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gave orders for all out technological research into nuclear power. The result was the development of an incredibly destructive force—the atomic bomb and then the hydrogen bomb. The immense possibilities of nuclear energy for peaceful purposes.

In 1961 President Kennedy set the nation's course toward space travel by ordering an all out national dedication to reaching the moon.

Now if twenty years ago anybody had said that man would be walking on the moon within a few years, he would have been given a one way ticket to a mental institution. Today we talk freely about visiting other planets and even going beyond the solar system.

Similarly, with the kind of intellectual and scientific resources which this nation is about to throw into the energy problem, I'm convinced that the future will be bright, indeed.

Let me finally conclude by saying that at no point, under any circumstances, should we make any compromise with the great progress we have made in developing a cleaner environment in order to short cut the way to more energy.

We are going to awaken from this "economic nightmare"—not in a week, or a month or a year, but with patience and determination. We can have a better world.

WALTER HELLER, ARTHUR OKUN, AND PAUL SAMUELSON CALL FOR TAX CUT TO STIMULATE THE ECONOMY

Mr. MONDALE. Mr. President, two very distinguished former Chairmen of the Council of Economic Advisers, Walter Heller and Arthur Okun, urged a tax cut to stimulate the economy and head off a recession in testimony before the Senate Finance Committee this morning.

Nobel Prize-Winning Economist Paul Samuelson has also called for such a tax cut in his column in this week's Newsweek.

Their assessment of the economic outlook and what we ought to do about it differs sharply from that presented to the Finance Committee yesterday by Treasury Secretary Shultz.

This is one of the most important issues now facing Congress. I therefore ask unanimous consent that the prepared statements of Walter Heller and Arthur Okun, along with Paul Samuelson's column, be printed in the RECORD. I hope my colleagues will be able to take the time to review them carefully.

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

[From Newsweek, Mar. 25, 1974]

THE ECONOMIC OUTLOOK

(By Paul A. Samuelson)

Any intelligent person following current economic events might be forgiven if he despairs of making any sense of the situation. There seem to be more contradictions than ever in the developing trends. Let me therefore try to provide a guide to where we seem to stand as the winter of 1974 draws to a close.

Yes, the economic experts were right in saying last spring that the U.S. was then moving into a "growth recession." Since last Easter we shifted down from boom expansion to far below the 4 per cent annual rate of real growth that is the par needed to provide jobs for a growing labor force in a technologically progressive economy. The unemployment rate is on the rise, and by next fall the odds favor its being nearer to 6 per cent than 5½ per cent.

Yes, the experts were right who predicted that 1974 would be a year of "stagflation"—stagnation along with serious inflation. Price increases have been accelerating and spreading. This quarter's rate of inflation is hovering just below the 10 per cent level. And the end is not yet in sight. I have been talking recently with businessmen all over the land. And virtually all tell me they are panting for an upward adjustment in their prices—to compensate them for what they consider a profit-margin squeeze as their raw-material costs have soared. I presume that a survey of trade-union officials would show a similar desire on the part of workers for a "catch-up" in their wages.

Yes, there is an actual "recession" in real output this first quarter of 1974—perhaps at as much as a 4 per cent annual rate of decline. For the second quarter, the bets are about even among the experts on a further decline in output or a leveling off. Little money is being offered on the long-shot bet of a "V bottom" and a sharp upsurge in business.

COLD COMFORTS

No, there is no cogent evidence to support the view that the U.S. is about to plunge into depression. A worldwide depression is primarily a fabrication of free-lance journalists, gold bugs, and financial sensationalists who have had a miserable track record as forecasters in the past.

No, the typical forecasters from banks, industry, universities and governments do not expect the inflation rate to be as bad at the end of 1974 as it is now.

(I don't know quite how to square this with Fed chairman Burns's recent Congressional testimony warning of two-digit inflation of the Latin American type. Perhaps there is something infectious in the job that makes its holder succumb to the temptation that so often seduced former chairman Martin—namely, to issue warnings that go beyond the evidence in order to shake voters and congressmen out of policies deemed to be unsound. But perhaps Burns has cogent evidence and ways of analyzing it that will gradually become available to the public at large.)

UNCERTAINTIES

The foregoing appraisal exhausts the easy side of my current audit. Much harder to answer are the following questions:

Will unemployment peak out at 6 per cent? Will it be stable or falling by the year's end?

Will the upturn in business come soon enough, so that 1974 will not go down in the history books as a "genuine" recession? And will any improvement in the stagflation come soon enough and be significant enough to take pressures off Republican candidates in next November's election?

The jury is still out on these issues. And until they are clarified by the passage of time, legitimate debate about desirable policies can go on. Therefore, I would urge the following cautious programs:

1. Regardless of what happens to the oil boycott and to the continuation of a recession in real incomes and output, personal tax exemptions should be immediately raised. Even in World War II, the exemptions were $500 per head; in view of the inflation since then, $900 or $1,000 would be a fairer exemption than the present $750.

If such a tax cut were to be done, it were well it were done quickly. Now, while unemployment is growing.

2. Now is also the time for monetary policy to ease. It would be folly to try to roll back energy prices or raw-material prices by contriving recession or encouraging a maintained level of unemployment above 5½ per cent. After healthy growth is restored, gradual anti-inflationary pressure will again be in order.

This, I submit, is a sober and cautious program. I believe that it is also a humane one.

STATEMENT BY WALTER W. HELLER

In this period of economic discontent—plagued simultaneously by double-digit inflation and a side-slip into recession—your Committee is understandably perplexed as to the path of fiscal, economic, and social responsibility in taxation. On one hand, you are told that broad-based tax reduction would supply badly needed stimulus for a sagging economy and provide a significant antidote for rising unemployment. On the other, you hear that such action would aggravate an inflation that is already intolerable. You must wonder whether there is any way of fighting recession without paying an unacceptable price in worsened inflation.

Given the likely course of the economy in 1974 and the peculiar nature of our current inflation, I believe that a broad-based tax cut of moderate size—perhaps $6 or $7 billion in income and payroll tax cuts—could help cushion recession and speed recovery with only minor effects on the course of inflation this year.

To support this conclusion, one has to establish the reasonableness of three propositions:

First, that the economy is sliding into recession not because of materials shortages and supply bottlenecks but primarily because of a sag in consumer spending and in home buying, i.e., because of a lack in demand.

Second, that the kind of inflation we have this year—born of food and fuel price explosions, a world-wide upsurge in commodity prices, the one-time pop-up effect of removing price and wage lids, and the cost-push effect of accelerating wages and decelerating production—has a life of its own, one which will lose much of its vigor by the end of the year even if as much as $8 billion of net fiscal stimulus (including some action on expenditures) is pumped into the economy.

That the fiscal 1975 Budget does not already provide such stimulus—a conclusion which is shared, after close inspection of the budget numbers, by the Council of Economic Advisers, the Federal Reserve Bank of St. Louis, the Congressional Research Service of the Library of Congress, The Conference Board in New York—to name nothing but impeccable authortiy.

For the more detailed reasoning and facts that establish the validity of these three propositions, may I respectfully refer the Committee to the attached statement on "Budget Policy for a Soft Economy", which I am to submit to the Senate Appropriations Committee later this morning. I believe it makes a persuasive case that a prompt tax cut would be an *economically* responsible act.

That the kind of tax relief under discussion today—an increase in personal income tax exemptions, preferably buttressed by payroll tax relief for the working poor on the general pattern proposed by Chairman Long in 1972—would be *socially* responsible seems undeniable:

Before 1974 is over, inflation will have eroded the real value of the $750 exemption by more than 20% since it went into effect at the beginning of 1972.

Boosting exemptions on the pattern of either Senator Mondale's or Senator Kennedy's proposals would concentrate the bulk of the tax benefits at the middle and lower end of the income scale where recent inflation, especially in the form of surging food and fuel prices, has exacted a particularly heavy toll. It would help restore some of the badly eroded buying power of workers.

To reach those at the bottom of the income scale calls also for a step-up in social

service programs (see the attached statement to the Appropriations Committee) and relief from payroll taxes for the working poor and near-poor. Payroll tax action toward this end is discussed below.

The social or equity case for tax relief in the form of higher income tax exemptions (and the introduction of payroll tax exemptions) is so strong that it would make sense even if the Congress were to match it with simultaneous tax increases elsewhere in the tax system.

But to give the necessary stimulus to a sagging economy, the proposed tax reductions would presumably *not* be matched by immediate counterbalancing tax increases. Would such action, then, be *fiscally* responsible in the sense of safe-guarding the revenue-raising power of the tax system for the longer run?

To answer this question, one should first be clear on the magnitudes of the cuts in the perspective of total individual income and payroll tax revenues. As calculated by the Brookings staff, revenue costs would be as follows:

Under the Mondale proposal—the $200 optional tax credit—the revenue cost would be $5.9 billion in calendar 1974 and $5.7 billion in 1975.

Senator Kennedy's $100 exemption increase proposal would cost $4 billion in 1974. If an increase to $1400 in the low-income allowance were added to the Kennedy plan, the cost would rise to $4.3 billion.

Stepping the exemption up to $900 per capita in 1975 would increase the cost of the straight exemption increase to $6.3 billion in 1975, or to $6.9 billion if the low-income allowance were raised to $1500.

As to the payroll tax, introducing a "vanishing exemption" in the form of a $1300 deduction and a $750 per capita exemption which would phase out by $1 for every $1 of earnings above the basic allowance (i.e., a family of four would be exempt until their earnings exceeded $4300 and would be fully taxable on earnings above $8600) would involve revenue losses of $3 billion a year if limited to the personal contribution; and $5.6 billion if *both* the personal and the employer contributions were covered in the plan.

Comparing these revenue losses with the expected total yields of income and payroll taxes, one finds the percentage erosion to be quite modest:

Of the expected $129 billion yield of the individual income tax in fiscal 1975, the losses run from about 3% on the $850 exemption plan to just over 5% on the plan combining a $950 exemption with a $1500 low-income allowance.

Of the expected $86 billion of social security payroll taxes in fiscal 1975, the losses would range from 3½% under the modified Long plan covering only the personal contribution to 6½% if employer contributions were also covered.

Another measure—one that could provide some stimulus in the short run without any revenue cost in the long run—would be a modest cutback in over-withholding of income taxes, which now gives rise to refunds of about $24 billion a year. This move is attractive in principle for dealing with the current weakness of consumer demand. But it involves technical complexities and might also run into resistance from taxpayers who use over-withholding as a means of forcing themselves to save.

To protect the integrity of the revenue-raising system in the longer run, Congress could couple its exemption boost with a firm pledge to compensate for the revenue losses by adopting revenue-raising tax reforms to be phased in during 1975 and subsequent years. The necessary funds could be raised by a substantial boost in the minimum tax on preference income plus a phasing out of most of the tax shelters for petroleum as price curbs on oil are progressively relaxed.

In short, the projected program would achieve immediate tax relief to stimulate the economy and aid those hardest hit by inflation and would later restore revenues by measures that would improve the structure of the tax system. That would be fiscal responsibility at its best.

Since the Committee on Finance will have heard and seen ample testimony on the proposal for income tax exemption increases, I should like to add a few thoughts about the proposal for social security payroll tax relief at the bottom of the income scale. Let me put my central concern in the form of a question: What possible justification is there for extracting nearly 6% (5.85%, to be exact) from the miserable pay of people in poverty and near-poverty status—without regard to family size at that—and another 6% from their employers (the bulk of which, it is widely agreed, also comes out of the hides of the wage earners)?

Even if the social security system were a true insurance system, I doubt that the present approach would stand any reasonable test of equity and logic. And as even a casual inspection of the wide disparity between in- and out-payments of the social security system reveals, it's *not* an insurance system in any rigorous meaning of that term. Basically, it is a transfer system whereby today's working population supports today's retired and disabled population. As the Brookings study, *Setting National Priorities, the 1974 Budget*, cogently put it:

"It is misleading to think of payroll taxes as individual contributions destined to be returned to the contributor at a later date: it is far more accurate to think of the social security system as a national pension scheme, whose benefit levels are determined by the national priority accorded to the needs of the retired, the disabled, and survivors and whose costs are paid for by a tax on current earners. Once this point of view is accepted, there is no logical reason why the tax used to support the pension system should impose hardship on the poor."

As to the appropriateness of initiating payroll tax relief in 1974 on the general pattern of the Long plan, one should remind oneself of three vital facts of life about the 1973–74 economic environment, namely,

First, that general inflation, plus payroll tax increases, drained away 4% of the real spendable earnings of workers from January 1973 to January 1974;

Second, that because of the upsurge in food, fuel, and housing prices, today's inflation is eating away a much higher percentage of low incomes than of high incomes;

Third, total demand—and especially consumer demand—has fallen below the U.S. economy's overall capacity to produce, thus making it a relatively safe time to release added funds into the economy.

Given the dangers of a speed-up in the price-wage spiral, 1974 is also a particularly appropriate time to provide tax cuts in the form of payroll tax relief coupled with increased personal income tax exemptions. Nothing hits labor's real take-home pay as visibly and pervasively as payroll taxes and income tax withholding. And nothing would be more clearly recognized as "reparations" for the ravages of roaring food and fuel price inflation than a combination of income and payroll tax relief of the type that I have discussed. What labor gets as tax relief would cut down the pressure for king-sized catch-up wage settlements. This "safety valve effect" could be significant in taking some steam out of any new price-wage spiral.

In sum, combined income and payroll relief could help redress the grievances of inflation, improve the structure of the tax system, and help cushion the downturn now and support recovery later.

There will be no lack of fears, real and fancied, brought to bear on this proposal. Some will say that Congress can't get it all together fast enough to cope with the 1974 recession. Others will say that the economy can't stand *any* stimulus without breaking out in a new rash of inflation.

Let me close by expressing my confidence (a) that the Congress can and will act if it sees the need, (b) that both the social and the economic need for action *is* compelling and is *not* going to fade away quickly, and (c) that our $1.3 trillion economy has the capacity to absorb $6 to $8 billion of net fiscal stimulus and put it to good human advantage, with only a minor to minuscule impact on inflation.

BUDGET POLICY FOR A SOFT ECONOMY

(By Walter W. Heller)

Mr. Chairman and Members of the Committee: As the Committee on Appropriations grapples with the awesome implication of a $304 billion budget for the social, economic, and defense needs of the country, it is also making critical decisions affecting the course of the American economy. The total amounts spent relative to the amounts received, as well as the composition of the Budget, will have a lot to do with the strength and health of the U.S. economy, with the duration of the current downturn and the speed of its recovery, and with the outlook for inflation in the longer run.

In setting its overall budget course, the Committee has to judge first of all, whether Mr. Nixon's proposed fiscal 1975 Budget is deflationary or inflationary, whether it will stimulate or restrain a tiring economy, and whether it will help or hinder economic recovery.

On the surface, it has the earmarks of a stimulative budget. But is it really? Does it reverse the swing of the budget pendulum, which went from a clearly expansionary stance in fiscal 1973 to one of economic restraint in fiscal 1974?

A close inspection of the economic import of the Budget numbers by competent outside observers clearly supports Mr. Nixon's statement in his Budget message that "the recommended budget totals continue this policy of fiscal restraint as part of a continuing anti-inflationary program."

It is true that, with spending scheduled to rise by nearly $30 billion, and the deficit to double from $4.7 billion to $9.4 billion, the fiscal 1975 Budget gives the *appearance* of stimulus. But careful study shows (a) that the projected increase in federal spending for FY 1975 is actually *less* than in FY 1974 and (b) that the rise in the deficit is caused by a softening in the economy, not by any letting down of our fiscal guard. These conclusions have the backing of respected authority:

The budget document itself shows that on a full-employment basis, the Nixon budget for FY 1975 would increase the surplus from $4 billion to $8 billion (unified budget basis).

On a national income accounts basis, the Council of Economic Advisers projects the full-employment surplus as holding steady at $6 billion in fiscal 1975.

The St. Louis Federal Reserve Bank, which keeps a running account of the Federal Budget in terms of the national income accounts, projects a full-employment surplus rising from $2 billion in the first half of calendar 1974 to $9 billion in the second half and 12½ billion in the first half of 1975.

The "overview of the Budget" prepared by the Congressional Research Service of the Library of Congress concludes that "Fiscal policy for fiscal 1975 is planned to continue to exercise restraint on the economy."

Michael E. Levy of the Conference Board notes that if one adjusts net budget outlays by adding back in the "proprietary receipts from the public" (like rents and royalties on Continental Shelf lands) the projected gross spending increase for fiscal 1975 is less than the increase for 1974 ($29.5 billion against

$32.1 billion). His own measures show no significant change in the "fiscal thrust" of the Federal Budget between fiscal 1974 and fiscal 1975.

Even allowing for some slippage in the budget process, then, it seems reasonable to conclude that, contrary to surface appearances, the fiscal 1975 Budget offers little or no net stimulus to the economy.

This leads directly to the second question: *Should* the Budget be stimulative under present circumstances? Should adjustments be made in expenditures or taxes in such a way as to cushion the blow of rising unemployment and restore consumer buying power eroded by inflation, especially in the lower income brackets? The answer, it seems to me, is clearly "yes."

One should proceed promptly on both fronts—not massively, but in moderation. Given the reality of the present decline in the economy and taking full account of the unusual nature and likely path of inflation, prompt action to make the Budget moderately more stimulative would represent both economic and fiscal responsibility.

There is rather widespread agreement on the general economic scenario for 1974. Most forecasters, including those in the White House, expect the first half to be plagued by economic downturn and double-digit inflation followed by a second half in which the economy will turn up and inflationary pressures will begin to ease.

As to the nature of our current downturn: one finds that while *supply* shortages generate both headaches and headlines, a closer look reveals unmistakable signs of a shortage of *demand*. Battered by tight money and beleaguered by runaway food and fuel prices, the consumer has pulled in his horns:

For consumers, January was perhaps the cruelest month. While consumer prices were racing upward at a 12% annual rate, personal incomes dropped $4 billion. For nonfarm workers, real spendable earnings were down 4% from a year earlier.

The gasoline shortage has converted an expected decline in auto sales into something akin to disaster. The average drop in overall sales of domestic cars so far this year is between 25% and 30%, but the plunge in demand for standard models is closer to 50%.

On durables other than cars, consumption has been falling in real terms for nearly a year, while consumer spending for non-durables and services has kept only a trifle ahead of inflation.

Residential construction has dropped from a $60 billion rate a year ago to not much more than $45 billion today.

No quick rebound of consumer spending is in sight. Exploding oil prices are still working their way through the economy, soaking up $15 to $20 billion of consumer purchasing power in the process. That's the amount of tribute the American consumer has to pay foreign and domestic producers of oil. In the short run, very little of the buying power thus siphoned off will reappear in the economy either as demand for U.S. exports or as increased dividends and capital spending by the U.S. oil industry.

Even with an end to the Arab embargo, our economy will continue to suffer the paradox of "oil drag"—a cost *in*flation of prices and a tax-like *de*flation of demand. Indeed, with more high-priced foreign oil coming into the country, the number of consumer dollars siphoned away from other purchases will actually rise. Only as the oil producers recycle more of their bonanza into the economy—and later, as oil prices recede—will the oil drag begin to let up.

To slow the slide of the economy toward recession and to speed the process of recovery, then, calls for prompt budget stimulus. But in the face of ferocious inflation, would the appropriations committee and taxing committees of Congress be acting responsibly in launching such stimulus? Won't a lot of the stimulus run off into even more inflation? No one can deny that whenever consumers step up their buying, sellers are in a better position to hold or raise prices. But in the present setting, a moderate fiscal stimulus—say $6 to $8 billion of combined tax relief and expenditure increase—would have very little effect on the inflationary forces now at work in our economy:

Taking the economy as a whole, the excess demand of 1973 is a thing of the past. The economy now suffers from deficient demand, and particularly from weak markets for consumer goods and services.

The primary thrust to our recent inflation comes from skyrocketing food and fuel prices which, as Arthur Burns has pointed out, "hardly represent either the basic trend in prices or the response of prices to previous monetary or fiscal policies." As these pressures begin to burn themselves out later this year, they will leave a legacy of high but less rapidly rising prices.

Inflation today also represents a lagged response to the boom in world commodity prices other than food and fuel. Even after the economy turns the corner, these pressures will also ebb, much as they did after the price explosion that was set off by the Korean boom in 1951.

Another part of today's inflation represents the one-time "pop-up effect" associated with the removal of Phase IV's price and wage controls.

The sharp rise in unit labor costs also plays a role. These costs moved ahead at a 9% annual rate in the last quarter in 1973. They will get worse as wages accelerate and productivity slackens in recession. Once recovery gets underway and demand and output rise, productivity will again increase.

In 1974, in other words, inflation has a life of its own nourished not by excessive demand but primarily by a variety of cost factors that lie beyond the reach of fiscal and monetary management. The great bulk of a prudent budgetary stimulus under these circumstances would express itself not in higher prices but in higher output, more jobs, and increased income. Even with a moderately stimulative fiscal and monetary policy, the rate of inflation should ease to 6% or less by the end of 1974.

Against this economic background, one can consider the components of a program of fiscal stimulus in the range of $6 to $8 billion. It would be reasonable to let the following objectives serve as guides in composition of the program:

To generate jobs that will quickly take a significant number of people off of the unemployment rolls.

To take some of the sting out of unemployment for those who remain on the rolls.

To compensate wage earners for the loss in real earnings they have suffered in the past year—and thereby to ease some of the mounting pressures for king-sized wage settlements.

To provide special relief for the poor and near-poor whose living standards have suffered most from the run-up of prices of food, fuel, and shelter.

Action that might be taken in the area of tax relief centers on the income and payroll taxes. I have covered these possibilities in some detail in my statement today before the Senate Finance Committee. A copy of that statement is appended for the information of the Committee on Appropriations. In brief, I examined the following:

An adjustment in the social security payroll burden, especially to shield the working poor. This would cost about $3 billion.

An increase in income tax exemptions, either in the form of the flat $100 increase proposed by Senator Kennedy (which would cost about $3 billion) or in the form of a conversion of the exemption into an optional $200 credit as Senator Mondale has proposed (which would cost about $6 billion).

The adjustment of over-withholding—which now gives rise to refunds of about $24 billion a year—to effect a one-time cutback in federal income tax collection—a move that is very attractive in principle for dealing with our current recession, but which involves technical complexities and might also run into resistance from taxpayers who use over-withholding as a means of forcing themselves to save.

To preserve the longer-run revenue-raising power of the tax system it would be important to accompany income and payroll tax cuts with a pledge to recoup the revenues in due course by such moves as (1) a removal of oil tax preferences which are indefensible in the face of huge price increases enjoyed by the oil industry; (2) a major increase in the minimum income tax; and (3) the tightening or closing of other tax escape hatches.

Since it can be quickly translated into reduced withholding and larger paychecks, tax relief probably offers the best opportunities for quick anti-recession action. But significant contributions can also be made from the expenditures side. Indeed, in several areas, increased budget expenditures can zero in on the unemployment problems of a soft economy with greater precision than tax cuts.

The direct provision of jobs through more generous funding of the public service employment program (under Title II of the Comprehensive Employment and Training Act of 1973) would be a particularly effective measure. The President has requested only $250 million in his fiscal 1974 Budget and $350 million in his 1975 Budget for this purpose—to be spent in areas where unemployment exceeds 6½%.

The 6½% unemployment threshold is unduly high, and the amounts requested by the White House for the program are unduly low. Reducing the threshold to 6% of even 5½% and boosting the budgeted amount to at least $1 billion for the next twelve months would yield an excellent payoff at relatively low cost:

There is nothing better one can do for the jobless than to give them a job—that's precisely what this program does.

In matching jobless people with jobs that need doing at the state and especially the local level, the program provides needed services for the public.

It contributes some welcome insulation against recession and support for recovery.

Some concern has been expressed that by the time the program gets into full swing, much of the need for it may have passed. But the 1970–71 experience has shown that it can be activated rather quickly. Given that backlog of experience, together with the 1973 legislation, one should be able to move even faster in 1974–75. One should also bear in mind that unemployment—which is likely to rise to 6% or so by summer—will hang high even after economic recovery starts. Real growth at an annual rate of over 4% will have to be sustained for some time before the private economy generates enough job opportunities to bring unemployment down to tolerable levels. So there is little or no risk that even a sizeable public service employment program will overstay its economic welcome.

Other programs already before the Congress also offer the kind of job support the economy badly needs:

The balance of the manpower training and employment programs, budgeted at about $3 billion each for fiscal years 1974 and 1975, should be funded as promptly and generously as possible.

New budget authority for social programs—for health, education, and housing—is programmed to drop by $2 billion be-

tween fiscal 1974 and 1975. Especially in housing, it seems that a period of economic softness, unacceptably high unemployment, and painful erosion of the real buying power of low income groups would be a time to step up, not squeeze down, federal efforts.

Action to raise the level and extend the duration of unemployment insurance benefits is overdue. The President's April 1973 proposals, supplemented by his 1974 request for extension of benefits for areas experiencing "particularly high levels of unemployment over the next twelve months" should be speedily enacted—indeed, they are not generous enough under present circumstances.

A rather different set of spending possibilities should also be explored. I recall that in the recession of 1960–61, President Kennedy asked us to survey the possibilities for speeding up useful expenditures across the whole range of federal programs. Even after weeding out those that represented ingenious but unsound attempts by the agencies to feed at the recession trough, a respectable list of useful and quick job-creating opportunities was generated.

Maintenance work on national forest and park roads and facilities is one example. Today, one would surely add maintenance and repair work on Amtrak facilities and the roadbeds of railroads slated to go into the new national rail corporation. Past experience suggests that large public works undertakings are not promising candidates for this list, but even here, such oranizations as the Associated General Contractors of America believe they can demonstrate untapped opportunities for speedy action. Although the sum total would not be huge, spending speed-ups—like the public employment program—can efficiently combine job creation with the provision of badly needed public services.

Although it may be presumptuous to specify a particular menu from this smorgasbord of possibilities, it is irresistible to try. A broad but balanced quick-action program of fiscal stimulus of $8 billion or so might be selected from the following elements:

Perhaps $2 to $3 billion of quick added spending on more generous unemployment compensation and public service employment and other government service programs with a high job-creating content.

A boost in the income tax exemption providing about $4 billion in tax relief focused especially on the middle and lower-middle income groups, thus helping to restore some of the blue collar workers' eroded buying power.

Social security payroll tax relief for the working poor and near-poor of the type proposed by Senator Russell Long, at a cost of about $3 billion.

Two final observations are in order:

Since the foregoing program adds up to more than $8 billion—and since the Congress might wish to do even more for the blue collar worker and especially the working poor—an immediate increase in the tax libilities of the oil industry beyond the $3 billion proposed by the President could provide the needed offsetting revenues to keep the net loss near or below the $8 billion mark.

In the light of the $15 to $20 billion of demand-absorption by exploding petroleum prices, one might wonder why the fiscal stimulus should be held to only $8 billion or so. The answer is two-fold. First, one hopes that the $15 to $20 billion will shrink as oil prices recede and as some oil monies reappear in the economy. Second, given the existing economic uncertainty, one should take the prudent course and allow a considerable margin for error.

STATEMENT OF ARTHUR M. OKUN, SENIOR FELLOW, THE BROOKINGS INSTITUTION*

Economic activity is sagging in the United States today: Industrial production has declined during the past three consecutive months; unemployment has risen by 650,000 persons since October; and real GNP is declining sharply this quarter. In large measure, the economic setback reflects the oil embargo and the ensuing escalation of petroleum prices. The economy was slowing down last summer and autumn in response to fiscal and monetary restraints that were applied to halt the earlier hyperactive boom. If not for the energy crisis, I believe the slowdown would have been limited and appropriate in scope and magnitude. But after colliding with the oil embargo, the welcome slowdown turned into an unwelcome tailspin.

Federal allocation policies prevented the oil shortage from having major disruptive effects on industry and headed off the wave of store, plant, and office closings that seemed to emerge on the horizon. The shortage was confined largely to consumer use and particularly to the gas tank of the family car. As a result, the petroleum shortage has affected the economy primarily by weakening the demand for products related to gasoline—most notably automobiles and vacation activities. The collapse of new car sales is just beginnning to spread to other industries that supply products to Detroit. These prospective damaging secondary effects are one negative element in the economic outlook for the months ahead.

A second and much larger negative factor in the outlook is the prospective impact of higher fuel prices on consumer demand for other products. Fuel inflation is taking an enormous toll on the real purchasing power of the American consumer. It now seems likely that, directly and indirectly, the American consumer will spend $20 billion more on petroleum products in 1974 than in 1973 (and will get less product). History tells us that the consumer responds to such increases in the cost of essential items by tightening his belt generally, and cutting his consumption of a wide variety of discretionary items ranging from movie tickets to television sets. It takes time for such adjustments to be made, and they are not visible now. But the fuel price drain is an inevitable depressive influence that will increasingly hold down production in consumer industries across the economy during the year ahead. The higher payments to countries that ship oil to the United States and the higher payments to the domestic oil industry are the equivalent of a huge tax on the consumer, and they will force cutbacks in other areas of consumer spending.

Moreover, the incomes earned from higher petroleum prices will not flow into the spending stream to create jobs or output in the United States during the foreseeable future. Only a small portion of the increased revenues of the domestic industry will be reflected in increased investment this year; at this point, the industry is probably ready to invest all it can given managerial and physical limitations on the speed with which capital spending can be geared up. The nations that ship oil to the United States will ultimately spend some of their increased revenues on U.S. products; but that too will take a considerable period of time. In the interim, that money will be a net drain out of the U.S. spending stream.

This diagnosis points to a clear prescription for providing additional fiscal support to the U.S. economy, particularly to alleviate the pinch on consumer purchasing power. At a minimum, such support will help to ensure the beginnings of a recovery by the end of 1974. I see virtually no risk of such a strong self-generating upsurge that additional fiscal support would be risky and inappropriate. At a maximum, such a measure might prevent a prolonged and sharp slide in employment and output.

A well-timed, broad-based cut in consumer taxes would be the best way to provide the fiscal support. In gauging the appropriate magnitude of such a measure, I am assuming that the expenditure side of the budget for fiscal year 1975 may turn out slightly above the administration proposal, but not by a significant margin. I see some opportunities that Congress may choose to pursue in adding to jobs programs, housing programs, and strengthening the unemployment compensation system. But only a small volume of such expenditures could be geared up adequately to provide antirecessionary protection in the near-term when it is needed. On the other hand, I see some likelihood that Congress may trim the administration requests for military expenditures. Given that assumption, I conclude that a tax cut of about $6 billion (annual rates) would be large enough to be constructive and small enough to avoid excessive fiscal stimulus under any plausible economic scenario.

THE INFLATION ISSUE

I am recommending anti-recessionary supportive measures only after the most careful consideration of their possible impact on the serious problem of inflation. I feel particularly confident today that the response of the economy to a tax cut will increase output and employment rather than add to inflation. A tax cut in 1974 will not even reduce unemployment from current levels; it can and will limit the deterioration in economic activity that is bound to occur in the months ahead. It supplies a landing net for a recessionary economy— not a launching pad for a boom.

When the tax bolsters consumer demand, the economy will have ample labor and plant capacity to meet and greet that spending. While a number of shortage areas linger on today, those other than food and fuel will continue to vanish during the first half of 1974 as rapidly as they emerged during the first half of 1973. The economy's operating rates will be significantly lower by mid-year than they were late in 1972, when lumber was the only significant area of shortage. Since only a trivial part of additional consumer income is funneled into the demand for food, a tax cut will have virtually no effect on food prices. In the case of petroleum, price controls should insure that any increment in demand is not converted into additional inflation.

More unemployment is *not* what this country needs to stop inflation. Labor markets were not tight last year and they are becoming regrettably easier. Wages have not accelerated and have not contributed to the upsurge in inflation. To maintain the fiscal policy of 1973 in 1974 is to prescribe the same medicine for a case of the chills that was appropriate for a fever. It is expensive and ineffective medicine. The difference between 6½ percent and 5½ percent unemployment rates at yearend could cost $40 billion in our rate of GNP without reducing the rate of wage-increase by as much as 0.1 percent. Indeed, I would argue that, by evidencing the concern and effort of the government to alleviate the acute cost-of-living squeeze on the worker, a tax cut may have beneficial effects in preserving the recent moderate behavior of wages.

In short, a supportive tax cut that offsets only part of the "tax" collected by the petro-

* The views expressed are my own and not necessarily those of the officers, trustees, or other staff members of the Brookings Institution.

leum-producing countries is not going to exacerbate the inflation problem. My sense of the urgent need to reverse the present inflation leads to proposals for a rollback of petroleum prices and for regulations to ensure adequate domestic supplies of farm products. These are surely lesser evils (with greater anti-inflationary benefits) than letting the whole economy go through the wringer.

SPECIFIC TAX CUTS

Three proposals would fill the tax bill, as I see it:

1. Reduce social insurance taxes on employees and the self-employed, making up for that loss of receipts to the social insurance funds out of general revenues. That could amount to a reduction across the board in payroll taxes of nearly one percentage point. Alternatively, it could be structured to graduate the payroll tax, giving the greatest proportionate relief at the low end of the wage scale.

2. Incorporate into the income tax law the option of a $200 credit in lieu of the present $750 personal exemption that is deductible in calculating taxable income.

3. Raise the present personal exemption from $750 to $900 per person.

The economic impact of all these options would be highly desirable and roughly equivalent. The tax cut stemming from any would flow immediately into consumer take-home pay through our withholding system. Indeed, any one would provide an occasion for restructuring withholding rates to reduce the current large volume of over-withholding and thus to produce an even larger immediate effect on take-home pay. The widespread small increases in consumer take-home pay resulting from any of the tax cuts would get into the spending stream and help to alleviate the possible retrenchment in consumer living standards that might otherwise take place in response to job layoffs and fuel inflation. The vast bulk of any of these tax cuts would flow to the lower-middle and middle-income consumer who consumes virtually the whole of his income.

Any choice among the measures really has to be based on one's sense of equity about the tax system and one's perception of the feasibility of prompt enactment. As I view the equity issue, easing the burden of the payroll tax would be my top priority. But that requires the use of general revenues for partial financing of the social insurance funds; and that would be a new precedent which the Congress has been reluctant to adopt in the past and might well wish to deliberate at length before accepting now.

The $200 credit option also introduces a new provision into the tax laws, but one that should be much less controversial in principle. There is a paradox in the present provisions that make the personal exemption worth $105 per head to families in the lowest income-tax bracket and $525 per head in the highest. The $200 credit option provides tax relief for families in tax brackets under 26 percent. That covers the vast majority of Americans and, by excluding the remainder, it can offer a significantly larger amount of tax relief to the family at median income than would the straight rise in the personal exemption. I regard that feature as an advantage of the $200 credit option. On the other hand, the personal exemption increase has the advantage of being the simplest type of tax cut. The fact that it provides some relief to every family that pays income taxes may also be viewed as an advantage.

Any one of these three tax measures would be constructive and responsible, representing a combination of good economic policy and good social policy. They deserve prompt consideration and action.

U.S. CAPITOL BUILDINGS SHOULD PROVIDE FACILITIES FOR HANDICAPPED PEOPLE

Mr. RANDOLPH. Mr. President, the Subcommittee on the Handicapped has been working to develop a program to eliminate all architectural barriers in the buildings on Capitol Hill. Our members and staff have been involved in meetings with George M. White, the Architect of the Capitol, and his assistant, Elliott Carroll. As a result of these conferences, Edward Noakes, American Institute of Architects, has been hired as a consultant to the Architect's Office. He has been charged with drawing up a comprehensive plan designed to make the Capitol complex accessible to all citizens.

Indeed, some work has already been started. Last March, Senator STAFFORD, the ranking minority member of the subcommittee, and I, participated with Mr. White in a symbolic groundbreaking for a ramp at the First and C Street entrance of the Dirksen Senate Office Building. This was a first step. Further, the Architect has been eliminating barriers as minor construction projects are undertaken.

Mr. President, a substantial amount of work and planning has been going on over the past year. Last week I received a letter from Mr. White which states in part:

> I wish to keep you informed of our plans for implementation of the Report entitled "Architectural Barriers in Buildings and Grounds under the Jurisdiction of the Architect of the Capitol," by Edward Noakes, AIA, Consultant to this office, a preliminary draft of which was submitted last summer.
>
> After detailed analysis and comments by members of my staff, the report is now being corrected by Mr. Noakes for publication in its final form, to be completed by March 15, 1974. Upon receipt of the final report, the portion applicable to each building will be delivered to the respective Superintendent for implementation of those items which can be accomplished with our own forces, without additional appropriations. This portion of the work will concentrate on providing a minimum of one barrier-free entrance, public telephone and two public restrooms per building.
>
> Costs for the remainder of the work are currently being determined by the estimating division of this office preparatory to requesting authorization and funding for design and construction during fiscal year 1976.

It is gratifying to know that the report is completed and that work will be expedited.

Finally, Mr. President, I express appreciation to the members of the Subcommittee on the Handicapped—Senators WILLIAMS, STAFFORD, CRANSTON, PELL, KENNEDY, MONDALE, HATHAWAY, JAVITS, TAFT, SCHWEIKER, and BEALL—for their support of this vital project and their commitment to barrier-free buildings on Capitol Hill.

Additionally, I am grateful for the cooperation of Senators CHURCH, DOLE, and PERCY who are vitally interested in this effort.

I know that I speak for all of us when I say that handicapped citizens have the right to access to any Federal building in this Nation and that the buildings here on the Hill should serve as models for others.

INNER-CITY INVESTMENT CAN BE SUCCESSFUL

Mr. SYMINGTON. Mr. President, probably the most critical need of our cities today is jobs. The concentration of unemployment and underemployment among inner-city residents undermines the capacity of cities to provide and maintain services needed for effective and permanent community development.

Contributing to this situation has been the tendency in recent years for more and more firms to move their facilities to the suburbs in effort to find cheaper land, a better labor market, less crime and a number of other advantages.

A company in St. Louis, however, is proving that an inner-city plant can also be successful. Four years ago, the Brown Shoe Co. opened a million-dollar factory in the Jeff-Vander-Lou area of the city of St. Louis, an area with high unemployment and other urban ills, but also an area where a number of residents had joined together to encourage community pride and job-creating investment in their neighborhood.

The JVL shoe plant is growing steadily and executives of the Brown Group expect it soon to show a profit. The turnover rate is almost cut in half and employment is moving up toward the 400-worker maximum from a start of 50 in January 1970.

Hopefully, the Brown Shoe experience in Jeff-Vander-Lou will encourage other companies to invest in the inner-city.

I ask unanimous consent that a recent St. Louis Globe-Democrat article describing this successful venture be printed in the RECORD.

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

INNER-CITY SHOE FACTORY IS ALIVE AND THRIVING

(By Marsha Canfield)

Skeptics predicted five years ago that the sheer weight of inner-city problems would overwhelm a proposal to build a million-dollar factory in the shadow of deteriorating Pruitt-Igoe.

They were wrong, according to Macler Shepard, W. L. Hadley Griffin and others involved in building and operating the Brown Shoe Co. Jeff-Vander-Lou plant.

Pruitt-Igoe has become a mass of broken glass and twisted metal, a wasteland slated for destruction as a failure.

The two-story JVL plant across Jefferson avenue in North St. Louis is virtually untouched by vandalism. It is adding to its nearly all-black work force. It is increasing production.

And while the plant is not yet showing an economic profit, Griffin, chairman of the board of the Brown Group, Inc., and Shepard, chairman of the neighborhood organization that Jeff-Vander-Lou, Inc., persuaded Brown to build in the city, are certain it will.

There has been success—the personal success of a young man leaving a humdrum job to be trained for supervision responsibility or of a woman whose factory job has meant getting off welfare and keeping her children in school.

The neighborhood has benefited.