REMARKS BY

VICE PRESIDENT HUBERT HUMPHREY

FINANCIAL WRITERS

MAY 21, 1965

change - dramatic change!

In recent decades, we have seen in our society -- and throughout the world -- not one or two or even three, but an explosion of revolutions in nearly all human activity.

We have become accustomed to a climate of continual change.

Let me cite just two indicators to illustrate the rate of change.

--- World population is today some 40 per cent (over one billion) greater than it was in 1950.

--- World GNP from 1950 to 1963 is up from 775 billion dollars to 1.3 trillion dollars. Double.

And the United States' GNP was

45 per cent of that total in 1963.

In this world of change, our responsibilities have grown far heavier than any of us could have imagined. Role of world leader

Basic to meeting those responsibilities is a strong domestic economy.

In building that strong domestic economy, we have undergone in the past few years a revolution in our economic thinking which matches the rate of change in other areas. Cooperation Govt + Business Confidence - Partnership -

Two especially crucial building blocks --upon which our progress since has rested -- are the Employment Act of 1946 and the Bretton Woods agreement of 1944.

The first event -- the Employment Act -- has justly been called the "Magna Carta of economic thought in the United States." It set forth paramount goals to guide our domestic economic policies: the goals of "maximum employment, production, and purchasing power."

In accordance with the 1946 act, President Truman established the Council of Economic Advisers. This insured the President expert advice in formulating national economic policy. — (Integrity of Economic Research -)

The second -- the Bretton Woods agreement -- created a basic structure for international monetary cooperation.

In 1951, accord between the Treasury and the Federal Reserve restored the freedom of monetary policy to operate in a counter-cyclical fashion. This event ranks with the discovery in the 1920's -- formalized in 1933 -- that the purchase of securities by the Open Market Committee of the Federal Reserve had an impact on the reserves of the banking system and, potentially, upon the money supply.

And, culminating in the Revenue Act of 1964, there has been a revolution in fiscal policy which gathered momentum over the past four years -- a revolution whose most impressive monument is the 51-month-old expansion we now enjoy.

I can think of few better illustrations of our advance in economic thinking than the contrast between this recent milestone and what happened in 1932, when Congress confronted the prospect of a substantial budget deficit.

One prominent member of Congress rose during debate to declaim that "the House was facing the real test of the moral fibre of the United States." Congress heeded his cry and raised taxes in the firm belief that the deficit would thus be wiped out.

Chas R Crisp. chr of ways & means.

When the deficit not only did not disappear, but became larger -- they simply could not fathom what had occurred. Yet surely there is no one -- be he liberal or conservative -- who would today advocate the policy of that Congressman or fail to understand how raising taxes in a depressed economy could raise, rather than lower, the deficit.

We have learned the danger ~~in~~ of one-dimensional economics -- economics that seeks to pursue one goal at the expense of all others, or in relying on one economic policy instrument to the exclusion of all others.

We know that to achieve a balanced economy we must pursue four major goals at the same time -- ~~full~~ maximum employment, rapid economic growth, price stability, and a strong balance of payments position.

And we know that to accomplish this task requires the most sophisticated blend of all our economic policy instruments -- tax policy, budget policy, manpower policy, and monetary policy.

That is exactly what we have done over the past four years and more -- and we have made excellent progress toward all of our four major goals.

We — Govt - Business & Labor — have accelerated the growth of our economy from a 2 and 1/2 per cent average annual rate during the 1953-1960 period to a 4 and 1/4 per cent rate since 1960, and a 5 per cent rate since the bottom of the 1961 recession.

We — govt & the Private economy — have made great strides in moving toward maximum ~~full~~ employment both of manpower and of plant capacity.

We have moved unemployment down from nearly 7 per cent in early 1961 to under 5 per cent now --

and have created over 5 and 1/4 million jobs. And we have raised utilization of our industrial productive capacity from 78 per cent to 89 per cent.

At the same time, we have compiled the best record of price stability of any industrial nation. Wholesale prices have remained stable, while labor costs per-unit of output have risen only slightly for the economy as a whole, and have actually fallen in manufacturing.

Plant & equipment 12% above '64 $50.2 b 1965

This has been the reward of rising productivity. For both wages and profits have advanced substantially during this present record expansion. Spendable weekly earnings of an average manufacturing worker (with three dependents) have risen 22 percent and corporate profits have risen 87 per cent after taxes.

And, while we still have far to go, we have made much underlying progress toward strengthening our balance of payments position.

These accomplishments would not have been possible had we not changed the character and the course of public economic thinking.

That change grew out of our conviction that to pursue our miltiple goals two things were required:

-- We had to spur total economic demand in our economy to move it closer to its full potential, closer to the level of activity at which it would make full use of our resources of manpower and productive capacity.

-- We had to encourage greater investment in plant and equipment, greater modernization, greater efficiency, greater productivity.

For these were the keys to real economic growth: greater quantity and greater quality; more jobs and better jobs; greater output and lower costs.

Thus, in 1962, we adopted the 7 per cent investment credit and the revised depreciation guidelines to spur greater capital investment -- and in 1964 cut personal and corporate taxes to spur total demand.

And thus we crossed the "great divide" in economic policy:" deliberately cutting taxes -- not because government expenditures had fallen, not because we had a budgetary surplus, not even because we were in a recession -- but because we wanted to create more jobs and speed our economic growth.

That action signalled the acceptance by the nation ~~at large~~ that government fiscal policy can -- and ought -- to play a constructive expansionary role in our economic life.

Now and in the future, we must continue to make careful use of our fiscal instruments to keep the economy moving ahead smoothly. If more fiscal stimulus is needed -- and if that need outruns the need for sensible, high-priority government expenditure programs -- then further tax cuts are called for. ?

This reasoning has already led to the President's request of last Monday for a two-stage excise tax reduction in fiscal 1966, amounting to more than 3 and 1/2 billion dollars. In addition, both temporary tax reduction and temporary step-ups in government spending will also be kept as ready weapons to fight off recession if that should threaten.

Meanwhile, we have combined with our ~~expansionary~~ flexible fiscal policy an increasingly ~~flexible and~~ sophisticated monetary policy --keeping short-term interest rates up to discourage damaging capital outflows abroad, and keeping long-term interest rates down to support domestic spending for all kinds of consumer and producer durable goods that are usually financed by credit.

And the Council of Economic Advisers have developed the Wage-Price Guideposts to encourage responsible wage and price decisions that will lead to price stability.

All of these efforts to help our domestic economy have been vital to our balance of payments -- for the fundamental solution to our balance of payments problems must always rest upon a healthy, growing and stable American economy. For thus alone can we maintain and improve our competitive position in markets abraod -- thus alone can we increase our attractiveness to both foreign and domestic investment.

But, as you know, the balance of payments problem is far too complex for simple solutions -- and depends upon too many factors beyond our control. We cannot control the fact that European interest rates are high or their capital markets weak -- and these are perhaps two of the most crucial factors in aggravating our recent international deficits. Nor can we control the fact that we live in a world containing many different types of economic systems -- the primitive, aid-hungry economies of the less-developed countries, and the centrally-controlled economies of the Communist world which engage in international trade on a barter basis.

It is, nevertheless, imperative that we bring recent U.S. deficits to a swift and sure end -- and we are, as you know, moving ahead with an intensified program to accomplish just that.

The heart of that program is the voluntary effort by businesses and banks to curb private capital outflows abroad.

Let me emphasize that we view this program as a temporary measure to buy the time we need for our more permanent measures to take hold -- and for developments abroad to take place that will lessen the excessive drain upon our capital.

Let me also emphasize that that program, like the Wage-Price Guideposts, is voluntary. They both stand as excellent examples of the deep conviction of this Administration that economic health rests upon creative partnership between Government and the private sector.

In short, we have employed multiple policy instruments to pursue multiple economic goals.

At the same time, we have recognized that all of these efforts would be in vain without fundamental and wide-ranging programs for investment in human beings -- our programs for health, education, job retraining, the war on poverty, equality of opportunity, and others. These programs serve human ends -- but they serve economic ends as well. Sound investment yielding Dividends.

Investment in human beings is a major capital investment -- in a more productive economy, in a more just social system. (Cost of Disease '31B — " " Accid. $23B

School 450
Drop 1800
Relief 2500
Jail 3500

Today, all of us gain from the vast changes of the past few years in economic thought. For these changes have made possible, in turn, a stronger and more creative American society -- a society able to provide both opportunity and compassion.

It is only from the inner strength of such a democratic American society that we will be able to sustain our leadership in a world which needs that leadership.

It is only from that inner strength that we will be able to harness the forces of change and make them work for man's betterment and not his destruction.

FINANCIAL WRITERS [Transcript]

MAY 21

Thank you very much. Thank you Mr. Guastella and Mr. Bogue and the members and guests of the New York Financial Writers' Association -- and the members of the Secret Service. I've always thought that you fellows were causing logistic problems, but if you have to do it this is the best place, may I say, and under the best auspices.

I've looked over the audience in the few moments that I've been privileged to be here and I'm very pleased that certain of my long-time and devoted friends are here, well-scattered through the audience to give me whatever protection I might need after I utter these remarks on the most difficult of all topics, the subject matter of fiscal and monetary policy. I say this particularly in light of the description of the office of the vice presidency which the interim chairman of the dinner has given to you. I can assure you that times have changed. I don't think the office of the vice presidency has changed but somebody once said that whatever a vice president is or ever hopes to be depends on what the president lets him be and I am happy to report to you that the president of the United States believes in plenty of work, plenty of activity and he has seen fit to bestow upon me the privilege of keeping busy. I gather he feels that a busy vice president is less bothersome, and (laughter) I like to feel that he has trust in me and I hope that I merit it and will merit it. Anyway, I want to reassure those of you that ventured from the paths of party regularity in the last election and cast upon us, cast your vote for us, that I like my job, I really enjoy the privilege and the opportunity of being the vice president of the United States

Anyway, I want to reassure those of you that ventured from the paths of party regularity in the last election and cast upon us, cast your vote for us, that I like my job. I really enjoy the privilege and the opportunity of being the vice president of the United States and my only hope and prayer is that I may be able to fulfill the duties of this assignment in a manner which will reflect well upon the office and make you feel that your trust was not misplaced. (Applause)

I gather that once that I've delivered my paper for the evening that you're going to indulge in a little sadistic exercise of asking the speaker a few well-organized, highly-refined and perceptive questions and if that's the case I want you to know that I've been in training all afternoon, just waitin' for you. So this ought to be an enjoyable evening. When I was a United States senator I reminded many audiences that every red-blooded American was entitled to one bite at a live United States senator and I do not think that the presiding officer of the senate ought to escape the same ordeal, so we'll look forward to your questions in the hopes that it may be, that the exercise may be helpful to both the speaker and the questioner.

If there is one fact of our time that stands out above all others it is the fact of change, change in the international scene, change in social mores, change in the patterns of human relations in our own nation and elsewhere, and, of course, change on the economic scene.

Economics, the study of economics, the analysis and the study of production and distribution. I can think of no more important assignment for anyone because surely the strength of this nation is not the cutting edge of its Air Force, its Army, its Navy or its Marines. While they represent the symbol of our strength, the real strength of the nation is the broad and tough blade behind that cutting edge of our economy and we need to give careful attention to this economy. In recent decades we have seen in our society and throughout the world not one, or two, or three but an explosion of revolutions in nearly every area of human activity and I must say that the future doesn't seem to offer too much stability in terms of what some of us would like to call orderly society.

We've become accustomed, however, to a climate of continual change, and good that we have because for the foreseeable future that pattern of change will be with us. Now let me cite just two indicators to illustrate the rate of change:

--The world population is today some 40 per cent, about one billion, greater than it was in 1950. When I came to the United States Senate in 1949 we had approximately 150 million Americans. We now have approximately 195 million Americans. When you get to population you can surely talk about many changes. I heard today a figure which was staggering that at the present rate of population increase the population will double, the population of the world will double every 35 years. In our own country, the population of our society, 50 per cent of the population will be under the age 25 by the year 1970. So there are changes.

--The second great indicator or dramatic indicator of the rate of change relates to what we call GNP, gross national product. The World gross national product from 1950 to 1963 is up from 775 billions of dollars to one trillion three-hundred billion dollars. 1963 was the latest world=wide figure that I could obtain. And the United States GNP was 45 per cent of the total of 1963. We Americans have 45 per cent of the total gross national product of the whole world and our rate of increase the past two years has been about double the rest of the world so I think it is fair to say that we are approximately at 50 per cent of the total world GNP. This may give you some indication of why there are some problems elsewhere.

Now in this world of change, our responsibilities have grown far heavier than any of us could have imagined. We are leaders. Our nation is a leader and I wish to say that the price of leadership is high. Leadership does not give one privilege, nor does it carry with it the glories of luxury. Leadership is a burden. You men in business that are here tonight, you men that have the responsibility for honest professional reporting -- that's a leadership role. It's more difficult to write a financial column or a story that you know is going to affect the life of this nation, its economic life, it is more difficult to write that kind of/a story than it is just a think piece where you jazz up the news.

Those of you that are the custodians of other people's wealth in investment companies, in banks, in stock markets you have a heavy responsibility. Yes, your name is in print, you're known, you're respected, you're leaders but it's an interesting thing to know that those leaders frequently can look very harried, harassed, tired because of the heavy burdens that they carry.

Our country is a world leader and this world leadership requires as its first essential a strong economy. A Basic, therefore, to meeting these responsibilities is the strong domestic economy and to keep it that way. In building that strong domestic economy, we've undergone in the past few years, literally, a revolution in our economic thinking which matches the rate of change in other areas. Fortunately, some of that change of thinking has been exceedingly helpful and I hope that I can demonstrate to you tonight by my own personal conduct and presentation some of the change which takes place.

I had a man say to me not long ago after a number of articles had appeared about my coming before business groups, he said you know, Humphrey, I think you may have changed. And I said, I hope so. I hope that one learns. I trust that the people didn't pay me in the Senate for sixteen years to know no more than when I came in. Life is change and change is growth and growth is change. Of course we change. If we do not, we're a fool and that's not an honor that I seek or a name that I cherish. We have to change with the facts and business has changed many of its methods, labor has changed, education has changed, but not change for the sake of change, but because the necessities of the day required it and the necessities of the future. One of the great and helpful changes is the breaking down of what was the historic animosity which, by the way, I think was often incited through propaganda -- political and editorial -- of the animosity between business and government. Now that child's play. There may be differences at times between government and business but it ought not lend itself to a historic or continuing animosity. Those differences should be reconciled because we cannot afford in this day and age to have government going one way and the economy trying to go another. Or, to put it another way, we cannot afford the gamesmanship of having leaders in government and leaders in the private economy at each others throat or in distrust of one another casting an eye of suspicion and cynicism. And what we have tried to do in this administration, gentlemen, and ladies, what we have tried to do in this administration is to inculcate an attitude of confidence and trust, to let you know that we have a partnership, that there is a spirit of cooperation that we seek to build and an attitude of mutual respect and understanding. The doors of government are open and the mind of the people in government is open. We have no dogma. We are not the victims of some closed doctrine We seek to learn and we seek to be cooperative. I think this is the most important change of all because that sort of environment permits people to work freely,to experiment, to try and to know that you're not going to be looked upon with suspicion.

This government believes in profit. I've never forgotten what Samuel Gompers said. I've repeated it a number of times. Samuel Gompers, a great labor leader in America, he said the worst crime against a working man is a business that fails to make a profit. The profit motive is an honorable motive and I think that we've deømonstrated in our economic structure that profit is but another word for assets to be used for investment, for the purposes of expansion which, in turn, really is the only way that you can have jobs. The class conflict has no place in the American system. (Applause)

Now, two especially crucial building blocks upon which I believe that much of our economic progress has rested are in the field of legislation: the Employment Act of 1946 and the Bretton Woods Agreement of 1944. The first event, the Employment Act, has justly been called the Magna Carta of economic thought in the United States. It set forth paramount goals to guide our domestiç, economic policies. It was a statement of faith and of goals by the peoples' representatives The goals of maximum employment, production and purchasing power. In accordance with the 1946 act, President Truman established the First Council of Economic Advisers and this Council insured the President of expert advice in formulating national economic policy. I said a moment ago to my friend Mr. Funston, Keith Funston sitting with me here tonight, that it was absolutely essential in government that there be integrity of research. Integrity of economic research and economic fact. A man in government must never distort the evidence of economics to prove his political point. This surely goes for the Federal Reserve System, for the Treasury Department, for the Council of Economic Advisers. And that sense of integrity is the prevailing spirit of these institutions that I spoke of a moment ago: the Treasury, the Federal Reserve System and the Council of Economic Advisers today.

Now the Bretton Woods Agreement created a basic structure for international monetary cooperation. And there is no such thing as a domestic monetary policy unless it's phased into an international monetary policy.

In 1951 there was the accord between Treasury and Federal Reserve that restored the freedom of monetary policy to operate in a counter-cyclical fashion. This, I believe, needs to be mentioned because that is a very important date for sanity and prudence in American monetary policy.

This event of 1951 -- the agreement more or less between Treasury and the Federal Reserve ranks with the discovery in the 1920's and formalized in 1933 that the purchase of securities by the Open Market Committee of the Federal Reserve had an impact on the reserves of the banking system and potentially upon the nation's money supply.

We take all this for granted now, but as I was doing the research for this speech, with the able assistance of some of my staff, I was amazed to find that it took some 13 years (from 1920 to 1933) before there was a real recognition of what was the impact of the purchase of securities by the Open Market Committee of the Federal Reserve upon our banking system and our money supply. And culminating in the Revenue Act of 1964, there has been literally a revolution in fiscal policy which gathered momentum over the past four years. Fiscal policy -- every bit as important as monetary policy -- a drastic change ~~which is~~ whose the most impressive monument is the 51-month-old expansion that we now enjoy.

I was noting in the Council of Economic Advisers report to the Cabinet on May 13 that during the 111 years for which we have economic records available, that this is the longest sustained period of economic expansion in the nation's history. There have been 26 periods of expansion,previous periods, each ending in a depression or recession. Their average age at death was $2\frac{1}{2}$ years, and this one is going into its fifth. Counting only peacetime expansions, the average duration was even shorter -- 26 months, just over two years. The 1958-60 expansion which was the most recent before this one lasted 25 months.

What were the costs of recessions? Looking at our present situation, if the pattern of the past had applied to these recent 51 months; if the economy had declined in line with the average pattern of the four post-war recessions -- and we had four from 1950 to 1960 -- the GNP in the first quarter of 1965 would have been about 610 billion instead of 649. If the pattern of depressions and recessions of the previous ten years prior to 1961 had been applied, corporate profits before taxes would have been 46 billion instead of 64. Wages and salaries would have been 327 instead of 347 billion, and employment would have been considerably below 70 million rather than well over 71 million. And federal revenues would have been 104 billion instead of approaching 120 billion. And the federal budget on the national accounts basis would be in a deficit at the rate of 15 billion instead of approaching a balance.

Well, something has happened. And the wise man is the person that understands the change. I can think of few better illustrations of our advance in economic thinking than the contrast between the recent milestone that I mentioned (of the 51 months)of sustained economic expansion and what happened in 1932 when Congress was confronted with the prospect of a substantial budget deficit.

My research leads me to tell you this: that one member of Congress who was then the chairman of the Ways and Means Committee of the House, rose during a debate to proclaim, "That the House was facing the real test of the moral fiber of the United States" and Congress proceeded to heed his cry and raise taxes in the firm belief that when you're in a deficit position, what you do is to raise the taxes and the deficit would be wiped out. The speech was made, but the results didn't come. When the deficit not only did not disappear but became larger, they simply could not fathom in that day and age what had occurred. Yet surely there is no one, be he liberal or conservative who would today advocate the policy of that Congressman, or fail to understand how raising taxes in a depressed economy could raise rather than lower the deficit.

We've changed a great deal. We have learned the danger of one-diminsional economics. Economics that seeks to pursue one goal at the expense of all others, or in relying on one economic policy instrument to the exclusion of all others. I think we have even learned that Ben Franklin's almanac does not necessary carry immortal truth.

Now we know that to achieve a balanced economy, we must pursue at least four major purposes and goals at the same time: Maximum employment, rapid economic growth, price stability, and a strong balance of payments position.

This requires some doing. And may I add that it requires knowledge and understanding. It requires the practical knowledge of the man in the market, the financier at his bank or investment company as well as the theoretical knowledge of the economist who studies the long-term trends and possibly the report of the historian. It also requires the decision-making of the politician. Because these political decisions must be based upon the experience of those in the market, theknowledge, the theoretical knowledge of those at the research table in the field of economics. And indeed the courage of a man in public life to take cognizance of all these factors and make the decisions which the government believes are desireable.

We know thatto accomplish this task of blending together these four goals requires the most sophisticated blend of our economic policy instruments. And we do not have a solo: this is not just for the first violinist -- the economic policy instruments are like a symphony. Tax policy, budget policy, manpower policy, and monetary policy. This is exactly what we have done over the past four years and more. And we have learned through trial and error. There isn't any particular genius in the present occupants of any of these particular posts. We have learned through the pragmatic tests of trial and error. Sometimes our lessons have been expensive, but we've learned. And we've made excellent progress toward all the four major goals.

We have accelerated the growth of our economy. When I say "we" I mean government and the private economy -- government and business and labor. We have accelerated that growth from $2\frac{1}{2}$ per cent average annual rate during the 1953-60 period to better than $4\frac{1}{4}$ per cent rate since 1960 and a 5 per cent annual rate rise since the bottom of the 1961 recession. No other country on the face of the earth can make that claim. We've done it, not by tightening up on the enterprise system, but by releasing it -- emancipating it. And I believe that every action of government in recent years has been one of permitting this great vital enterprise system of ours to exercise its muscles, to utilize its capacity and to have the flexibility of movement that is required in a relatively free economy.

We've made great strides in moving toward maximum employment, both in manpower and plant capacity. There is still work to be done, but we have moved ahead. We have moved unemployment down from nearly 7 percent in early 1961 to about 4.7 percent in April of 1965. And we've created over $5\frac{1}{4}$ million jobs in these four years. The private sector of our economy working within these policies -- and we have raised the utilization of industrial productive capacity from 78 per cent to 89 per cent, a substantial record. At the same time we have compiled the best record of price stability of any industrial nation.

Wholesale prices have remained relatively stable while labor costs per unit of output have risen only slightly for the economy as a whole and have actually fallen in manufacturing.

We have another record that I think is worthy of mention: that the plant and equipment investment for ~~next~~ this year at the rate of the first quarter of 1965 will be 12 per cent above 1964. Investment is running in plant and equipment at the annual rate of 50 billion 200 million dollars -- the highest that we've ever experienced.

This has been the reward of rising productivity for both wages and profits have advanced substantially during this period of record expansion. Spendable weekly earnings of the average manufacturing worker with three dependents have risen 22 per cent. Corporate profits have risen 87 per cent after taxes, and those profits have been translated into new investment, into dividends which in turn stimulate the economy.

And while we still have far to go, we have made much underlying progress toward strengthening our balance of payments position.

When I think of how that serious situation came upon us almost as if we didn't know it was happening. We woke up one day to find out that the flow of gold out of this country was approximating $4\frac{1}{2}$ to 5 billion dollars a year. We've taken some measures to correct this, and when I say "we" I mean just that -- we, the people.

These accomplishments would not have been possible had we not changed the character and the course of both public and private economic thinking.

That change grew out of our conviction that to pursue our multiple goals, these goals that I mentioned of the maximum employment, the increased productivity, of economic expansion and a better balance of payments position -- two things were required. We had to spur the total economic demand in our economy to move it closer to its potential, closer to the level of activity at which it would make full use of our resources of manpower and productive capacity. And secondly, we had to encourage greater investment in plant and equipment, greater modernization, greater efficiency and greater productivity. For these were the keys to real economic growth. Greater quantity and greater quality. More jobs, and better jobs. Greater output and lower costs. And may I say most respectfully that Americans can be reasonably proud of the fact that we have made a substantial record in accomplishing these goals. (Applause)

Now because we needed to find the keys to economic growth, we adopted in 1962 the 7 percent investment tax credit, and revised our depreciation guidelines to spur greater capital investment. I am happy to say that I was one of the early sponsors of that proposals. It bothered some of my friends, but I felt if we were going to be competitive and American industry must be, we had to modernize plants. And then in 1964 after the investment tax credit and the new depreciation schedules, there was the 1964 tax cut of both personal and corporate taxes to spur total demand. And I believe there are people in this audience who remember that in the summer of 1963 the speaker of the evening was advocating that very measure in the Congress of the United States. And thus we crossed the great divide in economic policy. We really made the break. Deliberately, by pre-meditation, cutting taxes not because government expenditures had fallen, not because we had a budgetary surplus, not even because we were in a recession, but because we wanted to create more jobs, because we wanted to speed our economic growth, because we wanted to modernize and make more competitive the American economic structure.

That action signalled the acceptance by this nation that government fiscal policy can and ought to play a constructive role, expantionary or flexible, in our economic life. Now and in the future we must continue to make careful use of these fiscal instruments to keep the economy moving ahead smoothly.

I'm not sure we have the final answer. It would be ridiculous to claim so. But I am sure that we don't need to have a recession every 26 months. I am sure that we can do better. And I do know that at least we have found some formula that leads us to some answers, if it's only the formula of trial, of experience. If more fiscal stimulus is needed and if that need outruns the need for sensible high-priority government expenditure programs, then further tax cuts are called for. We've learned for sure that you do not cure unemployment by just massive government spending. We've learned that there is a need of a blend. (Applause).

I would hope that we would also be mindful of the fact that government spending for certain work and projects as necessary whether it rains or shines, whether it's summer or winter, whether it's recession or prosperity, we still need roads. We still needs streets. We need transportation and communication. We need health facilities and sanitary facilities. There are certain basic elements of the infra-structure of the American economy that you need. You just plain need them. And you ought not to wait for a depression or a recession to do what you ought to do, so that you could prevent a depression or a recession.

Now this reasoning has led the President to request as of last Monday a two-stage excise tax reduction in Fiscal 1966 amounting to more than $3\frac{1}{2}$ billion dollars. In addition, both temporary tax reduction and temporary step-up in government spending will always be kept as ready weapons to fight off recession if that should threaten.

How ridiculous it is to have but one weapon. The military has more than one weapon to fight the enemy. A doctor has more than one tool for his surgery. A pharmacist has more than one pill for the prescriptions. How ridiculous it is then for a mature nation to have but one-dimensional economic thinking. We need an arsenal of tools. We need many, and we are perfecting them.

Meanwhile we have combined with our flexible fiscal policy and increasingly sophisticated monetary policy, keeping short-term interests rates up to discourage damaging capital outflows abroad and keeping long-term ~~interests~~ interest rates down to support domestic investment and spending for all kinds of consumer and producer-durable goods that are usually financed by credit.

And the Councilof Economic Advisers have developed a wage-price guidepost to encourage responsible wage and price decisions that will lead to price stability.

All of these efforts to help our domestic economy, all of them have indeed had some good effects. They have helped in this phenominal economic expansion. And they have been vital to our balance of payments. For the fundamental solution to our balance of payments problems must in the long run always rest upon the healthy, growing, and stable American econmomy. For only thus can we maintain and improve our competitive position in the markets abroad. And I might add parenthetically that we had better be competitive. We better remember that while we have friends in many parts of the world, they are friends that know how to do business. And if the American exporter, if the American businessman, if the American credit structure, if the American fiscal and financing structure is not prepared to meet the competition from abroad, you can expect but one thing -- to be driven out of the markets. And I happen to believe that in all good friendliness, in all good will, as partners in a common effort for world peace and stability, that we Americans should pursue markets. We should find markets. We should develop markets. And we shouldn't stand back like a shrinking violet, worrying about that if we do take a market that somebody might get angry with us. (Applause)

If strength in defense breeds respect from competition in other areas of the world, that is military competition and political competition, it is my view that strength in the economy and the sharpening up of the tools of international commerce will likewise gain respect and not enmity. (Applause). It's only through this healthy, growing and stable American economy that we can maintain and improve our competitive position. And thus, alone, I say increase our attractiveness to both foreign and domestic investments.

I've been trying, gentlemen and ladies, to get the American tourism industry shaped up so that foreign visitors might want to come to see us. And let me say right now on the line: that when it comes to tourism, we're in the Stone Age, (Laughter) as far as foreign visitors are concerned. To be sure, for our Americans we do quite well: 50 percent of our people have traveled 200 miles away from home. (Laughter)

That's right. Sixty percent have never been in a hotel or a motel even for once. (Laughter). And 80 percent have never been on an airplane. And we think we've touched the market. I'm almost ready to enter it myself it looks so lucrative (Laughter and applause).

But that's another speech. I didn't intend to give you that one. (Laughter). But I've got a good one on that one I want you to know.

But I think we all know that these matters such as balance of payments are far too complex for simple solutions and for just easy treatment. The payments problem depends upon too many factors to be treated lightly and some of those factors beyond our control.

For example, we cannot really control the fact that ~~XXXXXXXX~~ European interest rates are high or that their capital markets are weak. And these are perhaps two of the most crucial factors in aggravating ~~kxxxxx~~ our recent international deficit.

Nor can we control the fact that we live in a world containing many different types of economic systems -- the primitive, the aid-hungry economies of the less developed countries, and the centrally-controlled economies of the Communist world which engage in international trade on a barter basis. And I might add that there is another kind of problem that we face, that is a God-send in many ways, but also is a challenge: The Common Market. And the sooner that we recognize that this is real competition amongst friends, but real competition, the better we'll be off.

It is nevertheless imperative that we bring recent U.S. balance of payments deficits to a swift and sure end. And we are, as you know, moving ahead with an intensified program to accomplish just that.

But I think the way we are doing this indicates what I said earlier about the attitude of your government, the philosophy of this government. We're not doing it by edict. We're not doing it even by legislative mandate, or legislative coersion. The heart of the program is the voluntary effort, a request by the government to the private economy, to the financial institutions, to the large investment corporations, the voluntary efforts by businesses and banks to curb private capital outflows abroad. And I once again appeal to our fellow Americans in the field of finance and in the field of industry to put their country ahead of temporary gain, because the surest market that you have in the long run, and I think even in the short run, is right here. And if this market is damaged because of the weakening of the position of the dollar, I don't care how much your foreign investments are, they'll never save you. We need to make sure thatthe dollar is as "sound as a dollar" as is said. We need to be positively sure in our actions and our deeds and our policies that the dollar is the best currency in the world, and the one way to keep it that way is to make sure that no one can make a run on the dollar and the gold supply by a staggering deficit in the balance of payments. (Applause).

Now let me emphasize that we view this program as a temporary measure to buy time. The time that we need for our more permanent measures to take hold. And for development abroad to take place that will lessen the excessive drain upon our capital.

Let me emphasize that that program, like the wage-price guideposts is voluntary.

They both stand as excellent examples of the deep conviction of this Administration that the economic health rests upon creative partnership between government and the private sector. In short, we have employed mutliple policy instruments to pursue multiple economic goals. And at the same time, we have recognized that all these efforts would be in vain without fundamental and wide-ranging programs of investment in human beings, because after all the ~~process~~ purpose of this society is for the enrichment of the life of the individual and we believe in investments in human beings.

Our programs for health and education, for job training, for the war on poverty, for equality of opportunity and other things. And I'm happy to report to you that many of these programs are working well. The other night I was with the governor of South Carolina. He told me that in that state they had trained under the Manpower Training and Development Act 7,500 hard-core unemployed. Members of their community that had been unemployed for two years or more. And the drain on the economy of that kind of unemployment is incredible. Seven thousand five hundred trained, and within three months after the training, 5,000 employed.

Still, many people are the victims of technological and scientific change. Others regrettably have been the victims of totally inadequate education. And sometimes even the lack of motivation.

In Pittsburgh -- I was there a week ago -- 2,000 people, hard-core unemployed heads of families that had been unemployed over a two-year period of time, that's what we call a "hard-core unemployed", over 2,000 of them and 75 percent had been already employed in gainful jobs and employment, yielding better than a reasonable standard of living and paying their taxes -- taxpayers instead of taxeaters. (Applause).

We think these progrms not only serve human ends but they serve economic ends as well. Sound investments yielding dividends. Investments in human beings is a major capital investment. In a more productive economy and a more just social system. The cost of disease was estimated last year for heart, cancer and stroke alone $231 billion in lost labor and productivity, untimely death of relatively young people or untimely disability. The cost of discrimination was estimated by the Council of Economic Advisers and substantiated by reports from foundations at between 20 and 23 billion dollars last year.

This country is rich, my fellow Americans, but it's not rich enough to take a jolt like that over a long period of time. And when we eliminate inequalities. When we try to upgrade the human factor, when we give more of the training so that people can help themselves, we enrich not only the personal life of that individual, the local community, but indeed the whole nation.

A country that spends an average of less than $500 per year on a school child and $1,800 a year on a school dropout, and $2,500 a year on a relief client, and $3,500 a year on an inmate in a state penitentiary, that country ought to do some re-thinking of its social values. (Applause).

So the war on crime is not merely a law-enforcement effort. It becomes a basic effort in terms of the total economic and social well-being of the nation. And how paradoxical it is that,my fellow taxpayers, you have to pay $1,800 a year on the average for the cost of social disorder and delinquency from a school dropout, and yet we pay less than $500 a year on the average per child in our institutions of public education.

And in relief we're running into the situation of three generations of families that have been on relief like it's a family tradition. And we're going to have to break that spell. And whatever investment we put into it to break it, finding the root causes, dealing with the economic and the social and the psychological factors, I submit will be money well spent. (Laughter) Surely we've learned.

Well, I conclude then by just simply saying that all of us gain from the changes of the past few years in both economic and social thought. For I honestly believe that these changes have made possible in turn, stronger and a more creative American society. A society able to provide both opportunity and compassion. And when we speak of economic progress we do not need to become hard-hearted. We need to become sensible. And we can have as warm a heart as you may wish. It's only from the inner strength that such a democratic society that we'll be able to sustain our leadership in the world which needs that leadership. The inner strength, yes, of compassion for the needy. But of economic and social opportunity for every person that's capable of exercising it.

Oh yes, I know, some people will squander their opportunities. Some people squander anything. But at least we have the responsibility to see to it that that opportunity is available for everybody. No government owes every citizen a living. But a government owes every person the opportunity to make a living and to make something out of his life. That we owe. This government does not seek a welfare state. We reject it. But (Applause) -- But we do seek, do seek a state of opportunity so that people may develop their own well being, that they may become full participating partners in what I believe and I know what you believe is the most exciting experience of human history -- making a democratic society function justly and honorably. (Applause)/

INFORMATION

FROM THE
PRESIDENT'S COMMITTEE
-ON-
EQUAL EMPLOYMENT OPPORTUNITY
Washington 25, D. C.

REMARKS OF VICE PRESIDENT HUBERT H. HUMPHREY
AT THE NEW YORK FINANCIAL WRITERS ANNUAL SPRING DINNER
MAY 21, 1965

In recent decades, we have seen in our society -- and throughout the world -- not one or two or even three, but an explosion of revolutions in nearly all human activity.

We have become accustomed to a climate of continual change.

Let me cite just two indicators to illustrate the rate of change.

--- World population is today some 40 per cent (over one billion) greater than it was in 1950.

--- World GNP from 1950 to 1963 is up from 775 billion dollars to 1.3 trillion dollars. And the United States' GNP was 45 per cent of that total in 1963.

In this world of change, our responsibilities have grown far heavier than any of us could have imagined.

Basic to meeting those responsibilities is a strong domestic economy.

In building that strong domestic economy, we have undergone in the past few years a revolution in our economic thinking which matches the rate of change in other areas.

Two especially crucial building blocks -- upon which our progress since has rested -- are the Employment Act of 1946 and the Bretton Woods agreement of 1944.

The first event -- the Employment Act -- has justly been called the "Magna Carta of economic thought in the United States." It set forth paramount goals to guide our domestic economic policies: the goals of "maximum employment, production, and purchasing power."

In accordance with the 1946 act, President Truman established the Council of Economic Advisers. This insured the President expert advice in formulating national economic policy.

The second -- the Bretton Woods agreement -- created a basic structure for international monetary cooperation.

In 1951, accord between the Treasury and the Federal Reserve restored the freedom of monetary policy to operate in a counter-cyclical fashion. This event ranks with the discovery in the 1920's -- formalized in 1933 -- that the purchase of securities by the Open Market Committee of the Federal Reserve had an impact on the reserves of the banking system and, potentially, upon the money supply.

And, culminating in the Revenue Act of 1964, there has been a revolution in fiscal policy which gathered momentum over the past four years -- a revolution whose most impressive momument is the 51-month-old expansion we now enjoy.

I can think of few better illustrations of our advance in economic thinking than the contrast between this recent milestone and what happened in 1932, when Congress confronted the prospect of a substantial budget deficit.

One prominent member of Congress rose during debate to declaim that "the House was facing the real test of the moral fibre of the United States." Congress heeded his cry and raised taxes in the firm that the deficit would thus be wiped out.

When the deficit not only did not disappear, but became larger -- they simply could not fathom what had occurred. Yet surely there is no one -- be he liberal or conservative -- who would today advocate the policy of that Congressman or fail to understand how raising taxes in a depressed economy could raise, rather than lower, the deficit.

We have learned the danager in one-dimensional economics -- economics that seeks to pursue one goal at the expense of all others, or in relying on one economic policy instrument to the exclusion of all others.

We know that to achieve a balance economy we must pursue four major goals at the same time -- full employment, rapid economic growth, price stability, and a strong balance of payments position.

And we know that to accomplish this task requires the most sophisticated blend of all our economic policy instruments -- tax policy, budget policy, manpower policy, and monetary policy.

That is exactly what we have done over the past four years and more -- and we have made excellent progress toward all of our four major goals.

We have accelerated the growth of our economyfrom a 2 and ½ per cent average annual rate during the 1953-1960 period to a 4 and ¼ per cent rate since 1960, and a 5 per cent rate since the bottom of the 1961 recession.

We have made great strides in moving toward full employment both of manpower and of plant capacity. We have moved unemployment down from nearly 7 per cent in early 1961 to under 5 per cent now -- and have created over 5 and ¼ million jobs. And we have raised utilization of our industrial productive capacity from 78 per cent to 89 per cent.

At the same time, we have complied the best record of price stability of any industrial nation. Wholesale prices have remained stable, while labor costs per-unit of output have have risen only slightly for the economy as a whole, and have actually fallen in manufacturing.

This has been the reward of rising productivity. For both wages and profits have advanced substantially during this present record expansion. Spendable weekly earnings of an average manufacturing worker (with three dependents) have risen 22 per cent and corporate profits have risen 87 per cent after taxes.

And, while we still have far to go, we have made much underlying progress toward strengthening our balance of payments position.

These accomplishments would not have been possible had we not changed the character and the course of public economic thinking.

That change grew out of our conviction that to pursue our multiple goals two things were required:

-- We had to spur total economic demand in our economy to move it closer to its full potential, closer to the level of activity at which it would make full use of our resources of manpower and productive capacity.

-- We had to encourage greater investment in plant and equipment, greater modernization, greater efficiency, greater productivity.

For these were the keys to real economic growth: greater quantity and greater quality; more jobs and better jobs; greater output and lower costs.

Thus, in 1962, we adopted the 7 per cent investment credit and the revised depreciation guidelines to spur greater capital investment -- and in 1964 cut personal and corporate taxes to spur total demand.

And thus we crossed the great divide in economic policy: deliberately cutting taxes -- not because government expenditures had fallen, not because we had a budgetary surplus, not even because we were in a recession -- but because we wanted to create more jobs and speed our economic growth.

That action signalled the acceptance by the nation at large that government fiscal policy can -- and ought --to play a constructive expansionary role in our economic life.

Now and in the future, we must continue to make careful use of our fiscal instruments to keep the economy moving ahead smoothly. If more fiscal stimulus is needed -- and if that need outruns the need for sensible, high-priority government expenditure programs -- then further tax cuts are called for.

This reasoning has already led to the President's request of last Monday for a two-stage excise tax reduction in fiscal 1966, amounting to more than 3 and ½ billion dollars. In addition, both temporary tax reduction and temporary step-ups in government spending will also be kept as ready weapons to fight off recession if that should threaten.

Meanwhile, we have combined with our expansionary fiscal policy an increasingly flexible and sophisticated monetary policy -- keeping short-term interest rates up to discourage damaging capital outflow abroad, and keeping long-term interest rates down to support domestic spending for all kinds of consumer and producer durable goods that are usually financed by credit.

And the Council of Economic Advisers have developed the Wage-Price Guideposts to encourage responsible wage and price decisions that will lead to price stability.

All of these efforts to help our domestic economy have been vital to our balance of payments -- for the fundamental solution to our balance of payments problems must always rest upon healthy, growing and stable American economy. For thus alone can we maintain and improve our competitive position in markets abroad -- thus alone can we increase our attractiveness to both foreign and domestic investment.

But,as you know, the balance of payments problem is far too complex for simple solutions -- and depends upon too many factors betond our control. We cannot control the fact that European interest rates are high or their capital markets weak -- and these are perhaps two of the most crucial factors in aggravating our recent international deficits. Nor can we control the fact that we live in a world containing many different types of economic systems -- the primitive, aid-hungry economies of the less-developed countries, and the oentrally-controlled economies of the Communist world which engage in international trade on a barter basis.

It is, nevertheless, imperative that we bring recent U.S. deficits to a swift and sure end -- and we are, as you know, moving ahead with an intensified program to accomplish just that.

The heart of that program is the voluntary effort by businesses and banks to curb private capital outflows abroad.

Let me emphasize that we view this program as a temporary measure to buy the time we need for our more permanent measures to take hold -- and for developments abroad to take place that will lessen the excessive drain upon our capital.

Let me also emphasize that that program, like the Wage-Price Guideposts, is voluntary. They both stand as excellent examples of the deep conviction of this Administration that economic health rests upon creative partnership between Government and the private sector.

In short, we have employed multiple policy instruments to pursue multiple economic goals.

At the same time, we have recognized that all of these efforts would be in vain without fundamental and wide ranging programs for investment in human beings -- our programs for health, education, job training, the war on poverty, equality of opportunity, and others. These programs sevre human ends --but they serve economic ends as well.

Investment in human beings is a major capital investment -- in a more productive economy, in a more just social system.

Today, all of us gain from the vast changes of the past few years in economic thought. For these changes have made possible, in turn, a stronger and more creative American society -- a society able to provide both opportunity and compassion.

It is only from the inner strength of such a democratic American society that we will be able to sustain our leadership in a world which needs that leadership.

It is only from that inner strength that we will be able to harness the forces of change and make them work for man's betterment and not his destruction.