despite the fact that demands for investment funds are momentarily low. In such a situation the key variables which affect the decisions of lenders and borrowers are the size of the federal deficit and the manner in which that deficit will be financed. Let's turn our attention to the federal deficit for fiscal year 1976 and attempt to determine its size and its probable method of financing. In addition we can make some predictions about two possible economic outcomes of the projected deficit and its effects on the availability of capital through July of 1976.

In April of this year the House and Senate Budget Committees recommended to Congress the First Concurrent Resolution on the Budget. At that time the anticipated deficit for the 1976 fiscal year was set at 68.8 billion dollars. A deficit of this magnitude was designed to increase the level of demand but

at the same time avoid any rekindling of the price inflation of 1974 and early 1975. The deficit is now assured and will probably exceed 73 billion dollars. The anticipated results of that deficit, however, remain unresolved. To accurately forecast the inflationary implications of the final deficit requires that a number of judgments be made relating to Federal Reserve policies, private credit demands, international dollar flows and the general character and speed of the ongoing economic recovery. Among these imponderables, however, the key variables relate to Federal Reserve policy and the financing activities of the Treasury.

Predictions of the policies of the Treasury and Federal Reserve are made at the forecaster's peril. However, the activities of these bodies are reasonably predictable within a range. At one end of this range we can forecast a slow, non-inflationary and sustainable recovery (Case I). At the other end of the range we can forecast a rapid, inflationary and non-sustainable recovery (Case II).

Case I—At this end of the range of possible options the Federal Reserve exerts its best efforts to hold in check the rate of money growth. Chairman Arthur Burns has insisted that the Fed will maintain a policy of money stock growth which will allow for a rate of increase in M_1 of 5-7.5% between now and the second quarter of 1976. If we assume that the actual rate of growth of M_1 lies at the middle point of the range then the money stock will increase by 6.25% and reach 304.4 billion dollars by June of 1976. In this situation interest rates will rise slightly and the Fed would purchase some 6.4 billion dollars or 7.5% of the new debt issued by the Treasury.

Case II—At the other end of the range of alternatives we can project a Federal Reserve policy which attempts to hold down interest rates in the short term by expanding the money supply at a rate twice as fast as in Case I. In this situation M_1 would rise by 14% to a figure of 330 billion dollars by June of 1976. If this is to occur, the Fed must purchase 13 billion dollars or 15% of the new Treasury debt. The immediate effects of this policy look very good in the short run. We could expect real output to grow at 7-8% and unemployment to be reduced to 7-7.5% by June. Unfortunately the short run success has some long term consequences. Inflation rates would pick up dramatically by the summer of 1976 moving into the 10-11% range. In addition this rate of money growth and price increase would set the stage for a subsequent recession in 1977-78.

It is much more likely that actual developments will more closely parallel Case I assumptions rather than Case II. The Federal Reserve has made a strong commitment to controlling the growth in the money stock. If we can assume that the Fed does indeed pursue a non-inflationary policy, some conclusions relating to the short run availability of capital for business investment can be drawn.

CROWDING OUT 1976

The phenomenon of crowding out of private borrowers by the Treasury has many definitions—none of which are really adequate in the sense that they are truly descriptive. We could envision crowding out in terms of a credit crunch in which, as in 1969, funds were not available at any price. A repeat of this type of credit crisis is unlikely to occur in 1976. However, if we envision crowding out to be a situation in which small and medium-sized credit worthy firms are unable to finance normal money and capital market needs, then we may well see crowding out by June of 1976.

¹ M_1 , or the money stock, is defined to be the sum of currency in circulation and demand deposits held by the public at commercial banks.

Given the set of assumptions consistent with the moderate rate of growth of money described in Case I the supply of available savings will approximate 250 billion dollars. Against that supply households, borrowing at their historic rates, would take down approximately 110 billion dollars. The Treasury will borrow an additional 85 billion dollars to finance its cash needs. The residual capital available for business investment will then be no more than 55 billion dollars.

In short the immediate needs of business firms for capital may well go unmet, especially in the homebuilding industry. It will be difficult to determine the actual amount of the shortfall in capital but a fair approximation would be in the area of 6-7 billion dollars. To the extent that business firms anticipate a shortage of capital they may adjust or postpone spending plans. It is this adjustment which is the invisible consequence of large federal deficits financed in private capital markets.

The first six months of 1976 should demonstrate the willingness of business firms to begin the capital formation efforts which are required over the next 10 years. Hopefully, this period will also demonstrate to policy makers at the federal level the fact that deficits, inflation and capital investment cannot proceed together for any length of time. The economic impact of capital investment is clear. It produces valid jobs, true incomes, and real prosperity. Investment which transforms tax consumers into tax producers is the key element which will reduce and finally eliminate deficits. Unfortunately, if we are to generate the levels of investment we require we must commit ourselves to a slow and steady recovery. We must avoid the so-called painless alternative of rapid monetary growth which brings in its wake inflation and recession. A sensible approach to short run problem solving will not, of course, guarantee that our long term economic difficulties can be solved. However, if we do demonstrate an ability to act responsibly today at the federal level we may well act successfully tomorrow at other levels.

THE "ONLY HOUSING GAME IN TOWN" IS ALREADY IN A SLUMP

Mr. PROXMIRE. Mr. President, as chairman of both the Senate Banking, Housing and Urban Affairs Committee and the Senate Appropriations Subcommittee on HUD, I have long been critical and skeptical of the new section 8 low- and moderate-income housing program at HUD.

The Housing Act of 1968 provided the legislative initiative for HUD to build 600,000 units of assisted housing per year in order to meet our housing goals at a time when the housing and construction industries were at an alltime low. At the same time, it is equally clear that the 1974 Housing and Community Development Act intended for the new section 8 program to work in tandem with the old, tried, and true traditional public housing programs—section 235 and 236.

Since that time, the traditional public housing programs have been virtually disbanded, leaving the fledgling, untested "rookie" section 8 program as the "only game in town." Even George Allen would never play a rookie without knowing that there were some veterans on the bench.

So far the results have been disheartening, to say the least. Former Under Secretary of HUD Mitchell testified to my Appropriations Subcommittee in the