

REMARKS BY SENATOR HUBERT H. HUMPHREY

WASHINGTON WORKSHOP  
IOWA MUNICIPAL OFFICIALS

Washington, D.C.

April 30, 1975

It is a pleasure to be with you today. As a former mayor, I have always welcomed the opportunity to exchange ideas with local government officials.

I, for one, can appreciate the frustration that local government officials often experience in communicating with the federal government. I recall that my talks with Washington often seemed like one way conversations, in which I was doing all the listening.

For years it has been true that, while local government officials are the last people to find out about new federal policies, they are the first to be affected by them.

The situation has improved somewhat, I believe, but certainly not enough. And while this lack of governmental coordination is serious enough in good times, it is totally unacceptable when the nation is in the grips of a serious recession.

I don't have to tell you about the severity of the present economic situation, its effect on your local economies, or on your budgets. But I would like to share some of my thoughts about the economy with you this afternoon.

First, I want to say a few words about the federal budget deficit in the next two years. It will be large, I believe, but it is necessary to turn the American economy around and to get America back to work.

This country simply cannot accept policies that would keep unemployment averaging above seven percent until 1978.

That's not a deficit policy; that's a bankrupt policy.

Let's make no mistake about it. Large government deficits are not the cause of our economic problems; they are the result of our economic failures.

If the national unemployment rate were even 4.7 percent, not 8.7 percent, these deficits would virtually disappear.

I'm more concerned, and I think you should be, too, about the other deficits in our economy -- the deficits that we don't hear as much about. I'm talking about the deficit in employment, the deficit in income and production, the deficit in housing.

These deficits don't get as much attention in the newspapers or on the television screen, but these are the deficits that are sucking the lifeblood out of the American economy. These are the deficits that I'm concerned about. These are the deficits that affect your governments. And these are the deficits that demand immediate and strong governmental actions.

Let's take a brief look at these deficits and their impact on local governments.

The national unemployment rate is presently 8.7 percent, which means that 8 million people are being denied the opportunity to participate in our economy.

While this is the highest unemployment rate since prior to World War II, it masks even more severe employment problems since it does not include what I call "disguised" unemployment. The national rate doesn't include workers who can obtain only part-time employment or workers that have become so discouraged that they have dropped out of the labor force.

The Joint Economic Committee has calculated that the unemployment rate in March was actually 11.7 percent, or 10.5 million people, with this disguised unemployment included in the total.

You are well aware of the impact that unemployment of this magnitude has on local and state governments. When workers lose their jobs, they are forced to turn to their governments for assistance. Public assistance payments rise, demands for health care increase, and unemployment compensation costs soar.

Just as important, the unemployed spend less money in the local economy, reducing significantly the anticipated growth in revenues. This double whammy has put many local governments flat on their backs.

The second deficit of concern to me is the deficit in output and production. If the Administration's "cautious and gradual" approach is adopted, we will lose \$1.5 trillion in output and in family incomes between now and 1980 that could have been produced at full employment.

That is an amount equal to our entire Gross National Product in 1974.

To local governments, this means less growth in tax receipts; delays in construction of sewers, schools and transportation facilities -- some may never be built -- and greater demands for public services.

Finally, there is the deficit in housing production. We have a national goal in this country of building 2.6 million new housing units a year, enough to supply housing to newly formed families and to replace units that become unlivable each year.

In March, the annual rate of housing starts was less than 1 million units, not even 40 percent of our national needs. This deficit is particularly damaging to local governments, because, as you know so well, growth in revenues is highly dependent on growth in the property tax base from new construction.

These are the deficits -- housing, employment, income, production -- that our economy cannot endure and that we must act positively upon to eliminate. Congress has already taken some steps to initiate policies to reduce these deficits, but effective policy will require a concerted and coordinated effort by individuals, businesses and all levels of government. Strong action will be required from all three of these sectors.

Congress has already provided some stimulus to individual consumption through the recently enacted tax cut. When this money is distributed, it should provide a very positive stimulus to the consumer sector of the economy.

Similarly, business was assisted through an increase in the investment tax credit.

The housing industry, in particular, has already received a \$2,000 tax credit for unsold homes in the housing inventory and additional assistance is on the way in the form of interest subsidies and loans to prevent foreclosure.

Up to now, however, the state and local sector has not received the assistance it requires.

The rationale for providing meaningful federal assistance to local and state governments is, in my opinion, compelling.

The present situation, in which local governments are forced to take budget actions that undermine federal government efforts to stimulate the economy is simply not sound national economic policy.

-- It is senseless that local governments are forced to raise individual and business taxes while the federal government is lowering them.

-- It is senseless that local government must lay-off regular employees while the federal government tries to add employees through public service jobs.

-- It is senseless that local governments must delay or cancel major capital construction projects when the federal government is trying to stimulate new construction.

-- And it is senseless that local governments must cut services when the recession increases the demand for these services.

In the past, it may have been possible to undertake federal government economic policies without coordinating the actions of state and local governments. But we can no longer ignore the sizeable impact of this important sector of the economy.

In order to get the economy back on the move, we need a three-part program of assistance to state and local governments.

First, the federal government should provide "no strings attached" money to those state and local governments suffering the greatest unemployment-caused budget problems.

Senator Muskie and I have recently introduced the Inter-governmental Counter-Cyclical Assistance Act, which provides anti-recession grants to state and local governments. Assistance would be available as long as the national unemployment rate remained above six percent.

Second, the federal government should provide some assistance for public works projects which are labor intensive and can be accelerated for construction in the next year or two. This will allow local governments to continue capital improvements, even if new bonding is difficult to undertake.

Finally, as long as unemployment is at intolerably high levels, the public service employment program must be expanded to at least one million jobs. When coupled with accelerated public works, I believe state and local governments can find meaningful work for that many public service employees.

I believe that this package of assistance to state and local governments would complement federal efforts to stimulate business and consumer activity and produce strong and sustained recovery without adding unacceptable risks of re-igniting serious inflation.

Only through coordinated efforts at all levels of government can we eliminate the real deficits in our economy and restore our nation to economic health.

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I, FOR ONE, CAN APPRECIATE THE FRUSTRATION THAT LOCAL  
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FEDERAL GOVERNMENT. I RECALL THAT MY TALKS WITH WASHINGTON  
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FOR YEARS IT HAS BEEN TRUE THAT, WHILE LOCAL GOVERNMENT  
OFFICIALS ARE THE LAST PEOPLE TO FIND OUT ABOUT NEW FEDERAL  
POLICIES, THEY ARE THE FIRST TO BE AFFECTED BY THEM.

THE SITUATION HAS IMPROVED SOMEWHAT, I BELIEVE, BUT CERTAINLY NOT ENOUGH. AND WHILE THIS LACK OF GOVERNMENTAL COORDINATION IS SERIOUS ENOUGH IN GOOD TIMES, IT IS TOTALLY UNACCEPTABLE WHEN THE NATION IS IN THE GRIPS OF A SERIOUS RECESSION,

I DON'T HAVE TO TELL YOU ABOUT THE SEVERITY OF THE PRESENT ECONOMIC SITUATION, ITS EFFECT ON YOUR LOCAL ECONOMIES, OR ON YOUR BUDGETS. BUT I WOULD LIKE TO SHARE SOME OF MY THOUGHTS ABOUT THE ECONOMY WITH YOU THIS AFTERNOON.

FIRST, I WANT TO SAY A FEW WORDS ABOUT THE FEDERAL BUDGET DEFICIT IN THE NEXT TWO YEARS. IT WILL BE LARGE, I BELIVE, BUT IT IS NECESSARY TO TURN THE AMERICAN ECONOMY AROUND AND TO GET AMERICA BACK TO WORK.

THIS COUNTRY SIMPLY CANNOT ACCEPT POLICIES THAT WOULD KEEP UNEMPLOYMENT AVERAGING ABOVE SEVEN PERCENT UNTIL 1978.

THAT'S NOT A DEFICIT POLICY; THAT'S A BANKRUPT POLICY.

LET'S MAKE NO MISTAKE ABOUT IT. LARGE GOVERNMENT DEFICITS ARE NOT THE CAUSE OF OUR ECONOMIC PROBLEMS; THEY ARE THE RESULT OF OUR ECONOMIC FAILURES.

IF THE NATIONAL UNEMPLOYMENT RATE WERE EVEN 4.7 PERCENT, NOT 8.7 PERCENT, THESE DEFICITS WOULD VIRTUALLY DISAPPEAR.

I'M MORE CONCERNED, AND I THINK YOU SHOULD BE, TOO, ABOUT THE OTHER DEFICITS IN OUR ECONOMY -- THE DEFICITS THAT WE DON'T HEAR AS MUCH ABOUT. I'M TALKING ABOUT THE DEFICIT IN EMPLOYMENT, THE DEFICIT IN INCOME AND PRODUCTION, THE DEFICIT IN HOUSING.

THESE DEFICITS DON'T GET AS MUCH ATTENTION IN THE NEWSPAPERS OR ON THE TELEVISION SCREEN, BUT THESE ARE THE DEFICITS THAT ARE SUCKING THE LIFEBLOOD OUT OF THE AMERICAN ECONOMY. THESE ARE THE DEFICITS THAT I'M CONCERNED ABOUT. THESE ARE THE DEFICITS THAT AFFECT YOUR GOVERNMENTS, AND THESE ARE THE DEFICITS THAT DEMAND IMMEDIATE AND STRONG GOVERNMENTAL ACTIONS.

LET'S TAKE A BRIEF LOOK AT THESE DEFICITS AND THEIR IMPACT ON LOCAL GOVERNMENTS.

THE NATIONAL UNEMPLOYMENT RATE IS PRESENTLY 8.7 PERCENT, WHICH MEANS THAT 8 MILLION PEOPLE ARE BEING DENIED THE OPPORTUNITY TO PARTICIPATE IN OUR ECONOMY.

WHILE THIS IS THE HIGHEST UNEMPLOYMENT RATE SINCE PRIOR TO WORLD WAR II, IT MASKS EVEN MORE SEVERE EMPLOYMENT PROBLEMS SINCE IT DOES NOT INCLUDE WHAT I CALL "DISGUISED" UNEMPLOYMENT. THE NATIONAL RATE DOESN'T INCLUDE WORKERS WHO CAN OBTAIN ONLY PART-TIME EMPLOYMENT OR WORKERS THAT HAVE BECOME SO DISCOURAGED THAT THEY HAVE DROPPED OUT OF THE LABOR FORCE.

THE JOINT ECONOMIC COMMITTEE HAS CALCULATED THAT THE UNEMPLOYMENT RATE IN MARCH WAS ACTUALLY 11.7 PERCENT, OR 10.5 MILLION PEOPLE, WITH THIS DISGUISED UNEMPLOYMENT INCLUDED IN THE TOTAL.

YOU ARE WELL AWARE OF THE IMPACT THAT UNEMPLOYMENT OF THIS MAGNITUDE HAS ON LOCAL AND STATE GOVERNMENTS.

WHEN WORKERS LOSE THEIR JOBS, THEY ARE FORCED TO TURN TO THEIR GOVERNMENTS FOR ASSISTANCE. PUBLIC ASSISTANCE PAYMENTS RISE, DEMANDS FOR HEALTH CARE INCREASE, AND UNEMPLOYMENT COMPENSATION COSTS SOAR.

JUST AS IMPORTANT, THE UNEMPLOYED SPEND LESS MONEY IN THE LOCAL ECONOMY, REDUCING SIGNIFICANTLY THE ANTICIPATED GROWTH IN REVENUES. THIS DOUBLE WHAMMY HAS PUT MANY LOCAL GOVERNMENTS FLAT ON THEIR BACKS.

THE SECOND DEFICIT OF CONCERN TO ME IS THE DEFICIT IN OUTPUT AND PRODUCTION. IF THE ADMINISTRATION'S "CAUTIOUS AND GRADUAL" APPROACH IS ADOPTED, WE WILL LOSE \$1.5 TRILLION IN OUTPUT AND IN FAMILY INCOMES BETWEEN NOW AND 1980 THAT COULD HAVE BEEN PRODUCED AT FULL EMPLOYMENT.

THAT IS AN AMOUNT EQUAL TO OUR ENTIRE GROSS NATIONAL PRODUCT  
IN 1974.

TO LOCAL GOVERNMENTS, THIS MEANS LESS GROWTH IN TAX  
RECEIPTS; DELAYS IN CONSTRUCTION OF SEWERS, SCHOOLS AND  
TRANSPORTATION FACILITIES -- SOME MAY NEVER BE BUILT -- AND  
GREATER DEMANDS FOR PUBLIC SERVICES,

FINALLY, THERE IS THE DEFICIT IN HOUSING PRODUCTION. WE HAVE  
A NATIONAL GOAL IN THIS COUNTRY OF BUILDING 2.6 MILLION NEW  
HOUSING UNITS A YEAR, ENOUGH TO SUPPLY HOUSING TO NEWLY FORMED  
FAMILIES AND TO REPLACE UNITS THAT BECOME UNLIVABLE EACH YEAR.

IN MARCH, THE ANNUAL RATE OF HOUSING STARTS WAS LESS THAN  
1 MILLION UNITS, NOT EVEN 40 PERCENT OF OUR NATIONAL NEEDS.

THIS DEFICIT IS PARTICULARLY DAMAGING TO LOCAL GOVERNMENTS,  
BECAUSE, AS YOU KNOW SO WELL, GROWTH IN REVENUES IS HIGHLY  
DEPENDENT ON GROWTH IN THE PROPERTY TAX BASE FROM NEW CONSTRUCTION.

THESE ARE THE DEFICITS -- HOUSING, EMPLOYMENT, INCOME,  
PRODUCTION -- THAT OUR ECONOMY CANNOT ENDURE AND THAT WE MUST  
ACT POSITIVELY UPON TO ELIMINATE. CONGRESS HAS ALREADY TAKEN  
SOME STEPS TO INITIATE POLICIES TO REDUCE THESE DEFICITS, BUT  
EFFECTIVE POLICY WILL REQUIRE A CONCERTED AND COORDINATED  
EFFORT BY INDIVIDUALS, BUSINESSES AND ALL LEVELS OF GOVERNMENT.  
STRONG ACTION WILL BE REQUIRED FROM ALL THREE OF THESE SECTORS.

CONGRESS HAS ALREADY PROVIDED SOME STIMULUS TO INDIVIDUAL CONSUMPTION THROUGH THE RECENTLY ENACTED TAX CUT. WHEN THIS MONEY IS DISTRIBUTED, IT SHOULD PROVIDE A VERY POSITIVE STIMULUS TO THE CONSUMER SECTOR OF THE ECONOMY.

SIMILARLY, BUSINESS WAS ASSISTED THROUGH AN INCREASE IN THE INVESTMENT TAX CREDIT.

THE HOUSING INDUSTRY, IN PARTICULAR, HAS ALREADY RECEIVED A \$2,000 TAX CREDIT FOR UNSOLD HOMES IN THE HOUSING INVENTORY AND ADDITIONAL ASSISTANCE IS ON THE WAY IN THE FORM OF INTEREST SUBSIDIES AND LOANS TO PREVENT FORECLOSURE.

UP TO NOW, HOWEVER, THE STATE AND LOCAL SECTOR HAS NOT RECEIVED THE ASSISTANCE IT REQUIRES.

THE RATIONALE FOR PROVIDING MEANINGFUL FEDERAL ASSISTANCE TO LOCAL AND STATE GOVERNMENTS IS, IN MY OPINION, COMPELLING.

THE PRESENT SITUATION, IN WHICH LOCAL GOVERNMENTS ARE FORCED TO TAKE BUDGET ACTIONS THAT UNDERMINE FEDERAL GOVERNMENT EFFORTS TO STIMULATE THE ECONOMY IS SIMPLY NOT SOUND NATIONAL ECONOMIC POLICY.

-- IT IS SENSELESS THAT LOCAL GOVERNMENTS ARE FORCED TO RAISE INDIVIDUAL AND BUSINESS TAXES WHILE THE FEDERAL GOVERNMENT IS LOWERING THEM.

-- IT IS SENSELESS THAT LOCAL GOVERNMENT MUST LAY-OFF REGULAR EMPLOYEES WHILE THE FEDERAL GOVERNMENT TRIES TO ADD EMPLOYEES THROUGH PUBLIC SERVICE JOBS.

-- IT IS SENSELESS THAT LOCAL GOVERNMENTS MUST DELAY OR CANCEL MAJOR CAPITAL CONSTRUCTION PROJECTS WHEN THE FEDERAL GOVERNMENT IS TRYING TO STIMULATE NEW CONSTRUCTION.

-- AND IT IS SENSELESS THAT LOCAL GOVERNMENTS MUST CUT SERVICES WHEN THE RECESSION INCREASES THE DEMAND FOR THESE SERVICES.

IN THE PAST, IT MAY HAVE POSSIBLE TO UNDERTAKE FEDERAL GOVERNMENT ECONOMIC POLICIES WITHOUT COORDINATING THE ACTIONS OF STATE AND LOCAL GOVERNMENTS. BUT WE CAN NO LONGER IGNORE THE SIZEABLE IMPACT OF THIS IMPORTANT SECTOR OF THE ECONOMY.

IN ORDER TO GET THE ECONOMY BACK ON THE MOVE, WE NEED A THREE-PART PROGRAM OF ASSISTANCE TO STATE AND LOCAL GOVERNMENTS.

FIRST, THE FEDERAL GOVERNMENT SHOULD PROVIDE "NO STRINGS ATTACHED" MONEY TO THOSE STATE AND LOCAL GOVERNMENTS SUFFERING THE GREATEST UNEMPLOYMENT-CAUSED BUDGET PROBLEMS.

SENATOR MUSKIE AND I HAVE RECENTLY INTRODUCED THE INTER-GOVERNMENTAL COUNTER-CYCLICAL ASSISTANCE ACT, WHICH PROVIDES ANTI-RECESSION GRANTS TO STATE AND LOCAL GOVERNMENTS. ASSISTANCE WOULD BE AVAILABLE AS LONG AS THE NATIONAL UNEMPLOYMENT RATE REMAINED ABOVE SIX PERCENT.

SECOND, THE FEDERAL GOVERNMENT SHOULD PROVIDE SOME ASSISTANCE FOR PUBLIC WORKS PROJECTS WHICH ARE LABOR INTENSIVE AND CAN BE ACCELERATED FOR CONSTRUCTION IN THE NEXT YEAR OR TWO. THIS WILL ALLOW LOCAL GOVERNMENTS TO CONTINUE CAPITAL IMPROVEMENTS, EVEN IF NEW BONDING IS DIFFICULT TO UNDERTAKE.

FINALLY, AS LONG AS UNEMPLOYMENT IS AT INTOLERABLY HIGH LEVELS, THE PUBLIC SERVICE EMPLOYMENT PROGRAM MUST BE EXPANDED TO AT LEAST ONE MILLION JOBS. WHEN COUPLED WITH ACCELERATED PUBLIC WORKS, I BELIEVE STATE AND LOCAL GOVERNMENTS CAN FIND MEANINGFUL WORK FOR THAT MANY PUBLIC SERVICE EMPLOYEES.

I BELIEVE THAT THIS PACKAGE OF ASSISTANCE TO STATE AND LOCAL GOVERNMENTS WOULD COMPLEMENT FEDERAL EFFORTS TO STIMULATE BUSINESS AND CONSUMER ACTIVITY AND PRODUCE STRONG AND SUSTAINED RECOVERY WITHOUT ADDING UNACCEPTABLE RISKS OF RE-IGNITING SERIOUS INFLATION.

ONLY THROUGH COORDINATED EFFORTS AT ALL LEVELS OF GOVERNMENT CAN WE ELIMINATE THE REAL DEFICITS IN OUR ECONOMY AND RESTORE OUR NATION TO ECONOMIC HEALTH.



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