

private economy—and our economic system is primarily a private system—which will continue to weaken consumer markets by comparison with the increasing capacity of the economy to produce. Both the question of equity and the question of sustained economic growth are related to this basic underlying problem of income distribution.

Chairman PROXMIER. Mr. Sprinkel?

Mr. SPRINKEL. May I elaborate just a moment on the reason for my position against a tax increase by considering the arguments that I have noticed that have been presented in favor of it, which are in my opinion wrong.

One, it is argued that we need a change in the mix, and that to get easier money, which is desirable, we should have higher taxes. This, of course, is clearly wrong.

We can increase the money supply, increase the reserves in the banking system irrespective of what happens to taxes. Now both representatives of the administration and the Federal Reserve testified before this committee recently saying there was no political deal requiring a tax increase to get an easier monetary policy, so I think that can be rejected.

Another reason that some have argued—I believe the President mentioned this—is to pay for the Vietnam war. Clearly, we are going to pay for the Vietnam war, whether we have the tax increase or do not. The question is, are we going to pay for it with taxes, are we going to pay for it with deficits, are we going to pay for it with cutting back of some other kinds of expenditures. So it will be paid for and this in itself is not a reason.

Three, it is argued by the Council that we are going to have renewed inflationary pressures early in 1968. This may be correct, but I don't think they can tell now. I certainly cannot tell now. All of the evidence at the moment points in the opposite direction, a waning inflation, a weakening economy. How can we be certain that we will need the tax increase because it may slow up inflationary pressures in early 1968?

Finally, it is argued we need the tax increase so that we can have more spending on Great Society programs. Again, I think there is a tendency to confuse objectives with results, and I would hope that we will look at Great Society programs and decide on their own basis, and on the basis of results, whether we should spend more or whether we should create incentives for the private sector to do some of the same kind of jobs. But in any event, it does not turn on whether or not we raise taxes. Therefore, I am against a tax increase at this point.

Chairman PROXMIER. Dr. Madden wanted to comment, I believe.

Mr. MADDEN. I would like to add something to the position I stated. I think that certainly there is no necessary reason for the Congress to make a judgment in advance as to whether a tax increase is absolutely not necessary, but my own judgment is that the second half will be sufficiently weak so that the tax increase is highly unlikely to be necessary.

At the same time, the Federal budget for fiscal 1968 of \$169 billion, our national income account has risen from \$91 billion in fiscal 1960. In the words of the London Economist:

Its dominating feature is quite simply its tremendous growth and not only because of the war—a growth that in the past three years has amounted to \$50 billion of which just under half is accounted for by the war in Vietnam, and that it has resulted in a rise in Federal spending.

This huge budgetary growth has led the Senate majority leader to call for a reexamination and reevaluation this year of major programs in the hope that quite apart from aggregate employment and output the effectiveness of resource allocation can be strengthened by consolidation and economy in the Federal Government. The Chamber of Commerce Federation respectfully recommends Senator Mansfield's view to this committee and the Congress.

I would like to add for the record a quotation from an article by Roger Blough, "The Bread of Tomorrow," which appeared in United States Steel News, January-February 1967. On page 16, with respect to the question of the distribution of income:

Certainly, therefore, a much more meaningful way of measuring the relative behavior of profits and employee compensation would be to compare the respective shares of the total national income that went to each. For here the percentage in each year apply to exactly the same base on both sides. And looking at the facts in this way, we see that in 1960, 10.3 percent of the national income went to profits, while in 1965, this figure had dropped to 8 percent.

Conversely, the share of the national income that went to employee compensation in 1950 was 64.1 percent, and by 1965 it had risen to 70.3 percent. So the employees' share has expanded by about 10 percent while the profit share has been squeezed down 22 percent, a fact that clearly belies the erroneous notion that profits have flourished at the expense of wages.

Chairman PROXMIRE. I am sure that Dr. Madden and Mr. Goldfinger are going to disagree on this throughout our colloquy. I would like to get on something else. Before I do that, however, I would like to ask if all of you gentlemen would agree that whether or not we should impose a tax increase should be an economic decision primarily, based on the status of the economy, or should we give consideration to the budgetary situation at that time, and the need for coming closer to a balanced budget which presumably a tax increase would provide.

Frankly, most of the economists appearing before us, in fact all of them so far, have said that we should pay attention to the economic indicators and not have a tax increase if the situation looked somewhat depressing. Would you agree with that analysis or would you think we should give more consideration to the budgetary element?

Mr. SPRINKEL. Yes, sir; I would agree with that analysis. I think it should depend on the state of the economy. In the long run I would hope that we can set our tax structure in such a way as to achieve a balanced budget once in a while, and maybe even a surplus, but I am not too hopeful, for the simple reason that every time we get close to a surplus, there is a great tendency to either spend more or to cut taxes. So in the long run, hopefully, we might balance it at full employment, but at the moment let's even hold on that, because the trend in the economy does not look that strong.

Chairman PROXMIRE. Mr. Madden, I take it from your analysis you would agree more or less with that?

Mr. MADDEN. Not quite. My argument was that irrespective of the economic conditions, there have been questions raised by many people about the effectiveness of the resource allocation that stems from the budget. Senator Mansfield, Richard Goodwin, the President's state of the Union message itself have all implied there is a need for consolidation of programs, a reevaluation.

Chairman PROXMIRE. I am talking about something else, Dr. Madden. Assuming a given level of spending, maybe Congress can reduce

the level of spending, I hope so earnestly as you know from the views I have expressed, but given a level, let's assume it is the level the President has asked. Under these circumstances, would you, looking at the economic situation in June of this year, say this should be the determinant if we are facing a situation that may be economically depressing, no tax increase? If it looks expansionary and inflationary, maybe we should have a tax increase.

Mr. MADDEN. Yes, I would agree to that.

Chairman PROXMIRE. Mr. Goldfinger?

Mr. GOLDFINGER. In reply to your question, I would say yes. I think the primary thing to watch are economic trends and economic impact. As for a budget deficit, this economy can finance a deficit, and it can finance a large deficit if necessary.

Furthermore, I believe the budget should be viewed in terms of its economic impact. In the second half of the year we may require a larger budget stimulus than now appears to be proposed in the President's budget proposals.

The President's economic advisers may be right. They may be wrong, and we will have some time to watch and to tell.

Chairman PROXMIRE. Unfortunately, my time is up. I wanted to ask Dr. Sprinkel, and you might be thinking of this in the next few minutes, with how a more relaxed monetary policy with a regular increase in the money supply and a relatively passive—you said not an active economic policy at least—can cope with what may be a very serious balance-of-payments situation, if our interest rates fall relative to those abroad. My time is up, however. Congressman Rumsfeld?

Representative RUMSFELD. Mr. Chairman—

Chairman PROXMIRE. May I interrupt for a minute? Henry Reuss is the Representative from the northern part of Milwaukee and I am Senator from Wisconsin, and we also had Mr. Culbertson from the University of Wisconsin testify yesterday; and this morning we have a number of students from Milwaukee University School. Since that is pretty close to both Congressman Rumsfeld's district and Congresswoman Griffiths' district and Senator Percy, I think it is appropriate that I announce that this attractive group of students is from Milwaukee University School. We are glad to have them here.

Congressman Rumsfeld?

Representative RUMSFELD. Thank you, Mr. Chairman. I certainly want to thank each of you gentlemen for your statements, and particularly to welcome Dr. Sprinkel, who is a very prominent resident of the State of Illinois.

First, Dr. Goldfinger, I would like to—

Mr. GOLDFINGER. Mister, sir.

Representative RUMSFELD. Excuse me. I heard it both ways from our chairman and wasn't sure.

Mr. GOLDFINGER. Thank you for the distinction.

Chairman PROXMIRE. You are an eminent economist. Aren't you a Ph.D.?

Mr. GOLDFINGER. No.

Representative RUMSFELD. We will make you an honorary one right here.

Mr. GOLDFINGER. Thank you, sir.

Representative RUMSFELD. For clarification, I would like you to comment on this. Do you believe that business investment in modern efficient machinery leads to more or less employment, and No. 2, to lower or higher wages, and No. 3, to lower or higher prices? Doesn't a low level of business investment result in economic stagnation?

Mr. GOLDFINGER. You have to view business investment in relation to the economy as a whole; you have to look at it in relation to demand, to the demand for goods and services.

Representative RUMSFELD. I am assuming it is prudent investment.

Mr. GOLDFINGER. If businessmen invest in new plant and equipment in response to rising demand at a sustainable level, pretty much in line with the rise in demand, such investment is obviously a good thing. It adds to the demand for goods and services from the business sector. It helps to increase the rate of productivity advance. It also helps to reduce unit costs or at least to stabilize unit costs.

However, this economy is replete with a history of booms and busts in capital goods investment. Most recently, we had the capital goods boom of the mid-50's which wound up in the bust of 1958-59 and the stagnation that persisted for years thereafter.

This is wrong. This is the kind of thing which we fear because it is far beyond anything sustainable.

The AFL-CIO is not opposed to business investment. The AFL-CIO is for a sustained rise of business investment. Moreover, sir, I believe that in the long run we would have more business investment and a higher rate of productivity, if we were to do this on a sustained basis with business investment moving up steadily in relation to rising demand for goods and services.

Representative RUMSFELD. So in answer to my question, it is that business investment amounts to nothing.

Mr. GOLDFINGER. In itself.

Representative RUMSFELD. Unless it's on a sustained, steady basis.

Mr. GOLDFINGER. In relation to the demand for goods and services, yes, sir.

Representative RUMSFELD. Correct me if I am wrong, but from your testimony is it fair to say that your general description of the state of the U.S. labor force in our economy today is unfortunate, poor, and that you are clearly dissatisfied with it from your statement? Is this a reasonable interpretation?

Mr. GOLDFINGER. Let me try to restate my point here.

Representative RUMSFELD. You gave a great number of statistics.

Mr. GOLDFINGER. Yes.

Representative RUMSFELD. Showing how they have not kept pace.

Mr. GOLDFINGER. Let me restate what I was trying to say. In the first place, I pointed out that as a result of the expansion of recent years, the real volume of national output rose. Employment increased by about 2½ percent a year. Unemployment dropped by eight-tenths of 1 percent a year.

Representative RUMSFELD. Mr. Goldfinger, I followed your testimony.

Mr. GOLDFINGER. But all of this is on the plus side. What we are saying and what I tried to say very strongly is that the vast majority of wage and salary earners did receive gains and improvements during this period of expansion but they received less than a fair share of the gains.

Representative RUMSFELD. I see.

Mr. GOLDFINGER. It was business and wealthy families and investors who received the lion's share of the benefits of the expansion in recent years.

Representative RUMSFELD. Let me turn my first question around and ask it with respect to human investment. How do you evaluate the contribution of public training programs toward reducing unemployment? Do you look with favor, for example, on a tax credit for business investment in additional worker training?

Mr. GOLDFINGER. No; I do not think that a tax credit to business for training is necessary. Training expenses of business are now accounted for as a cost of doing business. I see no reason to give business an additional bonanza, and shift income distribution again in favor of business and away from the rest of the population for things which business is already doing to some extent and should be doing.

Representative RUMSFELD. Do you feel that business investment for the training of people, so that they can develop the skills that they will need to become employable would shift it away from the rest of the population?

Mr. GOLDFINGER. Yes, because such a tax credit is another loophole added onto the vast number of loopholes in the tax structure which add to the income of business. This proposal is, as I see it, an additional business subsidy.

Representative RUMSFELD. And yet you indicated your sentiment which I share, of a general dissatisfaction with the Council's seeming acceptance of a 4-percent unemployment rate, correct?

Mr. GOLDFINGER. Yes, absolutely.

Representative RUMSFELD. I certainly share this. It seems to me that one of the ways we can come to grips with this problem is to try to stimulate the private sector to undertake greater training of individuals that apparently the business sector, the private sector, today feels is not economically feasible.

Mr. GOLDFINGER. In my opinion, sir, the greatest incentive to business for training is a high level of demand for labor. When labor markets get tight, companies increase and improve their training programs on their own.

They have been doing this throughout American history. I see no reason for any kind of direct subsidy. I do think that there are problems —

Representative RUMSFELD. The point is that throughout American history we have not been able to really come to grips with the problems of structural unemployment and the hard-core unemployed, the very group that you were expressing concern about in your statement, and it seems to me that this proposal has the advantage that throughout history we have not had it, and we still have this hard-core group, and if we are going to really come to grips with it certainly this proposal might be an approach to solving the problem.

Mr. GOLDFINGER. Well, I fail to see why a subsidy for business is necessary to solve the problem.

Representative RUMSFELD. The fact that we have never done it before isn't a very good answer to why we shouldn't do it now, I don't think.

Mr. GOLDFINGER. The important thing is that a subsidy is involved for things which business is already doing. Business is training peo-

ple, and as the labor market gets tight, business training of personnel increases. I think that the best incentive, the soundest incentive, for the training of people arises from tight labor markets and the rising demand for goods and services.

Furthermore, we do have a program, a Federal Government program, of training workers.

Representative RUMSFELD. And it is a good one.

Mr. GOLDFINGER. It is a good one. It is moving ahead slowly, but fairly surely.

Representative RUMSFELD. And it not solving the problem.

Mr. GOLDFINGER. Well, this is a serious problem.

Representative RUMSFELD. I favor vocational education. I favor manpower training and development. But we still have this basic fact that you and I and a great many people in this country are concerned that we still have a continuing level of hard-core unemployed.

Mr. GOLDFINGER. Well, one way to solve the problem of hard-core unemployment, an essential way, is to increase the demand for employment. You don't increase the demand for employment simply by training people.

You can have 100,000 trained Ph. D's and if there is no demand for Ph. D's, they may remain unemployed. I mean the education system—

Representative RUMSFELD. Are you suggesting that the fact that these people lack skills is not one of the reasons they are unemployed?

Mr. GOLDFINGER. I am suggesting that at the current level of economic activity, you may be able to redistribute unemployment through retraining alone. However, it's a game of musical chairs. You would still wind up pretty much at the same level of unemployment as we have today. The way to reduce unemployment primarily is to increase jobs.

Certainly there is an underlying need for increased education, which is a longrun process. Certainly there is a continuing need for training and for improving skills and for upgrading. But the basic need is to increase jobs. That is the way to increase employment and to reduce unemployment.

And I would suggest, sir, that this is the best incentive to private business.

Representative RUMSFELD. I am glad to have your comments. My time is up. Mr. Chariman, I would like to just make one closing comment. President Johnson has proposed that the Department of Commerce and the Department of Labor be merged. And I would be curious to know if Dr. Madden of the Chamber of Commerce and Mr. Goldfinger of the AFL-CIO would anticipate, in the event this merger does in fact occur, that you two gentlemen would be coming before congressional committees in the future with a merged statement?

Mr. GOLDFINGER. Much as I like Dr. Madden as a friend, I hope not.

Chairman PROXMIRE. Congressman Reuss?

Representative REUSS. Mr. Chairman, I was fascinated by your attempt to bring about a great consensus among the three very able witnesses from labor, business, and the banking community, and I think you had established from all three of our witnesses that not one of them would favor the Congress now enacting a 6-percent across-the-board surtax on individual and corporate income effective July 1.

Is it not also true that each one of you gentlemen sees certain soft spots in the economic situation today which you believe should be of concern to this committee? I think that is inherent in all of your testimony. Have I misquoted anybody?

Mr. SPRINKEL. Sir, not only that, but softer than any time since the recession of 60-61.

Representative REUSS. Having pointed out that second area of agreement, let me pass on to a third. I think that each of you believes that in the period ahead, monetary policy, and the creation of the money supply should not be as extremely restrictive as it was for most of last year.

Mr. MADDEN. Indeed.

Mr. SPRINKEL. Yes, sir.

Representative REUSS. I hear assents and see nods of agreement on that.

Mr. GOLDFINGER. I would go a little further, sir. I think that the Joint Economic Committee could well get into the entire issue of monetary policy along the lines which Dr. Sprinkel indicated and which I briefly indicated in my paper—and that is the danger of an aggregate monetary policy which depresses one sector of the economy, as happened last year, when residential construction was knocked in the head by the blunt instrument of monetary policy.

Also there are some problems in terms of the structure of capital markets. There is the need for greater selectivity in the use of monetary policy. Furthermore, you gentlemen know my views on the composition, structure, and so-called independence of the Federal Reserve System, which I also think needs to be modified and changed considerably.

Representative REUSS. I think then there is an area of agreement which we have defined here on these three major points, and something like a great consensus established.

Now with my instinct for the underdog, let me make the administration's case for the tax increase to you, and ask you to comment on it. I will start with Mr. Sprinkel. It is said in behalf of the administration's position that it is necessary to pick up about \$5 billion worth of additional revenue in the year starting next July 1, because unless you do that, even though sound monetary policy such as you all three have agreed you want are followed, if you have Uncle Sam coming in for an extra \$5 billion of borrowing, this will tend to vitiate the easier money thus obtained.

This seems to me to be a point that has to be considered, and I don't believe, Mr. Sprinkel, it was in the list of pros for the administration's position that you gave. Would you comment on that position?

Mr. SPRINKEL. Yes, two aspects of the one; they have this year laid out in some detail how they visualize the trend in the economy. Namely, it is going to stall some in the first half of the year, we will liquidate some inventories, but by the middle of the year this will be over and we can then have the 6-percent surcharge accompanied by an increase in social security payments, and then by the latter part of the year the economy will be going strong and we can then afford to slug the economy with a sizable increase in social security taxes. That is at least the way I see their layout for the year.

I don't think they can see that clearly. I can't see that clearly. The trends point in the opposite direction at this moment. But let's

look at the increased \$5 billion that you are talking about they will have to finance.

Representative REUSS. And if I may interrupt you, for the purposes of this discussion, let's view this as a method of obviating \$5 billion of otherwise necessary borrowing.

Mr. SPRINKEL. Yes, sir.

Representative REUSS. Because I realize that Dr. Madden at least would probably say pick up the \$5 billion by spending less. But since the administration says "Here is our budget, and here is what we are going to spend," take it on their terms.

Mr. SPRINKEL. Yes, sir; take it on their terms. That portion on their terms but I can't take certain other things on their terms. Let's suppose that instead of the environment that they paint, which may well come about, we have a recession. Then we will have \$10, \$15, or \$20 billion that we have to borrow. That is No. 1, and I think this policy is certainly working toward restraining demand so far as fiscal policy is concerned, rather than helping.

Secondly, and this is really the more fundamental response to your question, I think it is extremely important that we distinguish between the tightness of money and the tightness of monetary policy. These two are not the same thing, although I see them constantly confused.

The tightness of money, as I think most people mean, refers to the price of money, interest rates, and we all learned in Economics I that interest rates are affected both by demand and supply, and that one part of supply is the money that the Federal Reserve provides.

Therefore, the mere fact that the Federal budget must enter on the demand side the \$5 billion of which you speak does not mean that monetary policy cannot continue to be relatively expansionary, providing us with the 2-, 3-, 4-percent growth in the money supply that I would like to see provided. So, on either score I just don't agree with that particular position of the administration.

Representative REUSS. Dr. Madden?

Mr. MADDEN. I would share Dr. Sprinkel's views, but would add just as you might expect I would, that total taxes as I understand it of all levels of government are now taking something like 31 percent of income, and we see in news magazines such as U.S. News & World Report's most recent issue that State and local taxes are likely to rise further, and we finally see some dissatisfaction on the part of the public as reflected in public opinion surveys and dissatisfaction on the part of leaders in Congress, and even in the administration, about the question of the efficiency with which the funds that have been increased so rapidly in the past few years available to the Government are being spent. So, for all these reasons, I reiterate the position you are familiar with, that we should cut spending.

Representative REUSS. Mr. Goldfinger?

Mr. GOLDFINGER. I would like to reiterate, I am not opposed to the tax increase. I have an open mind on this issue.

First, in contrast to my friend, Dr. Madden, I am for—and very strongly for—increases in major essential domestic programs such as Federal aid to education, housing, the rebuilding of our cities, the war on poverty, the antipollution programs, and similar programs which I consider to be very essential. In fact, I consider, as I indicated in the paper, the President's proposals to be very modest in terms

of the need, although somewhat more significant in terms of the realities of rising military expenditures.

Secondly, I am not sure about the economic trends in the next several months. I would want to watch them very carefully, and I would prefer to make judgments in May and June, rather than in February.

Representative REUSS. You made a very interesting presentation, Mr. Goldfinger, of what you called a changed relationship between the incomes of various groups. I, of course, am concerned about the case you make, because if true, and I think we have to put much thought on it, and I am going to ask, Mr. Chairman, at the proper time that the staff make an independent study of the problem, I am concerned lest changes in income distribution, apart from the equity involved, may bring about a situation where the spending power of this country is so skewed that in a given economic period we can't take off the market the goods that were produced in the last.

This was the specter talked about by Marx, Hobson, Keynes and many others and now that we are getting toward a full employment period it is something we have to look at very carefully. Could you respond to the theory on this?

Mr. GOLDFINGER. I agree with you completely. There is the equity issue. But as I tried to indicate in response to Mr. Rumsfeld's question, there is also the boom and bust aspect to this kind of wrong-way distribution of income, because this kind of income distribution leads to an excessive amount of savings, both in the form of corporate profits and the savings of wealthy families. Such savings are either invested or drawn out of the economy. If they lead to the kind of superboom we have recently had in which investment increases twice as fast as GNP for 3 years in a row, the economy suffers because we cannot take off the market the kind of vast increases in production made possible by the growing productive capacity.

I agree with you completely. I think that there is a real underlying problem here of the sustainability of economic growth with this kind of income distribution—the kind of problem that we have been getting into.

Representative REUSS. My time is up, and, Dr. Madden, I will have some more time and I am going to use as much of that as you want in giving you an opportunity to reply.

I would just say in response to what you said, Mr. Goldfinger, that I am not as bothered by excessive capital investment perhaps as you are. What bothers me is an income distribution situation which results in no investment whatever, but in the escape of savings perhaps overseas to Europe, which does not help the United States and could produce an oversaving.

Mr. GOLDFINGER. Right.

Representative REUSS. An extra factory or two sitting idle doesn't necessarily throw me into a tailspin, because after all, people have worked to build that factory.

Mr. GOLDFINGER. But it results in unemployment at home and it also contributes substantially to the balance-of-payments problem in the form of runaway capital.

Representative REUSS. We must get to that, and Dr. Madden will certainly have something to say.

Thank you, Mr. Chairman.

Chairman PROXMIRE. Senator Percy?

Senator PERCY. Mr. Chairman, I would like to commend the chairman on his wisdom in not having business come in one day and labor another day, but having them both here at the same time. I have long felt that labor and business have so much in common in our objectives of having an expanding and vigorous economy that it is very helpful indeed to have both of your viewpoints.

I am glad to see Beryl Sprinkel, a prominent banker from Chicago, who is a dear personal friend of mine.

Obviously the President feels that there is a great deal in common between labor and business. I would like to know your own feelings and attitudes toward the proposed merger of the Department of Commerce and the Department of Labor. I am interested not so much from the organizational structural standpoint, but if it is to be called the Department of Economic Activity, whether or not you feel the economic activity of this country could be stimulated by having both labor and commerce in one department.

Mr. MADDEN. I would be glad to start the commentary. I think first of all that the semantics of the original proposal of the Department of Business and Labor was unfortunate because it called attention to the areas of dispute that have been traditional between business and labor, and thus aroused fears on the part of people not knowing what the policy was, since it occupied only a couple of lines in the State of the Union message.

Business is somewhat in the same position now as it was then, since we have not yet had a concrete proposal, which we could examine. However, it seems to me from my own experience and knowledge as an economist that there are many areas between the existing Labor Department and the existing Commerce Department in the collection and analysis of statistics, and in the formulation of broad economic policy based upon this kind of study that would, other things being the same, favor a merger of the two Departments.

However, again the Chamber of Commerce has no position on this, so I am speaking on my own judgement, and without the benefit of a concrete proposal on which to comment, but I would like to add one other thing.

It is, it seems to me, time not only for this kind of merger between the two existing Departments, but also for consideration of the relationship of programs in other departments to this proposal, such as programs in OEO, which are now somewhat floating in the governmental structure, that relate to manpower development, to training, and to improving skills, that there are some programs in agriculture that likewise relate to the general problem of economic development, and it may be that this would prevent us from developing an Agriculture Department with more employees than we have farmers, and I think there are rooms for other such consolidations and coordinations of the Government, which so many people recognize is subject to so much overlapping and duplication as a result of the new programs enacted recently, which have not been digested.

One further point. The area of serious and practical disagreement I believe between labor unions and corporations is going to be over the handling of what the scholar tends to call the parochial interests of each group. I think that the Congress should be flexible in

its consideration of these parochial areas. Indeed, I think that it might well be that a new Department could be developed such that these parochial interests were outside the interests of that Department.

The Chamber of Commerce has for a long time now been studying the whole subject of labor law reform, and we have proposed that we could achieve a better balance in the activities of the NLRB and the labor laws, if jurisdiction over labor disputes were either turned to the district Federal courts or to labor courts.

I would like to suggest the possibility that the Congress might look at this question of resolving the areas of disagreement between labor and management over this new Department, by isolating these parochial areas in some new institutional arrangement which achieves a better balance of power between labor unions and management than we now have in the NLRB which, as you know, management generally considers to be partisan toward labor union interests.

Senator PERCY. Mr. Goldfinger?

Mr. GOLDFINGER. First, Senator, the AFL-CIO has no position on this, so whatever I say is a personal view.

Secondly, as Dr. Madden indicated, we haven't seen any concrete proposals so that we don't know what is specifically being proposed in any detail.

Thirdly, this proposal may make some sense, in terms of administrative detail. However, in general I am skeptical about it. I would like to see it spelled out, but I am not sure that this is in the long-run interest of either labor or management or of the Nation as a whole.

I fail to see, for example, how a combined Labor-Commerce Department would add to economic growth. Furthermore, in connection with Dr. Madden's comments about the parochial areas of disagreement, perhaps I heard the word "parochial" in a sense that Dr. Madden didn't mean, but it seems to me that there are clear differences of interest as well as clear similarities of interest between labor and management, and, in a free society, the differences as well as the similarities are very important.

I think that in a free society, it is wrong to attempt to stifle or hide these differences. As I see it, a free society should attempt to keep these differences from blowing up into eruptions, violence, and unnecessary struggle.

But one of the things that has made this country strong, I believe, is the very fact that there is a free labor movement as well as free business, and I would not like to see the basic differences between them blurred over and referred to very simply as parochial interests. They are important interests, and they are important differences.

Senator PERCY. Thank you very much. Dr. Sprinkel, I wonder if I could shift the subject for a moment to a point the chairman raised, and get your judgment on the effect on our balance of payments.

Do you expect such a substantial reduction in interest rates this year, and if so, what can we do to offset any increased effect on the balance of payments?

Mr. SPRINKEL. First, let me say that I am very pleased to see two of our leading public servants from Illinois represented on this committee—Senator Percy and Congressman Rumsfeld—and I appreciate the welcome of both of you.

I think we have a very difficult problem in the balance of payments given the kind of an international mechanism we have at the moment.

It is my personal view that monetary policy is not an appropriate means for bringing about balance in payments with foreign countries. It would be wonderful if it was, but it isn't. It used to be under the gold standard that when gold moved out of the country then we were supposed to tighten up and allow unemployment to develop and allow production to decline, reduce prices and this would tend to decrease our imports, encourage our exports, and lo and behold, we got a balance!

It didn't work that neatly even under the gold standard, and we now have, as I suggested in my testimony, a much more narrow range for tolerance. We will not put up and we should not put up with widespread unemployment brought about either by the balance of payments or otherwise.

This year the best guess is given a somewhat slack trend in the economy plus a need for a more expansive monetary policy, that we should have some decline in interest rates. That would be the guess at the moment. And this will tend, if you look at balance of payments, to hurt us on capital accounts.

The ultimate solution in my opinion is one that I really have little hope that it will ever be adopted, but I think it's the only way we can ultimately get an equilibrating mechanism, and that is eventually to permit some exchange fluctuation between currencies. We insist on pegging the price of dollars relative to other currencies, and every time we insist on pegging any price, we end up with either surpluses or deficits. In the short run we are probably going to have to resort to some more intervention type moves—doubling the equalization tax, putting additional controls on banks and businesses—and I certainly am not very happy about the prospect.

Senator PERCY. Mr. Goldfinger, I was very pleased I found so many areas of agreement with you, on guidelines, on wages and prices, and the necessity of building up a bank of work that can be pushed up if the economy needs it and have it available on State, local and Federal levels.

I was a little disturbed, however, at the correlation you drew between an increase in profits and the necessity of an increase in wages. I am all for wages going up to offset price increases and to have a share of the increasing productivity. But I think as a corollary of the proposal to relate wages to profit increases you have to consider whether or not when profits drop down, that would mean that wages should go up at the same time.

I wonder whether profit sharing isn't the proper way to take into account an increased ratio between profit increases and wages, which also would go down as profits go down. I don't want to get into it now because this is an area Mrs. Griffiths is going to study in hearings later, and I think very importantly so. But I was pleased with how much I did agree with what you had to say.

Mr. GOLDFINGER. Thank you, Senator.

Chairman PROXMIRE. Mrs. Griffiths?

Representative GRIFFITHS. Thank you very much, Mr. Chairman.

I would like to congratulate you on the quality of economists that you have brought before us this week. It has been a very interesting hearing.

I would like to say to the economists, too, that since all of them have almost unanimously agreed that we shouldn't have a tax increase,

if I didn't know better, I would believe that economists were elected to their positions.

I would like to ask you, Mr. Goldfinger, what is the position of the AFL-CIO on permitting social security recipients to earn \$1,500 a year? Are you for or against it?

Mr. GOLDFINGER. That would be above the present level?

Representative GRIFFITHS. \$1,500 is the present level. Did you support that?

Mr. GOLDFINGER. I believe we did. Offhand I don't know, Mrs. Griffiths.

Representative GRIFFITHS. Would you support an increase?

Mr. GOLDFINGER. This isn't an area of expertise on my part or of my responsibility; I am sorry.

Representative GRIFFITHS. Do you support permitting welfare recipients to earn money?

Mr. GOLDFINGER. I think that the whole area of public assistance requires a complete overhaul. The present system is wrong; it creates a disincentive to welfare recipients to move into the labor market. Yes, I do think that there should be some flexibility here.

Representative GRIFFITHS. Do you not feel that these are subsidies to business?

Mr. GOLDFINGER. Which?

Representative GRIFFITHS. To permit welfare recipients to earn money, to permit social security recipients to earn money? Do you not feel that these are subsidies to business?

Mr. GOLDFINGER. In what sense? Subsidies in the sense of building up consumer markets, yes.

Representative GRIFFITHS. They are subsidies from this standpoint. In many instances business is permitted to hire very qualified labor at a low wage. I was having lunch the other day with several Congressmen, one of whom remarked he had the best secretary he ever had in his life for \$100 a month, because she didn't want to reduce the social security that she drew.

I had a letter the other day from an elderly man in my district who opposed increasing the amount that a social security recipient could receive, because he said this means only that you make available to business skilled labor at a price lower than they would have to pay in the market otherwise.

Mr. GOLDFINGER. Well, this is an evil, obviously, from our viewpoint, and we have been trying to do something about this through the form of union organization and collective bargaining. It is obviously undesirable to build up a pool of low-wage labor which pulls down the wage structure of the entire labor market.

Representative GRIFFITHS. But in view of the fact that you support it, what is really wrong with subsidizing business to some extent on training labor? What is your objection there?

Mr. GOLDFINGER. Because business already receives a direct consideration for any costs incurred in training. This is a cost of doing business. Any machinery used in the training of labor is not only a cost, but it is also depreciated. These are all taken care of in the current tax code and in the current tax legislation.

I see no reason for the additional subsidy in this form. I am very strongly for private business engaging in the training of workers.

Business does engage in the training of workers at present, and for the most part, this is the way our work force has been trained on the job. That is the whole traditional pattern of training in the American economy. I see nothing wrong with this and I think this is fine.

Representative GRIFFITHS. I just feel that the real proof is you and I are both giving support to the idea of the most helpless of all in our economy really being used as a subsidy to management. Now it seems to me that there is something to be said for training additional people and perhaps giving some sort of tax break, because in some areas there is just no point in management hiring those people if they have to pay all those outside taxes on it.

Mr. GOLDFINGER. In the first place, I think that the strongest incentive for business to train unskilled workers is tight labor markets—high and rising demand for labor.

Secondly, we do have in this country, largely as a result of very rapid technological change, particularly in agriculture, a number of people, a half million or it may be a million adults who either are in the labor market or should be in the labor market, who probably cannot compete very well if at all in the private labor market at present.

Now the Government's training programs are getting at this problem. The antipoverty program is getting at this problem. Furthermore, we have supported—strongly supported—the idea of moving ahead in the area of public service employment, of Government employment as a last resort, as proposed in the Nelsen-Scheuer amendment to the poverty program of last year. This would provide some type of regular employment for unskilled people with very low levels of education.

Furthermore, this is not simply a problem of training, and I think here is where we are making the mistake. We are talking about the real hard core group of several hundred thousand people, where the problem is not only that they are unskilled. It is that they have been discriminated against for decades, because they are essentially Negroes.

Representative GRIFFITHS. Ah, and essentially women.

Mr. GOLDFINGER. It's also because they have had very low levels of education and poor opportunities for education.

Representative GRIFFITHS. I would like to ask Dr. Madden what in your judgment would it cost business if they complied with the equal pay for equal work clause?

Mr. MADDEN. I have no notion that they are not complying in particular, nor do I know how much it would cost if they were to comply, assuming they are not complying.

Representative GRIFFITHS. Then I would like to ask Mr. Goldfinger why does the AFL-CIO continue to negotiate contracts identifying one job for women and another for men, and paying the women less?

Mr. GOLDFINGER. To my knowledge, Mrs. Griffiths—

Representative GRIFFITHS. Don't tell me you don't know it

Mr. GOLDFINGER. To my knowledge, Mrs. Griffiths, this does not occur as such. Now you know as well or better than I do that there are jobs which traditionally have been described in terms of job titles as women's jobs, and these are related to lifting weights and so forth. The distinctions in collective bargaining agreements, overwhelmingly to my knowledge, are related to the job and not to the sex of the person performing the job.

But there are, obviously, violations somewhere along the line. There are over 150,000 collective bargaining agreements in this country, and it was for that reason, as you well know, that the AFL-CIO strongly urged that title VII be included in the Civil Rights Act. We strongly urged the President and the Members of the Congress to put into the Civil Rights Act the fair employment practices provisions.

Representative GRIFFITHS. You didn't urge sex, Mr. Goldfinger.

Mr. GOLDFINGER. Yes, ma'am, that is right.

Representative GRIFFITHS. What do you think would be the effect upon the economy if the law, equal pay for equal work, were complied with?

Mr. GOLDFINGER. I think it would be a very beneficial impact. Now I can't give you a magnitude, but I think there would be a very beneficial impact in the sense of raising the wages of some of the lowest paid workers in the United States, and most of those workers are not in union plants, as you know.

Representative GRIFFITHS. Oh, but loads of them are. Why don't you use the powers of the AFL-CIO to see to it that in the contracts you negotiate the law is complied with?

Mr. GOLDFINGER. We have been trying to do so, Mrs. Griffiths. We have been urging compliance. We have been sending out information on those provisions. We have had meetings, and we have been doing something. It may be that we have not been doing enough. But there is a division within the AFL-CIO, and many of the international unions have counterpart divisions, charged with encouraging compliance. The real issue here is to get specific cases of violations, and if you know of cases of violation—

Representative GRIFFITHS. I have already brought them to your attention.

Mr. GOLDFINGER. Either in terms of sex or color, I would hope you would call them to our attention.

Representative GRIFFITHS. I am now bringing them to the attention of the Secretary of Labor.

Mr. MADDEN, may I ask you do you consider the social security program a welfare program or a pension program?

Mr. MADDEN. Our understanding of the social security program is that it is a floor of protection for the loss of job-related income in old age.

Representative GRIFFITHS. Well, I think it is, too. I hope then that you will support the pooling of a husband's and wife's credits so that they receive a better benefit than they now receive. As you are aware, the benefits are related to wages, not to what you paid into the system.

Mr. MADDEN. Yes, this is the sense in which it is not an insurance program.

Representative GRIFFITHS. It is not an insurance program. In that sense it is a welfare program, and it's a very improper welfare program, from that sense. It should be made into a better pension system.

Mr. MADDEN. It has turned out, has it not, that most social security recipients so far have received in effect windfall gains by virtue of not having paid as much in as the life expectancy tables suggest they will take out.

Representative GRIFFITHS. Thank you.

Thank you very much, Mr. Chairman.

Just let me say I didn't mean to give you such a rough time but I want you to do something. By the time you folks come back here next year I want you to report progress.

Mr. GOLDFINGER. I am all for it, Mrs. Griffiths, but we need specific complaints registered with the Civil Rights Department of the AFL-CIO.

Representative GRIFFITHS. I have been registering them, and nothing has happened.

Mr. GOLDFINGER. I would like to see them.

Chairman PROXMIRE. I take it, Mr. Sprinkel, you have already answered the question that I raised when Senator Percy followed it up and asked what you would do about a more or less laissez faire policy with regard to the monetary policy—that is, you would increase the money supply at a stable rate, around 3 percent, and we would have to use other methods of adjusting our balance of payments problem. I would like to ask you in this connection whether you think that the statement by Governor Brimmer of the Federal Reserve Board which was in the paper yesterday or today, saying that Operation TWIST just won't work any more, is your view, too.

Mr. SPRINKEL. Could I first respond to the first part of your question? You referred to a "relax and take it easy" policy as if that is the opposite of an activist policy, and I really think that is an unfair characterization.

Chairman PROXMIRE. Let me say I have got as much respect for you as I have for any economist. I have always thought you were the greatest and I wanted very much to transfer my bank balance to the Harris Trust & Savings Bank, but it is so inconvenient I can't do it, just because of you. This is one of the few things that I am asking you about, and I don't say I disagree with you, but as they say on "Meet the Press," you know, the questions don't necessarily reflect the views of the questioner.

Mr. SPRINKEL. Yes, sir, thank you. What I really mean to say is that I think it takes a great deal of effort to maintain a reasonable degree of stability in monetary fiscal policies, apparently more effort than it requires to conduct an activist policy, and I think the overall results would be better.

Now as to the question for Operation TWIST, one thing that bothers me mightily is that I hear many people saying that it obviously worked back in the earlier period, so let's try it again. I saw many academic papers, one of them by Prof. Franco Modigliani presented at the American Economic Association annual meeting a few years ago, a very complicated and it seemed to me a straightforward econometric study indicating the fact that it didn't work.

It is true that the spread on short-term-long-term interest rates narrowed during this time but this was during a period of rising economic activity in the first place, and normally you get a narrowing in a spread and adjusting for that he could find no evidence that it worked before. Therefore, I am doubtful that it would work if we were to try it again. So I guess I would be in agreement with Mr. Brimmer.

Chairman PROXMIRE. It makes sense that if we permitted short-term rates to rise then capital would go from long term to short term which is exactly what we want to avoid.

Mr. SPRINKEL. Yes.

Chairman PROXMIRE. Now let me ask about something else. The only point you mentioned which I find myself in disagreement and I don't know how sharp it is—

Mr. SPRINKEL. Wage-price guidelines?

Chairman PROXMIRE. This is wage-price guidelines and you say in effect forget about the guidelines. I don't want to again put words in your mouth, but again you don't think it is a very lamentable loss. You say the incomes policy in Europe was a failure.

Mr. SPRINKEL. Yes, sir.

Chairman PROXMIRE. And I think it is hard to make that case. The income policy at least in some of these countries seems to have worked well. The European economies have done marvelously well. Sure they have had some inflation but they have also been able to progress greatly and real income has risen in these countries, and Professor Hansen, of Harvard, as Mr. Goldfinger indicated, yesterday made a very strong case for this, and also there is the basic justice here. If you are going to get an increase for labor, truly reflecting their productivity increase, you have to allow not only for the productivity increase but for the cost of living, and it is so transparent this year where you have a rise in the cost of living of 3.3 percent, and a rise in productivity of 3.2, sticking to the 3.2 guideline you have a real cut, a reduction in real labor income, which obviously is unjust.

Mr. SPRINKEL. That is correct.

Chairman PROXMIRE. They are producing more.

Mr. SPRINKEL. The basis for my statement that it was a failure was again equating the results with what I consider to be the objectives; namely, to be a major force preventing inflation. Yet all of the European countries that have tried the incomes policy have had much more inflation than we.

Let me talk just a moment about our own situation. I think we are going to have much more than 3.2 percent increase in wage rates this year as a result of the private bargaining which, of course, is really reflecting the excess demand that developed a year or so back.

Now the real question, the argument as I understand it that you have made previously, Senator Proxmire, is that the reason we have to have the wage-price guidelines is primarily that many businesses have a great deal of control over what price they charge, there is a lot of monopoly in the economy, and it's really unjust to permit them to set their prices as they may want, and therefore, we should apply the guidelines.

The first response to this particular argument is that I am not at all sure that the degree of monopoly is as great as generally attributed even in the highly oligopolistic industries. There are close substitutes both in terms of imports and also substitutes internally.

But over and above that and even admitting in some cases it may be true, this in my opinion cannot cause inflation. Very simply, let us suppose that a company raises its prices, because it has the power to do so. The general feeling is well, this adds to inflation.

But if it raises the prices, and more money is spent on those particular goods, which may be inequitable from some point of view, nonetheless there will be less money to spend elsewhere, so the demand elsewhere will not be as great. Consequently, the prices will not rise

elsewhere as much, and we could not argue then that this particular process causes overall inflation.

We might argue that it is inequitable, but then if it is really true, a great deal of monopoly power exists—let's use the antitrust laws to correct that situation.

Chairman PROXMIRE. The antitrust laws—this is going to take a long, long time. Of course, we are for enforcing the antitrust laws, and, of course, we are against administered pricing, price leadership, and so forth, but it is a fact of life. You and I may disagree on the amount of it, but there is a great deal of it in manufacturing. There just isn't any question about it.

If you use this "meat ax" fiscal monetary approach which I take it under these circumstances you wouldn't use either, but if you do use that to keep prices down, the only way you can stabilize the economy is at the price of a recession.

Mr. SPRINKEL. I don't think we can prevent inflation this year. The mistake was made last year and part of the year before.

Chairman PROXMIRE. It is going to be made again, however, if you have wage-price settlements that are, say, in the 6-, 7-, or 8-percent range and there is no guideline figure at all.

The Council of Economic Advisers says that 6 percent is better than 8 percent; 8 percent is better than 10 percent; 10 percent is better than 12 percent. You know, this means cost-push inflation.

Under these circumstances labor views their position as one of catch up, and there are some very strong unions that are going to be negotiating this time. Management feels after all if this is going to happen, wage-price guidelines are gone. They have some catching up to do, in their view, although I think the case is pretty weak for that, but they may take that view and I just hate to see us accept inflation in a narrowing economy.

Mr. SPRINKEL. I agree we are going to suffer inflation this year whether we have the wage-price guidelines or don't and I am personally very pleased that we do not have a number.

Chairman PROXMIRE. Let me see if we can get one other agreement from you three men. The only man who has mentioned this in detail as I recall in his statement—that is the the growth of the economy—was Mr. Goldfinger, who said he was disappointed at the 4-percent target and said it was inadequate.

I wondered if you, Mr. Sprinkel and Mr. Madden, would agree with that.

I call your attention to the "Projections 1970" of the Labor Department, which indicated that a 4.3-percent growth is necessary even to have the 4-percent level of unemployment.

Mr. SPRINKEL. I think it's entirely possible that we can beat 4 percent but its going to depend to a considerable extent on the legislative attitude toward investment expenditures.

Chairman PROXMIRE. Is 4 percent enough, is my question?

Mr. SPRINKEL. Well, it is enough if—do you mean enough to keep full employment? Surely it is enough, provided we do not set such high minimum wages that many of the people do not get hired, but this doesn't mean we can't do better if we have the type of economic policies which encourage investment not only in physical capacity but

in human beings, then this would tend to raise productivity and I would expect we could grow faster.

Chairman PROXMIRE. You have a big assumption in there. You said for full employment. You are not assuming I take it or are you assuming that 4 percent is full employment? Don't you feel we can get down to $3\frac{1}{2}$ or 3 percent without inflation?

Mr. SPRINKEL. I wish we could get down to zero.

Chairman PROXMIRE. Of course you do. That isn't my question. Do you think we can get down to it?

Mr. SPRINKEL. No, I don't.

Chairman PROXMIRE. Do you think we can get down to 3 or $3\frac{1}{2}$ percent?

Mr. SPRINKEL. Not without sizable inflation in the present situation. I think there are several things we can do both legislatively and otherwise to make it possible to ultimately get down there but you are asking as of the moment do I think we can get there. No, I do not.

We can create an incentive system rather than a disincentive system to hire some of these people that can't find work. If we look at who is unemployed, it is not just a cross section of the American citizens who are unemployed. It is highly localized in particular groups. It tends to be in the minority races that are poorly trained. It tends to be in some of the white that have dropped out of high school. It tends to be in some of the older people. Now, why do we find they can't find jobs?

I realize it is politically unacceptable to even think about dropping the minimum wage law, and I wouldn't even suggest it. I think Congress could give some thought to creating loopholes in those areas where unemployment exists. High minimum wages create a disincentive for business to hire them, and if we instead of doing that would create a tax incentive for them to hire them, plus making it beneficial for them to train them, then I think ultimately we can get down to 3 or $3\frac{1}{2}$ percent.

Chairman PROXMIRE. Yes, but my point is that your whole testimony this morning and that, I think, of all three of you gentlemen has been that the economy is in trouble in many respects.

Mr. SPRINKEL. Yes, sir.

Chairman PROXMIRE. I call your attention to the Federal Reserve index of industrial production, probably the best single indicator we have.

Mr. SPRINKEL. Right.

Chairman PROXMIRE. Quoting from the lead item in the Wall Street Journal this morning, "fell to a seasonally adjusted 157.9 percent of the 1957-59 average. This was the greatest decline since the 2.1 decrease in October 1964 when there were strikes" which accounted for it.

Mr. SPRINKEL. Yes, sir.

Chairman PROXMIRE. There, of course, is some weather involved but very little really.

Mr. SPRINKEL. That is not the end. That is the beginning.

Chairman PROXMIRE. And under these circumstances, I am somewhat surprised that you wouldn't feel that we need greater demand, or are you saying that what you are concerned about is you won't get the

4 percent growth? If you got that, that would be all right, but we are not going to get it?

Mr. SPRINKEL. No, sir. I think we should have greater demand, but I am saying that to drive us down to 3 percent unemployment would take a lot greater demand, such as we had for awhile in early 1966 and late 1965, and that this would be bought only at the expense of very sizable inflation, given the current flexibilities in the labor market.

I certainly think we need more demand at the moment. The economy is weak.

Chairman PROXMIRE. You say this would be bought with considerable inflation in view of the labor market. Why do you say that? What in the labor market particularly, if you have 3 percent unemployment, leads you right now to think you are going to have inflation? You didn't have it in 1953 when it was 2.9 percent. What is it in the labor market now that would suggest to you that with that we are going to necessarily get inflation?

Mr. SPRINKEL. The last two chances we have had to test this idea; namely, 1957 and again late 1965—early 1966—

Chairman PROXMIRE. That was a food inflation very largely, and also an inflation because of the rise in mortgage interest rates which accounted for a third in the whole rise in services.

Mr. SPRINKEL. The first index that went up was food. That doesn't mean food caused it. Most price indexes went up substantially. I have nothing against getting down to 3 percent unemployment. I wish we could, but the last two times we tried it we have incited serious inflationary pressures, which suggests to me that the structural unemployment in this economy is such, even though we are working on it, that we can't substantially reduce unemployment below 4 percent without serious inflation, and that doesn't mean we shouldn't have more demand today. We are going to have not 4 percent unemployment; we are going to have considerably more than 4 percent unemployment if demand continues to weaken.

The 1 point drop in the Federal Reserve index in my opinion was only the first, not the last drop.

Chairman PROXMIRE. Dr. Madden?

Mr. MADDEN. I would like to concur with Dr. Sprinkel's views here, including the desire and hope to get unemployment below 4 percent, possibly below 3 percent, but we have very severe institutional restrictions which prevent this from happening, as Mr. Goldwater testified in answer to some questions about incentives to business for training.

Chairman PROXMIRE. Goldwater or Goldfinger?

Mr. MADDEN. Goldfinger, pardon me—not far from the mark.

[Laughter.]

Chairman PROXMIRE. That would be quite a broad consensus.

Mr. GOLDFINGER. That sure would be.

Mr. MADDEN. Excuse me, Mr. Goldfinger.

The second point I would like to make here is to refer, Senator Proxmire, to this report of the Task Force on Economic Growth and Opportunity on the Disadvantaged Poor, Education, and Employment. There we do propose incentives to business for training workers. We propose contracting out. We propose another look at vocational education. I don't know whether the Joint Economic Com-

mittee has had the opportunity to turn to examine the proprietary vocational schools in the United States, the second-story schools on Main Street, operated for a profit, which include placement of their trainees as well as training as a part of the contract in many cases.

There is little incentive for vocational educators to place the students that they train. Capital investment in vocational and technical education in the public schools is very high. This could be reduced by having training contracted out to business firms which have to purchase the capital equipment in the ordinary course of their business.

There are opportunities for broadening the concept of distributive education, work study programs for young people, which would allow them to train and work part time at the same time, but there are restrictions, institutional restrictions.

If you will read Paul Samuelson's economic textbooks, he points out that one of the functions of the labor union is to restrict the supply of labor, and that is perfectly understandable. But it has unfortunate institutional consequences on the structural unemployment which Dr. Sprinkel spoke about.

I think sooner or later we in the Nation are going to have to face the fact that when unemployment is at 4 percent, as it has been in recent months or less, and if one does examine the composition of this unemployment, he finds a great deal of it in the area of those not yet entered or just entering the labor force, among minority groups, and at the same time that the unemployment of married men, of mature workers, is extremely low.

It is regrettable to me personally, and I think to the authors of our task force reports, that we have been so lax in attacking the problem of the young employed, by virtue of the fact that we have set minimum wages at such a rate that they cannot be employed in the kind of jobs which a generation ago they filled, and not permanently but temporarily while they learned the disciplines of work and the habits that allow them to move on to other jobs.

It is regrettable, I think, that the labor union movement has taken the position not merely of opposing further training on the part of industry, but not indeed financing much training itself of workers and also of restricting apprenticeship programs so that one must often be a family relative of a union member in order to qualify for union apprenticeship arrangements.

Chairman PROXMIRE. Congressman Reuss?

Mr. GOLDFINGER. I would like to comment on that.

Representative REUSS. Mr. Goldfinger wanted to make a brief comment.

Chairman PROXMIRE. Yes, indeed. I am sure you would.

Mr. GOLDFINGER. I want to say that I believe that much of Dr. Maden's comments in response to this question are hokum and simply hokum. The attack on the minimum wage is an attack on low-wage workers. The improvement in the minimum wage law that became effective on February 1, with the extension of coverage and the increase in the minimum, is the most meaningful step in the war on poverty. Furthermore, the fact that workers in hotels, restaurants, motels, hospitals, and so on, have been lagging so far behind the rest of the work force is a drag on consumer buying power. It is a drag on the economy.

In terms of the employment impact, up to February 1 most retail workers were not protected by the minimum wage—by the Federal minimum wage law. The same is true of hotels, restaurants, motels, and so forth. The services were excluded from coverage until February 1, overwhelmingly so.

These are the areas traditionally in which the first job opportunities of youngsters and unskilled workers occur, and yet during this period when the Fair Labor Standards Act excluded all of these areas from the coverage of the Fair Labor Standards Act, we had high and rising levels of teenage unemployment, high and rising levels of Negro unemployment, high and rising levels of unemployment among the unskilled and low educated people.

I do not believe, and I deny that there is any evidence whatsoever that Dr. Madden or anybody else can provide to show that the minimum wage has been a factor here. Moreover, the Labor Department studies of the effect of previous increases in the minimum wage law do not indicate any substantial or even significant disemployment impact except in a few scattered spots; they indicate instead, that the overall impact has been beneficial.

Furthermore, the investment in human resources in the form of education and training should go on and should be expanded. But this means increased Government outlays, which we support and the business community opposes.

Also, I was "fascinated" by the proposal for subsidizing private vocational schools when the basic problem is modernizing and expanding existing public vocational education, which is a key part of our entire educational system.

Chairman PROXMIRE. Congressman Reuss?

Representative REUSS. I will be very brief, Mr. Chairman. I know the hour is late and our consensus seems to be falling apart. These questions will be addressed just to you, Dr. Madden.

First, on the subject that you were discussing with the chairman—vocational training—which we all agree is vitally important, I don't have any particular difficulties and the problem that under appropriate circumstances it may be all right for the Government to subsidize private industry and proprietary vocational schools, if they can do the best job for a dollar in a particular case in vocational training.

However, I would be quite clear that the way to do this, if it is deemed wise to do it, is by an open subsidy payment, not by riddling the income tax system with further exemptions, deductions, and other holes. You would agree with that, wouldn't you?

Mr. MADDEN. The Chamber of Commerce agrees with that, not only with respect to these credits but indeed also with respect to its opposition originally to the investment tax credit.

Representative REUSS. Let me pass on to the last subject I have and that is to invite your comment on the suggestion that has been made here that there are disequilibria in the income structure of the country, which may now be producing oversaving in the sense that either the savings go into plant and equipment over and beyond any conceivable needs of the economy, a horn of the proposition that I don't particularly agree with, or more importantly, that it goes into bank accounts and other investment overseas which could produce a falling off in demand with harmful consequences to the economy. I

think that is a fair recapitulation. Anyway, you have listened to it before.

Mr. MADDEN. First, I would personally, and I think the Chamber of Commerce for whom I speak, would institutionally welcome studies by the Joint Economic Committee of income distribution in the United States. I would refer you to a textbook written by the economic historian Douglass C. North. The title is "Growth and Welfare in the American Past."

Page 3, footnote 1, of this textbook points out that the economic growth effects throughout our history have dwarfed all of the income redistribution effects of all welfare programs in the history of the United States. From 1840 to 1940, the growth of real per capita income in the United States averaged 1.6 percent per year, which is a doubling rate of 43 years, and I would also refer you to "Modern Capitalism," by Andrew Schonfield, which analyzes the structure of capitalist countries here and abroad in the postwar period, and which points out that generally growth rates have been higher in these countries since World War II than before.

So I would welcome a study of income distribution, but I would urge you to consider this question in relationship to the power of growth to increased incomes broadly throughout the country, and I would urge you not to underestimate the power of economic growth to achieve the results which income distribution is normally thought of as attempting to achieve. Since income redistribution only involves dividing up the existing economic pie, and does not necessarily involve increasing the size of that pie, there is a real question, which more and more scholars are raising, whether economic growth is not a more intelligent way to go about achieving the distributional effects which the old socialist income redistribution idea of the 19th century concerned itself with.

Representative REUSS. May I comment at that point that I think everyone here at this table and at your table heartily agrees that dividing up a small piece of pie doesn't help anybody very much. That what you have got to get is a pie that grows.

Mr. MADDEN. Right.

Representative REUSS. Which we have been doing rather well.

Mr. MADDEN. Right.

Representative REUSS. The point that is raised, and on which you say you welcome studies by this committee, and I think we should make them, the point that is raised is whether you can keep this pie growing properly without seeing to it that the purchasing power grows in the proper ratio.

Mr. MADDEN. Right; and I certainly am in favor of seeing to it that that purchasing power does grow in the proper ratio.

Now turning to the first part of your question about too much plant and equipment spending, I do not think that any business economist denies the proposition that the rate of investment spending in the last 2 years was ultimately unsustainable, but if one looks at the postwar history of the United States again, as compared with the postwar history of the European countries, he finds that one of the reasons for our lagging growth in the 1950's was the very fact that we did not have sufficient plant and equipment spending, and this indeed was one of the bases for the tax cut of 1964 and for the investment tax credit of 1962.

The Chamber of Commerce took the position at that time of opposition to the tax credit, for the reason you mentioned earlier, about the tax credit for education, and proposed instead a permanent change of the structure of the tax system to favor investment.

Now I think one has to face the fact with respect to the growing automation of industry, that it may well be that in considering redistribution for the next 20- to 25-year period, there needs to be an increase in the share of income that goes to profits for these reasons.

First of all, the competition that has developed among the capitalist countries in capital export and import has speeded up the rate of obsolescence of capital equipment. This means that the turnover of capital equipment in industries which are growing extremely rapidly, such as the computer industry, is very high, and this in turn requires more financing in order to keep pace with one's competitors abroad and at home.

A second reason I think for a need to consider profits is that these more complicated, more mechanized machines, leaving aside the question of competition, simply cost more real resources per job than they did 20 years ago. The average investment per job in the most technological industries, like the oil industry, is now around \$100,000 per job, and the average for industry generally—I have to rely on my memory here, so I caution you that these may not be quite accurate—something like \$20,000 to \$25,000 per job.

So it is, it seems to me, reasonable that if one wishes to increase the rate of growth in the economy—which we do wish to do, and I think there is a consensus among us here on that point—and if we do wish to increase the rate of productivity—which is after all the essential basic precondition to rising per capita incomes that benefit not only the 18 million union workers in the country but all the rest of the 56 million nonunion workers in the country—that we will have to consider whether it isn't appropriate in studying the income redistribution for a technological age that an increase in the share of income that goes to profits may be necessary to achieve these desirable goals which we all agree upon, and that this can happen without in any sense a decline in the rate of increase of real wages for workers.

Representative REUSS. Thank you very much.

Chairman PROXMIRE. Thank you, gentlemen, very, very much. This has been a most enlightening and interesting panel and we very much appreciate your testimony.

On Monday, in room 1202, New Senate Office Building, we are going to have Walter Reuther, president of the United Automobile Workers, and George Hagedorn, director of research, National Association of Manufacturers at 10 a.m.

The committee will stand in adjournment until then.

(Whereupon, the committee adjourned until Monday, February 20, 1967, at 10:00 a.m.)