



a report from

2nd congressional district of arizona

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Tough Times

These are tough times. Just a few weeks ago, Treasury Secretary Donald Regan said the economy would come "roaring back" this spring. It hasn't. We are still in a recession. No one expects economic recovery to begin much before August or September. Maybe not even then.

What is it all about? Why are more than 10 million Americans out of work? What's happened?

Economists tell us that the recession started last fall. The auto and construction industries were already hurting. High interest rates already had curbed the ability of young people to buy new homes. High interest rates and high prices had already dampened the appetite for new cars.

New homes went unpurchased. New cars began to pile up at the car dealer's lot. Construction firms decided to stop building new homes. The auto companies laid off even more workers.

It didn't stop there. When the construction industry stopped building new homes, they also cancelled their orders for lumber and cement. Auto companies cut back on orders for steel, copper, tires and auto parts.

Up to this point, the current recession didn't look much different than other recessions. All this had happened before. At some point, interest rates fall. People start buying homes again. They decide they need a new car. All the existing homes are bought. Auto inventories are depleted. New orders pick up. Unemployed auto and construction workers are rehired, and economic recovery begins.

It didn't happen that way this time. Interest rates didn't fall. People still haven't started to buy homes again. Car sales remain low. New orders aren't picking up. Workers are still being laid off.

The "ripple effect" of recession is now wider than in most recessions, and those ripples are now reaching Southern Arizona. For a long time, we could look at the problems of Detroit and Youngstown with the thought that their problems were not our problems. All that has changed.

Because Detroit has cut back, orders for Arizona copper have fallen. Copper inventories have been piling up. That's why several thousand copper workers remain out of work today.

But it isn't just the copper industry. New aircraft orders are down. The demand for new housing -- even in Arizona -- has slipped. Cotton prices are depressed. A lot of Arizona industries and businesses are hurting.

How bad is it? On a national basis, things do not look good. Housing starts in April fell 6 percent to a seasonally adjusted annual rate of 881,000 units -- far less than the two million-plus rate of a few years ago. Auto sales in April were at an annual rate of 7 million cars -- substantially lower than the 10 million-plus rate of a few years ago.

The unemployment rate for April was 9.4 percent -- the highest rate since the Great Depression. And many economists believe the unemployment rate will drift higher in the coming months, even if production picks up.

Other economic indicators tell a similar tale. Industrial output continues to drift downward. Personal incomes are not keeping up with inflation. Interest rates remain high. The financial markets remain nervous.

My mail reflects all of this bad news. Real estate people write in concerned about slumping home sales. Copper workers write in about their unemployment problems. Home builders worry about bankruptcy.

So how did we get in this mess? Where did we go wrong?

There were small budget deficits through the 1960s, but we still managed to keep inflation pretty much under control -- it ran about 1.5 percent a year through that decade. Consumers bought homes and cars and appliances. People were working.

Then came Vietnam. We decided we could fight a war overseas and a war on poverty at home, and do all of it without any increase in taxes.

Before the Vietnam war ended, we had spent \$150 billion on the conflict -- a lot of money. But it wasn't until the late 1960s that we decided to approve a temporary

surtax to help finance the war. It was a "guns and butter" policy -- trying to have it all, and ever since, we've had trouble getting our books in balance.

By the early 1970s, social spending rose sharply -- the bulk of the increase going to increased retirement, disability and medical payments under Social Security. And the federal government started assuming a greater share of the welfare bill, which eased financing for the states, but placed more of a strain on the federal government. (All in all, however, public assistance still only accounts for 7 percent of the federal budget.) The largest increases have come in defense, Social Security (including Medicare) and interest on the national debt.

I recently heard a radio editorial in Phoenix. The commentator supported the President's economic program because, he said, no government, family or business can spend more than it collects.

I agree. But neither can any family, business or government **reduce** revenue, **increase** spending, and still balance the books. And that's what the President and Congress have tried to do.

When President Reagan took office, the country was beginning to emerge from a mild recession. The budget deficit was estimated at \$55 billion, and the President said he would stimulate economic growth through a big tax cut.

The tax cut was tied to sharply-reduced tax burdens for business, through rapid depreciation. All in all, the revenue loss was expected to come to \$750 billion in five years.

To offset some of that, the President proposed \$40 billion in cuts in non-defense spending for 1982. But he also asked for large increases in the defense budget. All this was supposed to lead to immediate and vigorous economic growth. Unemployment would drop to 7 percent or less, interest rates would drop sharply and the economy would bounce back, robust and healthy, producing a balanced federal budget for 1984.

Interest Rates: Stuck On High

What happened?

Folks who run the nation's financial markets took a look at the Reagan package and saw growing deficits with no balanced budget in sight. That dampened their enthusiasm. At the same time, economists and business people looked at projected deficits and saw higher interest rates and higher inflation down the road.

So interest rates have remained high. In most recessions, interest rates drop sharply. Not this time. Interest rates have continued to hover at near record levels. So high, in fact, that people still are not buying new homes or cars and the economy continues to falter.

So where are we headed?

When the Federal government runs up a deficit, it must do what anyone else would do: borrow money. It competes against private borrowers -- you and me -- in the financial markets. If the government borrows only a little, there is plenty of money left over for others. But when the government borrows large amounts, not much is left over for others.

This year, Americans will borrow an estimated \$470 billion. Of that total, the federal government is expected to borrow well over \$100 billion. Next comes the borrowing of state and local governments. After them, a lot of businesses will be borrowing to pay for their inventories and keep operating. A lot of consumers will be borrowing just to pay their bills. That doesn't leave much to finance new housing, car purchases or corporate expansion.

That's why government borrowing, particularly at today's rates, only aggravates an already serious condition. And when the government's borrowing pushes up interest rates, it also pushes up the amount of interest that must be paid on the national debt -- which in turns increases the deficit. The ripple effect is staggering.

What Can Be Done?

We're facing a \$180 billion deficit and economists tell us that it must be cut by \$80 billion. We can shave \$10 or \$15 billion from the defense budget. We can close some tax loopholes. We can repeal or defer the 1983 tax cut. We can make some adjustments in some of the "entitlement" programs, where increases are tied automatically to a cost-of-living index. We can continue to trim the federal payroll. We can hold the line on a lot of other programs. But no single cut or tax increase will do the job. We are going to have to do a lot of unpopular things, and we all must expect some sacrifices.

I believe that the President will have to offer some concessions on his tax cut program. Last year, when the White House sent a budget to the House of Representatives, I offered an alternative economic program. It was workable. It did not offer a three-year tax cut, **but it did spell the way to a balanced budget this year.**

When the President proposed his tax cut plan, I saw it as something a bit like a family budget problem. Imagine a family having financial trouble. Like many Americans, they have difficulty paying the bills; the mortgage is overdue, the car loan is late, there are unexpected medical expenses. Then one day, the family's principal wage earner comes home and say, "We've all been working pretty hard and times have not been easy. We deserve better, so I went to the bank today and took out a \$2,000 loan. I figure with this money we can go out to dinner, take in some movies, raise the kids' allowances, buy a new color TV and take a vacation."

Sounds great! But you know it can't last. Such a plan would only get the family deeper into money trouble.

The same applies to Reaganomics. We've all been working hard and we've all had trouble making ends meet. So we gave ourselves a tax break. But in the end, will we find ourselves better off? I think not.

That's why we need to take another look at last year's tax bill. I don't think we can afford to cut our taxes by 20 percent over the next 14 months. Some changes will have to be made. Some of that tax relief will have to be postponed, especially the cut scheduled for 1983. We can't borrow \$120 billion to pay for tax cuts next year, and \$200 billion a year thereafter.

And we have to cut federal spending. We have no choice. We've already made some cuts in non-defense spending, more than \$30 billion last year. We'll have to cut more this year.

The defense budget will not be untouchable.

Sen. Barry Goldwater was interviewed on the CBS program, "60 Minutes," not long ago. He said he couldn't help but believe there were "shennanigans" going on, when the United States paid \$36,000 for its best fighter plane during World War II, and now must pay millions of dollars for a single fighter aircraft today. I'm not sure I would word it that strongly, but clearly, something does seem out of whack. If a mechanic promised to fix my car for \$100 and then charged me \$500, he wouldn't be in business for long. But somewhere, someone has decided that the government will just accept outrageous cost overruns. That isn't fair or efficient.

At the same time, efficiency in any large institution, public or private, can be elusive. Any time large numbers of people are placed in charge of spending large sums of money, there will be some waste, some abuse, and some things that don't work as they should.

But that isn't to say we have to accept it. I'd like to see the government go after inefficiency and waste, across the board -- we can't automatically assume that the government is

inefficient in the Department of Health and Human Services (formerly, Health, Education and Welfare) but efficient in the Department of Defense.

Who's Getting Hurt?

Some still believe that the only people getting hurt by all our economic ills are "welfare cheats" -- somebody who is drawing welfare and driving a Cadillac to pick up food stamps. I've never met anyone like that and I've certainly never met anyone who enjoyed being on public assistance.

Many of the people I have met during my frequent visits back home have been copper miners who are out of work, elderly people who were told they could no longer work, young people who just wanted to **borrow** enough money to get through college.

One unemployed copper worker recently wrote me, saying "We are in a life and death situation. . . I myself am 56 years old, not much of a chance for me to go out and get another job someplace else."

My heart went out to that man. His was a situation fast approaching desperate. And I was at a loss to know what to say. A lot of Americans, hard believers in the work ethic, are waking up these days to find that there just is no work. For many, it is the first time in their life they have faced such a situation. For an older man or woman, it can be a humiliating ordeal.

We have to begin to help these people by working to bring interest rates down. And the best way to bring the interest rates down is to bring the deficit down. In doing that, we have to be careful not to make things worse for those already suffering great hardship. We can't balance the budget on the backs of those least able to withstand it. The budget cuts must be fair, and the sacrifices must be shared.

In my lifetime, I have lived through a Depression, seen four wars and served in one of them, watched as our country was ripped to pieces by riots and witnessed the murders of national leaders.

We persevered. The nation survived.

I'm still optimistic about our future. The situation is serious, but it is not hopeless. I'm confident that with your help, your hope and your advice, the answers will be there.

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