NORTHWEST OREENT AIRLINES ADDRESS

by

Walter F. Mondale

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As a constant traveleerbetween Washington and the Twin Citiez, all I can say to you of Northwest Airlines is a heartfelt "welcome back." You have made Northwest one of the great success stories of Minnesota, but its value has never been more clear to me than in the last couple of months.

Tonight I would like to say a few words about the national economy. The newspapers these days are full of dire predictions, all the way from a serious recession to a runaway inflation. Just what is happening? And what considerations now face us as a nation?

In the first place, neither of the extreme predictions is accurate, according to the overwhelming weight of informed opinion.

For the central fact confronting any observer today is that the economy is incredibly strong. It is now predicted that we will in 1966 have a gross national product of $740 billion, up $59 billion over last year. This is an increase of 5 1/2% in <u>real</u> terms; that is, even after allowance for any price increases. And this growth has been going on for more than five years at a rate in excess of 4 1/2% -- far and away the highest growth rate anywhere in the industrialized world.

Why did we have this unprecedented growth? If the nation were to have followed the pattern of 111 years, we should have had a recession in 1963, just as we did ~~after~~ in 1958 and again in 1960. For more than a century, we have averaged a recession after every 26 months of economic growth.

Why didn't the pattern continue? Becsuse, during the Kennedy Administration, we as a nation committed oamselves to a new approach to government economic policy. It was herelded by President Kennedy in his famous Yale speech in 1962 entitled "Old Myths and New Realities."

One old myth was that we should always have a balanced budget each year, regardless of the economic picture. Another was that any increase in federal debt was likely to lead sooner or later to national chaos.

The new reality was that government could and should consciously affect the trend of the national economy -- toward the goals of full employment and national growth, while keeping relatively stable price levels. And it should do this even if it meant a deficit was incurred at a time when the economy needed a stimulus.

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The problem in President Kennedy's time was to stimulate demand. And he had three tools to work with.

He could cut taxes.

He could increase federal spending.

He could, if the Federal Reserve cooperated, lower interest rates and increase the supply of money. President Kennedy planned a budget with a deficit, and chose principally to use the tool of a tax cut. The Revenue Act of 1962 included the 7% investment credit. This permits businesses to invest in plant and equipment and to subtract 7% of the cost directly from taxes.

This credit stimulated demand by cutting taxes as any tax cut would. But it also specifically stimulated investment in plant and equipment, which the economy needed.

This policy of stimulation of the economy was continued by President Johnson with the $14 billion income tax cut of 1964.

Under the "old economics" it would have been considered disastrous to cut taxes and permit a deficit, especially in times which appeared relatively prosperous. But what was the result?

Five years of uninterrupted growth in the economy. A personal income level which this June reached $576 billion -- a 9% gain over last year alone. And, until this year, a relatively stable price ~~inde~~ level, reflecting tremendous increases in productivity.

It was a huge victory for the "new economics."

But our giant economy, which has doubled its annual product in 13 years, has some minor problems today. For the first time since the Korean War, it is under considerable inflabionary pressure. The President's wage-price guidelines, a useful if not fundamental tool, have been seriously compromised and will have to be revised.

The Vietnam warris adding considerably to demand, and will probably cost us $15 billion this year, This will not overpower us. As one New York Times analyst wrote of the effect of Vietnam: "The Economy's Little Finger Hurts." That is a long way from real sickness, but it does demand attention if it is not to become more serious.

So the tough choice is here. Can the policy makers and the public, who gladly ate the new economics pie, now pay the check?

For with the economy heating up, as it is now, we still have the same basic tools:

We can increase taxes.

We can cut federal spending.

We can, with the cooperation of the Federal Reserve, further raise interest and decrease the money supply.

One of these tools has already been used -- that of high interest rates. The Federal Reserve has raised rates to the highest level in 40 years.

The trouble with that tool, however, is that it has severe and selective effects. The big borrowers are more likely to keep on borrowing, while the smaller ones are frozen out. One result, which you are seeing, is that the home building industry, for instance, is hit very badly.

The other problem about interest rates is that there is grave doubt that they can do the whole job. Prices are rising even though rates are high. Borrowing for business investment is still very high -- up 73% in five years -- even though it has tapered off slightly in the past few weeks.

But we have to be responsible. If we are going to cry out against high interest rates in an economy that is heating up, we must propose some fiscal alternatives. That means we must consider increasing taxes, or decreasing spending, or some combination of both.

The Administration is reportedly considering suspension of the 7% investment credit granted in 1962. Two purposes would be served by suspension of the credit.

First, there would be some deflationary impact from the mere additional collection of tax. But second, the Administration would hope to reduce the huge current business investment. Most economists believe that business investment has been increasing at a rate which cannot be sustained without over-extension.

What are the disadvantages of suspension of the investment credit?

One is perhaps a matter of trust. The credit was put forth as a permanent part of the tax structure in 1962, to maximize its effect. That is one reason why the Administration talks of suspension and not repeal of the credit. There would doubtless have to be an understanding that the credit would be reinstated as soon as the economy cools off.

The other problem with suspension of the credit is the possible lag in its effect. This is a subject of great argument. But you here know that if you are building a new hangar or maintenance facility, you can't just turn a project like that off in a matter of days. And if the investment was contracted in reliance on the credit, fairness seems to require that any suspension take that into account.

Other wayy of cooling off the economy by taxation; include, of course, income taxes. The corporate and individual income taxes are very effective in reducing demand. And an increase now would seem to be the other side of the coin of the cut of 1964.

But an increase requires that the principles of the new economics be accepted not only by leaders of business and government, but by the public at large.

People would have to accept the principle that their own income taxes were likely to go up or down -- not to balance the budget, not to finance some specific expenditure -- but to ensure the continued health and growth of the economy.

I believe that the ideal tool, which Walter Heller has advocated for so long, is the stand-by tax authority. This means that Congress would grant standing authority to the President to impose increases or decreases in the income tax of, say, up to 5%. Such an increase or decrease would be effective when announced, subject to ratification by Congress within 30 days or so. The action would be effective for six months, subject to renewal. It would permit timely and effective balancing of a growth economy.

The plan is not new, but will probably take some time before it is accepted. Its acceptance would be a recognition by Congress and the public of <u>both</u> sides of the new economics -- of tax decreases to stimulate demand, and tax increases to dampen it.

Most important of all, passage of stand-by authority would be a mature recognition of a fact of whihh we must not lose sight. <u>It is that a really healthy and growing economy is far more important to us than the relatively minor effects of tax increases and decreases needed to keep it growing</u>.

Nearly every American has benefited immensely by a period of five years of rapid growth of the economy. It is reflected in corporate profits and individual income. This unique and healthy growth is a prize worth keeping. It is worth facing up to what little needs to be done to end all cycles of boom and bust.

There is one remaining way to apply deflationary pressure. It is by cutting federal spending. But there are problems with this tool of economic policy, too. For one thing, the greatest increase in federal spending is due to Vietnam, and that is not going to change for any fiscal reasons.

The braking effect of a cut in federal spending is not as immediate as the effect of a tax increase. Federal projects, like business investments, cannot always be cut off on a day's notice.

Inèerruption of a fedeaal program for educating deprived children, or for vocational training for the unemployed, is wasteful economically, because students and teachers are lost forever in any stop-and-go operation. It is even more wasteful socially. For these and many other civilian federal programs are essential to both the economic and social health of the nation.

For example, we are proud of our low national unemployment rate of 3.9%. But in July the jobless rate among non-whites actually rose to 8.2%. Teenage Negro boys in the cities had an unemployement rate of 31%, and it was 46% for Negro girls. This compares with the July unemployment rates of white teenagers of 12%.

Anyone who has read the newspapers lately and thinks it will be economical or just to permit this kind of a situation to continue in our cities is just not facing facts.

Yet severe spending cuts would doubtless affect the very progrmms aimed at this problem. Programs, for instance, like the on-the-job training program conducted under the Manpower Development and Training Act. We have spend \$95.8 million in 3 years under that program for job training, mostly of school drop-outs and unemployed. The men who were trained have found jobs and returned \$50.5 million to the Treasury in income taxes. That's a pretty good three year return, in money and in human achievement.

I would hate to have to tell the unemployed and the poor that, because of pressures from Vietnam which is claimed to be a poor man's fight -- we are cutting off -- programs aimed at breaking their cycle of poverty.

In fact, federal civilian spending has remained at a nearly fixed dollar level while the rest of the economy -- and the problems demanding government attention -- have grown tremendously. If we cut taxes whenever we want to stimulate demand and lower spending whenever we want to dampen it, we will starve all federal effort to help the unhealthy pockets of our healthy economy.

In any event, these are some of the considerations facing us in a heating economy. We have some choices of action. The alternative which would be worst would be to do nothing. Facing the issue, cooling off demand pressures, will permit us to keep the fantastically healthy economy we have had for over five years. It is worth it to all of us to make the hard choices now.

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National Grange
1616 H Street N. W.
Washington, D.C. 20006

Harry L. Graham, Legislative Representative

NEWS FOR IMMEDIATE RELEASE September 20, 1966

"For the first time in fifty years we have a farm program which really works to improve farm income," Harry L. Graham, Legislative Representative of the National Grange, said in a statement released to Twin City newsmen and farm leaders during a stopover in Minneapolis.

"The combination of an improved market plus government payments, purchase, and export programs has brought income from wheat, feed grains, beef and pork to an approximate parity level for the first time since 1952," he continued.

"Due to the operation of the present farm programs, passed with the support of most farm organizations and the bipartisan approval of the Congress, surplus stocks have disappeared, and cash market prices are well above support levels except for fibers and tobacco. Exports for cash are at the highest peacetime levels in history, costs of the farm programs have been reduced, farmers have more profitable managerial options than they ever had in a free market, wheat farmers have practically unlimited planting privileges, and the modest rise in food prices due to increases in farm prices have been less than the increases in non-farm wages and profits. That," said Mr. Graham, "is par for any course."

"The present income levels would be destroyed if the farm programs were discontinued. Direct program payments will add \$131,011,000 to Minnesota farm income this year and subsidized exports will add \$48.2 million more. Market prices for wheat will return an additional \$120 million and for corn, will return \$96 above the support level."

"While most farmers would prefer receiving all their money from the market, they are not going to reject the \$179.2 in government assistance which represents 25% of their net income unless there is real proof that the money could be obtained in the market."

"There is nothing in the present market forecasts which indicate that this is either possible or probable. The self-regulating and income improving claims for the 'free market' exist only as myths in the minds of those disgruntled farm leaders and political opportunists who place farm income second to their biased personal prejudices.

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I thank my opponent, Bob Forsythe, for his gracious statement of concession. I commend him for his vigorous campaign.

I am deeply grateful tonight to you, the people of Minnesota. I thank you for your overwhelming vote of confidence -- confidence not only in me as your ~~junior~~ Senator~~,~~ but also in the great liberal programs which are moving this country forward.

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This campaign has tested, as it seldom has been tested before, the capacity of the people of Minnesota to separate issues that are real from those that are fictitious. The results of this campaign should be fair warning to politicians in future elections: that the voters of Minnesota can be counted on to express themselves clearly and decisively on issues of importance affecting their lives -- and that the voters have a great tradition of insistence on fair play.

My ~~heartfelt~~ ? appreciation goes to each and every one of you, of the thousands of people all over the State, who helped in this difficult campaign. We owe our success in this endeavor to your dedication, your hard and long hours of work.

Finally, I want to express thanks, which can never be adequate, to my wife, Joan, and my three children and to our parents and close relatives. They have borne the burdens and suffered the repercussions of this campaign with devotion, patience, and with a cheerfulness as great as any man could ask.

So, to all of you who supported me, once again, my thanks. I pledge my best, ~~in the future as in the past,~~ to serv~~ing~~ all Minnesotans, whether of my political party or not, as their Senator.

I pledge ~~to my best~~

It is an honor to serve the people of Minnesota as Senator, and I pledge to ~~do my give~~ my best to that office. I pledge to ~~serve all~~

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