



CONGRESSMAN'S REPORT

MORRIS K. UDALL • 2d District of Arizona
House Office Building, Washington, D.C. 20515

Volume XII, No. 6
November 14, 1973

"Those were the days, my friend. We thought they'd never end."

Our Ailing Economy -- Getting Back to the Basics

All things end sooner or later. Take the unstoppable U.S. economic growth rate, for example. From 1940 to 1970, it was one of the wonders of the world. But unless I'm badly mistaken, history will remember the past few years as the end of that golden age.

It was fabulous while it lasted. We had survived a shattering depression and World War that had laid waste to much of Europe and Asia with our precious assets intact. We were blessed with two great oceans, abundant land, coal, timber and other natural resources; a people with a passion for education and hard work and a knack for change and innovation. Through those thirty years, the American economy was the golden-egg-laying goose. The rich got richer and the poor, though far from blessed, were beginning on the long road to economic security. At our height:

- * We fed and armed the free world through history's biggest war.
- * America became the world's banker. The mighty dollar, the measuring stick for all other currencies, was truly good as gold.
- * Our automobiles and electronics were in demand all over the world. We pioneered the space, jet and computer ages.
- * Our vast production led to a strong balance of trade (at its peak, \$7.9 billion per year) which enabled us to support foreign aid programs and military establishments all over the world.
- * Labor could demand and get more pay, shorter hours, better fringes. Management's profits and dividends were nearly always up and rarely down.
- * Everything doubled and redoubled, including our standard of living. The lower middle income family which might have had one auto when the era began could boast of two or three cars, maybe a second home, a snowmobile, a camper and more labor-saving devices than they might have dreamed of a generation earlier.
- * We had resources coming out of our ears. Someday, our grandchildren may laugh with disbelief when we tell them about filling stations giving away dishes, silverware and trading stamps and actually competing with each other to sell gasoline to more people for less.

It was a time of great expectations and most of them were fulfilled. The magic word was "growth" and the slogan was "more!" And why not? Instead of everyone fighting for shares of an unchanging pie, growth meant an even bigger pie with larger shares for everyone. Yes, growth meant progress, bigger was definitely better.

It was great, but in my judgment, some basic forces are in motion and they've just about ended it. That doesn't mean an end to better lives and "progress," but progress may have to be redefined and take on different forms. It's going to mean some fundamental changes in attitudes and your national leaders do you a disservice unless they level with you on the seriousness of the situation.

The changes ahead will center around three basic, related things which I call the three E's: Energy, Environment and Economics. I have written previously about the first two and while all three are deeply related, in this report I would like to focus on new economic directions and trends and suggest some new national attitudes and policies to go with them.

WHAT HAPPENED?

First, let's take a look at what went wrong. Not all of the trouble stems from American mistakes. By the late 1950's, Germans and Japanese with our help had rebounded from World War II and their phenomenal economic and technological growth was challenging America's formerly unquestioned superiority. But some of the bad news is based on our own bad policies:

- * Somehow, in this period, we assumed the destiny to police most of the world. American troops and bases were established in over 100 countries at a heavy and continuing expense to the American taxpayer. Our fear of the Soviet Union led to the construction of a huge, outsized military establishment, and we got ourselves involved in an endless and costly war in Vietnam.
- * Intoxicated with success, seemingly unlimited profits and higher wages, American labor became less productive than their counterparts in other nations. Innovation, the backbone of the famed "American Ingenuity," began to lag.
- * We became careless with our environment, dumped our industrial wastes into the air and put off paying the cost. Waste and pollution were the expedient, profitable things to do; they merely postponed environmental costs. But in the long run, we were committing economic suicide.
- * As big business grew even bigger, we slipped into many major economic arrangements which prevented competition in big industries. In the steel and auto industries, for example, prices are largely "administered" with little real competition. They always go up and never come down regardless of competitive considerations.
- * The conglomerate craze of the 1960's further eroded the competitive base of the country. No one really profited when International Telephone and Telegraph, a communications company, took over Avis Car Rental, Sheraton Hotels and Hartford Insurance Co., except perhaps for a few alleged geniuses who put this corporate monstrosity together. In fact, you pay for the merger in higher prices.

- * Conglomerates have added another burden to the American economy by magnifying and centralizing unemployment problems during slack times. The idea of a "trickle down" economy, where corporate good fortune eventually winds its way down to the laborers, may be workable during "boom" periods. But the worst side of this philosophy is brought out by mergers and conglomerates, when a huge manpower pool is dependent on the fortunes of a single company and the whims of an ever shrinking group of corporate decision makers.
- * Along the same lines, many of our cities, drugged by the growth weed, are putting all their economic eggs in the basket of one industry. Seattle, Washington, for example, gambled on the continued growth of aerospace industries to build their city's economy. It was a gamble they lost. When Boeing's long awaited SST was shot down by Congress, the industry suffered massive layoffs and Seattle was thrown into a virtual depression. It's not unlike the days when the success or failure of the American South's economy depended on King Cotton.
- * The oil industry, instead of becoming more competitive as we moved into an energy crisis, became huge conglomerates from the oil field to the gas pump; preaching competition and practicing substantial monopoly. The oil companies now own 25% of all coal reserves, they own 50% of the nuclear energy capacity and reserves, the top twenty oil companies own 85% of the refineries and control the imports of oil.

And so in the early 1970's it all came together and now there's bad news on the scoreboard. Two devaluations of the dollar have cut its international value by 30%. Republican politicians used to joke about the shrunken "LBJ Dollar," but now the jokes have turned around. The most severe, inexcusable, wild rate of inflation in our peacetime history has reduced the domestic value of the 1968 dollar by about 20%. The Japanese yen and the German mark are now preferred currencies. If you travel abroad you'll be shocked to find that the great old dollar isn't all that desirable anymore.

BACK TO THE BASICS

It would be easy to argue that our free enterprise economic system has failed. I would take a contrary view. The basic underlying principles of the American economic system are sound.

They work when they are permitted to and in the periods of our history when they have been allowed to function they have given ordinary citizens standards of living of a kind that kings would have envied just a few hundred years ago. And they have given us the economic strength to try to do something about the problems of the less fortunate, to start cleaning up the environment, and to be a force for freedom in the world. Our problem is that we have not let the free enterprise system work. And my suggestion for all these troubles is to go to the fundamentals and bring them back. Not just free enterprise for the gas station owner and monopoly for the oil company, but free enterprise in its true and original meaning.

Let's take a look at the basic principles and ask what makes the system work?

- * One of them is the law of supply and demand. If beef and shoes are short in supply, the price goes up and that's temporarily bad; but a couple of things then happen. Some people will stop buying this commodity or buy substitutes, but the producers of meat and shoes will increase their efforts and produce more which helps to drive the prices back down.
- * A second fundamental is the system of incentives. The man who works harder or builds a better mousetrap to serve a consumer need gets more material rewards than his less productive friends.
- * The third basic principle is that competition is essential, and must be encouraged, fostered, preserved. And the other side of the coin is that monopoly produces higher prices and less productivity. It must be halted and prevented.

I believe the time has come for us to stop just preaching these basic economic principles and start practicing them again. Our economic system has been in trouble before and we diagnosed it, revitalized it and brought it back better than ever. For example:

- * At the turn of the century, our economic system was in the hands of the monopoly barons who drove out competition and then set high prices. President Theodore Roosevelt broke up the monopolies, stopped the mergers, saved and revitalized the economy. We put the Sherman and Clayton anti-trust acts on the books to prevent future attempts to strangle the open market place. But somehow we forget why they were there, because by the 1960's the big conglomerate empires were back and the vital element of competition was fading fast.
- * When the shattering depression of 1929 hit our economy, we were in another kind of trouble. Wild speculation, greed and reckless practices on the stock market had distorted our basic economic principles and, after the smoke had cleared, our economy had collapsed and 33% of our work force was unemployed. People became disillusioned with capitalism and free enterprise. How, it was asked, could a country with such abundant re

sources have crops rotting in the fields, half the factory capacity idle and a third of the whole working population out of work? Against strong opposition and charges of socialism, Franklin Roosevelt reinvigorated and revived the system. His reforms included regulation of the stock market, bank deposit insurance, a social security system that put a floor under the incomes of older people, collective bargaining to bring strong labor unions, unemployment compensation -- all of them rebuilding on our basic social and economic principles, and by the 1940's our economy had started to take off. Until that time, our country had been racked with periodic recessions, but we haven't had a depression since.

If we are going to have the same kind of revival in our economy, we've got to look to the basics, for there is no "quick fix."

PRESCRIPTION FOR ECONOMIC REVIVAL

One of the first fundamentals we must restore is the principle of competition. If we believe in competition, let's get it for everyone. We ought to break up the conglomerates and monopolies of all kind and fight as hard as we can against the creation of anymore. This country's economy is filled with monopolies and semi-monopolies and we have new mergers reported almost daily. They add nothing to the economy. So, many industries just add any increase they want in profit margins to your cost and then charge that amount without fear of being undersold by any competition. This is where much of the real inflation is coming from. Congress and the administration, rather than looking out for ways to protect companies like ITT, ought to be taking a hard look at the mergers and anti-competitive practices across the board.

We need to encourage a return to and renewed pride in the journeyman fields. Part of our American dream has been a better life for our children and since the 1950's, our symbol has been a college diploma. But part of that dream has been bad, and its effects have come home to roost. Too often it is believed that a young person enters a trade only because he or she is not college caliber. Trade education has become a symbol of failure, and resentment of that image has grown. The reduced proportion of youths entering the trades has meant a strain on economic services, less competition, higher costs and a decline in quality workmanship. In the meantime, the market for college graduates is glutted, portending an angry, disillusioned, over trained generation.

Our next act should be to turn American farmers loose. For three decades we've had farm surpluses and programs to depress farm production. And yet last year, farmers exported \$12 billion abroad and our balance-of-payments situation would have been even more disastrous without their production. The time has come to set our farmers free and let them produce the wheat, beans, corn and feed grains the world needs. Agriculture was long the sick man of our economy, now it can be a key element in saving us.

Another vital step in our economic housecleaning is a reordering of our priorities. If we can't have all the space programs and all the military programs and still provide adequate education and health at home, we must decide which comes first. We have to stop the kind of mixed-up economic policies that have given us \$100 billion worth of federal deficits in four years, adding immeasurably to the pressures on the dollar.

As part of our updating of priorities, for example, we should note that dollar devaluations have actually increased our costs for keeping the same number of troops abroad by at least 20%. In Germany alone, we have 300,000 troops and almost 200,000 dependents. And tax dollars are spent each year on their schools, homes, medical care, moving costs, and similar items. It is truly ironic that the United States, with its ailing economy, is spending so much money on Germany, one of the strongest economic systems in the world.

In addition to these policy changes, we should give the federal government some new economic tools. We have learned to our sorrow that fine tuning the economy is a tricky business and some of the economic laws we accepted in the 1960's do not work the way they are supposed to. I'm not advocating permanent controls and price freezes. Temporary controls work fairly well in times of moderate prosperity and recession when there is little competition involved. But in times of boom, like we saw during the meat price freeze, they do not work well at all. There are limits to what they can do and in a complicated economic system like ours they are easy to evade.

But while the government cannot effectively control all wages and prices (and indeed, it shouldn't have to where true competition exists) we can zero in on the big industries and conglomerates where there is little competition and administered prices and where big wage settlements come out of your pocket.

In this kind of a situation, the government should establish a fair-minded, bipartisan incomes policy board. This board could review price increases and wage settlements, jawbone, point the finger and, if it is economically wise, delay implementation dates of price and wage hikes until the overall economy is ready for them.

Another possibility is flexible tax rates, a proposal I raised in [one of these newsletters](#) four years ago. Taxes have an obvious effect on our economy and the timing of their implementation can be crucial. Often, a small surtax, say 5%, put into use for as little as six months can act as a barrier against inflation and can prevent future major increases in income taxes. My proposal would work something like this:

Congress would pre-package to its specification and put on the shelf for the President's use as needed a series of prescriptions for economic overindulgence. One might be a 5% surtax expiring at the end of one year. Another might be a 10% surtax expiring after six months. With this standby authority the President would be given the power to deal promptly with the threat of inflation. Such a system would allow for immediate, temporary action to curb inflation before long, political delays raise the cost of bringing our economy back in line.

Finally, if we really believe in incentives as a cornerstone of the free economy, let's find ways to build pride and incentives into our economic system that accept human nature as it is. Let me note an example of the type of workable change we can have.

Japanese automobiles have taken a huge share of the American market. Their industry has made tremendous strides in electronics and manufacturing, and the once shaky Japanese yen is now one of the world's strongest currencies. We might do well to ask ourselves why. I think an examination of the incentive system in Japanese business can offer some answers.

If you are an assembly line worker in Japan, you are a member of the corporation "family." A large chunk of your annual income comes from your share of the company's profits at the end of the year. Whether you can afford a vacation for the family or the cost of a college education for your children may depend on the overall production of your factory. You're part of a team, so

you work harder, you make suggestions for efficiency. You're proud of your company because you've got something at stake.

Let me give you an example a bit closer to home. Twenty years ago, United Parcel Service began to compete with the United States Postal Service for the business of parcel shippers. It was going to be a tough task, to compete with Uncle Sam and come out on top. But long before taking on the U.S. Postal System, they had made a significant decision.

The decision enabled employees to become stockholders or owners of the company in a kind of new capitalism. Today, United Parcel handles more than 50% of the nation's parcel business. It is also interesting to note that the parcel damage rate for the United States Postal Service is almost 550% greater than the damage rate for United Parcel. When it's *your* company, you watch things like breakage. It's part of the same psychology that dictates that rental cars will have 60% more damage to fenders and bodies than privately owned cars in the same number of miles.

A few other American companies have pioneered this kind of profit sharing and worker ownership and it pays off. Although it may counter some of the traditional dogma, I think labor and management ought to take a hard look at opportunities to move in this direction.

We can't legislate changes in human nature, but we can institute incentive programs that recognize it and make it a positive force for production.

WHEN THE GOIN' GETS TOUGH. . .

I've tried to outline some positive changes we can make in our economic outlook, but it's going to take a lot more than just words and ideas to untangle our rat's nest of an economy.

We're going to have to admit that we are being outsold, outhustled and out produced, and we're going to have to get up and get going. A generation ago we forced Japanese manufacturers to put "Made in Japan" on their products to warn the buyers of shoddy merchandise. I wryly told some Japanese visitors recently that maybe we'll have to *prohibit* the "Made in Japan" label, for those words now mean quality at competitive prices for things like automobiles, cameras and electronics.

We've got to get tough and competitive and we've got to find ways to increase our foreign trade, not only with Russia and China but with all of the world. We've got to get management and labor on the same team, working together. We've got to try new approaches to revitalize our system and find ways to spark incentive and revive true competition. If we do it, we can get this inflation monster under control.

It's not an impossible task. In the early 1960's, we averaged a low 1.3% inflation rate each year. We can do it again if we will take the tough steps that are required.

America has always had to face new and sometimes terrifying problems. Our genius has been our ability to adapt and change and somehow it always worked out. And it will work again if we

start looking to the economic fundamentals that served as the foundation for the growth of this great land.

Mo Udall