

OUTLINE OF REMARKS OF SENATOR HUBERT H. HUMPHREY

INSTITUTIONAL SEMINAR

MINNEAPOLIS, MINNESOTA

OCTOBER 14, 1975

*George meeks - U.P.
George Fox*

Geo Zup

-1-

Industries

IT IS A GREAT PLEASURE TO BE HERE THIS MORNING TO
SHARE WITH YOU MY VIEWS ON ECONOMIC POLICY. AS CHAIRMAN
OF THE JOINT ECONOMIC COMMITTEE OF CONGRESS, I HAVE THE
OPPORTUNITY TO LISTEN TO THE TESTIMONY OF MANY, MANY EXPERT
WITNESSES, NOT ONLY ECONOMISTS BUT BUSINESSMEN, LABOR
LEADERS, PUBLIC OFFICIALS, AND ORDINARY CITIZENS FROM
AROUND THE COUNTRY. I ALSO HAVE ACCESS TO A FULL STAFF
OF PROFESSIONAL ECONOMISTS, AND I HAVE BEEN READING AND
STUDYING ABOUT THE ECONOMIC SITUATION AND FOLLOWING THE
ECONOMIC NEWS MORE CAREFULLY THAN EVER BEFORE IN MY LIFE.

THIS MORNING I WOULD LIKE TO PRESENT TO YOU BRIEFLY
THE CONCLUSIONS I HAVE REACHED REGARDING THE STATE OF THE
ECONOMY AND WHAT OUGHT TO BE DONE ABOUT IT.

↳ BEFORE TALKING ABOUT SPECIFIC POLICY RECOMMENDATIONS,
I WANT TO MAKE TWO POINTS WHICH ARE VERY BASIC TO
UNDERSTANDING THE CURRENT SITUATION.

↳ FIRST, AT THE PRESENT TIME WE DO NOT, I UNDERLINE NOT,
FACE A "TRADE-OFF" BETWEEN INFLATION AND UNEMPLOYMENT.

↳ THERE HAVE BEEN TIMES IN THE PAST WHEN IT HAS BEEN NECESSARY
TO CHOOSE BETWEEN ECONOMIC EXPANSION AND PRICE STABILITY.

↳ UNDOUBTEDLY, THERE WILL BE SUCH TIMES AGAIN IN THE FUTURE.

AT THE PRESENT TIME, HOWEVER, THE ECONOMY IS OPERATING SO FAR BELOW ITS CAPACITY AND THERE ARE SO VERY MANY PEOPLE UNEMPLOYED THAT THERE IS JUST NO POSSIBILITY OF ENCOUNTERING A SITUATION OF EXCESS DEMAND OR OVERUTILIZATION OF CAPACITY IN THE IMMEDIATE FUTURE.

IN FACT, AT PRESENT, NOT ONLY IS THERE NO TRADE-OFF BETWEEN INFLATION AND UNEMPLOYMENT, BUT INFLATION AND UNEMPLOYMENT TEND TO FEED ON ONE ANOTHER. IF WE ARE GOING TO MAKE PROGRESS AGAINST EITHER, WE MUST MAKE PROGRESS AGAINST BOTH. A RAPID AND VIGOROUS ECONOMIC RECOVERY WILL BRING WITH IT PRODUCTIVITY GAINS, WHICH WILL HELP HOLD DOWN INFLATION.

INDUSTRIES NEED TO GET OUT OF THE 60 TO 70 PERCENT

CAPACITY UTILIZATION RANGE IN WHICH THEY ARE NOW OPERATING

AND MOVE UP TO WHERE THEY ARE UTILIZING 85 OR 90 PERCENT

OF THEIR CAPACITY. THEN THEY CAN OPERATE EFFICIENTLY AND

GET THEIR COSTS DOWN.

IF THE RECOVERY IS SLUGGISH AND INDUSTRY CONTINUES TO
OPERATE FAR BELOW CAPACITY LEVELS, COSTS WILL REMAIN HIGH AND

INFLATION WILL CONTINUE TO BE A PROBLEM. ~~THIS~~ INFLATION IN

TURN WILL EAT INTO CONSUMER PURCHASING POWER AND FURTHER

WEAKEN THE RECOVERY. INDEED, WE CANNOT IGNORE THE POSSIBILITY

THAT CONTINUED INFLATION COULD ITSELF PLANT THE SEEDS OF A

NEW RECESSION LATE NEXT YEAR OR IN 1977.

L SO I PLEAD WITH YOU THIS MORNING TO STOP LISTENING
TO THOSE WHO ARE AFRAID OF PROSPERITY BECAUSE THE FEAR IT IS
INFLATIONARY. THE FASTER WE GET BACK TO PROSPERITY THE BETTER
THE JOB WE WILL DO IN DEALING WITH INFLATION. ~~2~~

L NOW, LET ME TURN TO THE SECOND BASIC POINT I WOULD LIKE
TO LEAVE YOU WITH. THIS IS ~~THIS~~ ^{THAT} WE MUST BE VITALLY CONCERNED
NOT ONLY WITH THE PRESENT STRENGTH OF ECONOMIC RECOVERY
BUT WITH ITS DURATION, WE MUST HAVE NOT ONLY A STRONG RECOVERY
BUT A SUSTAINED RECOVERY EVEN WITH VERY RAPID GROWTH OF
OUTPUT IT WILL TAKE SEVERAL YEARS TO GET BACK TO REALLY
ACCEPTABLE LEVELS OF UNEMPLOYMENT.

→ a word of caution — Energy costs
+ Food.

ESTIMATES OF THE TOTAL GROSS NATIONAL PRODUCT IN
THE THIRD QUARTER OF THIS YEAR WILL BE RELEASED IN A

FEW DAYS. IT IS WIDELY EXPECTED THAT THESE ESTIMATES WILL
SHOW A STRONG GROWTH OF REAL OUTPUT IN THE THIRD QUARTER.

THAT, OF COURSE, IS VERY GOOD NEWS. I BOTH HOPE AND EXPECT
THAT THE STRONG GROWTH WILL CONTINUE IN THE FOURTH QUARTER.

IT IS NECESSARY, HOWEVER, TO LOOK A LITTLE FURTHER AHEAD

THAN THAT. THE QUESTION BEFORE US IS; WILL THE RECOVERY
CONTINUE IN 1976?

THE CONCLUSION I HAVE REACHED AFTER LISTENING TO MANY
EXPERTS IS THAT PROMPT AND DECISIVE NEW POLICY ACTIONS ARE
NEEDED IF THE RECOVERY IS TO CONTINUE THROUGHOUT NEXT YEAR.

YOU MAY WELL ASK WHY SO MANY OF US ARE CONVINCED THAT

THE RECOVERY NEEDS FURTHER SUPPORT IF IT IS TO CONTINUE.

L THE ANSWER IS SIMPLE ENOUGH L THE TWO MAIN FACTORS WHICH ARE

PROPELLING THE STRONG GROWTH TAKING PLACE IN THE SECOND HALF

OF 1975 ARE BOTH TEMPORARY L ONE IS THE EFFECT ON CONSUMER

SPENDING OF THE TAX REBATES ^{+ Reduction} PAID OUT LAST SPRING. THE

OTHER IS THE TURN-AROUND IN BUSINESS INVENTORIES. L BOTH OF

THOSE ARE INEVITABLY, BY THEIR VERY NATURE, TEMPORARY.

L WE KNOW THEY CAN NOT CONTINUE FOR MUCH LONGER. L HENCE, WE

MUST LOOK AHEAD TO THE POLICIES THAT ARE NEEDED TO KEEP

RECOVERY GOING IN 1976 AND BEYOND.

L THE JOINT ECONOMIC COMMITTEE MADE SPECIFIC POLICY
RECOMMENDATIONS IN FIVE AREAS -- JOBS, TAXES, AID TO
STATE AND LOCAL GOVERNMENTS, MONETARY POLICY, AND PRICE *wage*
INCOMES POLICY -- IN ITS MID-YEAR REPORT ISSUED EARLIER
THIS MONTH.

L WITH RESPECT TO JOBS, THE COMMITTEE HAS RECOMMENDED
A NEW EMERGENCY JOBS PROGRAM WHICH WILL PUT 1-1/2 MILLION
UNEMPLOYED PERSONS TO WORK NEXT YEAR ON SPECIAL PROJECTS
OF GREAT VALUE TO THE COMMUNITIES OF THIS COUNTRY L LET ME
STRESS THAT THIS PROGRAM IS NEEDED EVEN IF WE HAVE A FAR
MORE VIGOROUS RECOVERY THAN MOST PEOPLE PRESENTLY EXPECT.

(Especially youth employment.)

L THERE ARE AT PRESENT MORE THAN 1-1/2 MILLION PEOPLE WHO
HAVE BEEN UNEMPLOYED FOR 6 MONTHS OR LONGER. THERE IS

SIMPLY NO PROSPECT THAT THIS NUMBER OF PEOPLE WILL BE

ABSORBED BACK INTO REGULAR PRIVATE EMPLOYMENT WITHIN, ^{the} NEXT

YEAR. AS A NATION, WE SIMPLY CAN NO LONGER AFFORD TO SEE OUR

UNEMPLOYMENT COMPENSATION PROGRAMS BEING CONVERTED INTO

WELFARE PROGRAMS. THESE LONG TERM UNEMPLOYED MUST BE

GIVEN NOT ONLY THE INCOME BUT THE PERSONAL DIGNITY, THE

EXPERIENCE, AND THE SKILL ENHANCEMENT WHICH COME FROM

WORK. WE MUST HAVE WORK NOT WELFARE.

L WITH RESPECT TO TAXES, THE JOINT ECONOMIC COMMITTEE HAS
RECOMMENDED THAT THERE SHOULD BE A TAX REDUCTION IN 1976

WHICH EXCEEDS THE SIMPLE EXTENSION OF THE 1975 TAX CUTS BY

A total package close to last years cut.
\$8 TO \$10 BILLION. AGAIN THE REASON FOR THIS IS SIMPLE.

L INFLATION HAS BEEN PUSHING UP PERSONAL INCOMES. L IT HAS

BEEN PUSHING PEOPLE INTO EVER HIGHER TAX BRACKETS, EVEN

THOUGH THEIR REAL INCOMES HAVE BEEN GROWING LITTLE IF AT

ALL THIS TAX CUT IS NEEDED SIMPLY TO OFFSET THAT INFLATION.

L IT IS NEEDED BOTH TO KEEP CONSUMERS IN A STRONG POSITION,

AND TO KEEP THE FEDERAL BUDGET AS SUPPORTIVE OF THE ECONOMY

AS CONGRESS INTENDED LAST SPRING WHEN THEY PASSED THE FIRST

CONCURRENT BUDGET RESOLUTION.

THIS TAX CUT WOULD NOT BE A NEW MOVE TOWARD ^{greater} STIMULUS.

IT WOULD BE AN ADJUSTMENT WHICH IS NEED JUST TO KEEP

THE BUDGET IN THE SAME POSITION WITH RESPECT TO THE

ECONOMY AS WE HAD IN MIND LAST SPRING.

THE JOINT ECONOMIC COMMITTEE HAS ALSO MADE RECOMMENDATIONS

TO EXPAND AID TO STATE AND LOCAL GOVERNMENTS, TO INCREASE THE

RATE OF MONETARY EXPANSION MODESTLY, AND TO ESTABLISH A

VOLUNTARY PRICE-INCOMES POLICY. I THINK I HAVE PROBABLY

TALKED LONG ENOUGH, BUT I WOULD BE GLAD TO ANSWER ANY

QUESTIONS ABOUT THESE AND ANY OTHER AREAS OF ECONOMIC

POLICY. THANK YOU VERY MUCH.

*President
will add
about
12 Billion
to deficit
first quarter*

- Fed financing - Interest -

*Contract with
President 28 Billion
+ 28 Billion stimulus*



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