STATEMENT BY GEORGE MEANY, PRESIDENT OF THE AFL-CIO, BEFORE THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS, SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS, ON ECONOMIC STABILIZATION

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The AFL-CIO supports the general aims of S. 1201 -- to extend the legislation, adopted in 1969 and 1970, that provides the President and the Federal Reserve Board with authority to stabilize the national economy.

This is not a new position for the AFL-CIO. We endorsed the purposes of the original legislation, when it was pending before the Congress. We support its extension. We believe that the economy urgently needs government action to achieve full employment and a reasonably stable price level.

Economic distress is continuing to spread. Millions of workers are adversely affected by unemployment and by production cutbacks, which reduce working hours and weekly pay checks. All Americans are suffering from the rapid rise of living costs, which continue to wash out much of the buying power of their incomes.

The time is long overdue for the Administration to stop playing with misguided "game plans" and take the necessary actions to restore the economy to health. It is time for the Administration to cease its double-standard -- one for workers and another for the banks and big business -- and pursue even-handed, equitable policies.

The government's reports of the past few weeks reveal that stagnation persists in most parts of the national economy, following the general economic decline of 1969-1970. Let me call to your attention these few benchmarks of economic stagnation:

* There were 5 million unemployed in March, after accounting for seasonal changes -- up 1.4 million from a year ago and 2.3 million from January 1969, when the Administration took office.

* Substantial unemployment has spread to 50 major industrial areas in March -- from six in January 1969 -- and to 662 smaller areas.

* The cost-of-living in January and February was 5% above a year ago and 11.6% more than in the same months of 1969.

* The buying power of the weekly after-tax earnings of the average nonsupervisory worker, in January and February, was hardly any greater than a year ago, less than in the early months of 1969 and even below 1965.

* Although the Administration attempted to blame the high unemployment of the October-December quarter on the effects of the auto strike, the rebound of auto production in the January-March quarter brought no improvement in the unemployment situation. Approximately 5 million people were unemployed in both quarters and the number of jobless, 15 weeks and more, has risen to 1.1 million. Moreover, the Labor Department report for March states that "full-time employment was down by 190,000 from the last quarter of 1970, mostly among adult men."

Yet the Administration persists in its optimistic rhetoric. Instead of positive actions to turn the economy around from stagnation to sustained and rapid expansion, the Administration has given the American people a diet of rosy predictions that have not been achieved. Instead of directing its attention and policies to real problems in the economy, the Administration has tried to make workers in general -- and construction workers, in particular -- the scapegoat.

Chairman Arthur Burns of the Federal Reserve and much of the Administration's leadership have been engaged in the shocking and blatant use of a double standard. To cover their record of failure in economic policy, with its tragic consequences for millions of American families, they try to pin the blame on workers, while providing subsidies and aid for the banks and big business.

Let me cite a few examples of these double standards:

* Since the cash-flow to corporations moved down after mid-1969, as a result of the Administration's engineered recession -- following a 91% rise from 1960 -- the Administration has proposed a step-up depreciation, which would cut corporate taxes by $3 billion to over $4 billion a year in the next few years. But workers' wage increases to offset the accelerated rise of living costs and to gain some improvement in buying power are denounced as inflationary.

* When exports lag, while imports continue to rise, the Administration proposes, as it did last year, to provide business with a mechanism to defer taxes on profits from exports, at a cost to the Treasury of hundreds of millions of dollars. But when organized labor seeks economic justice for workers, it is attacked as exercising "excessive market power."

In recent months, billions of American dollars from wealthy people and corporations have been transferred to other countries for personal gain. The only Treasury response (announced on April 1) of trying to bring some of that money home is to reward these people. Treasury will sell $1.5 billion of 3-month government notes to foreign branches of American banks at an interest rate of 5 3/8% -- about 1.5 percentage points more than for similar borrowings in the U. S. But workers are told they should be restrained in seeking wage increases, which are singled out as the primary inflationary factor.

* When bank profits shoot up -- like 21.9% for J. P. Morgan and Co. and 16.1% for Chase-Manhattan in 1970 -- there is not even a hint of government guidelines for the banks. And the New York Times reports that "the heads of the nation's largest banks -- which enjoyed sharp increases in profits during the recession year of 1970 -- generally were rewarded with higher salaries last year." No Administration spokesmen admonished the bankers but workers are told that their wage increases are supposed to be held down.

* Soaring land costs and financing charges have resulted in sharply rising housing costs (see Appendix). The cost of financing on FHA homes has risen 356% in the past 20 years and land costs have gone up 296%, while structure costs (which include on-site labor) has risen 65%. However, the Administration tries to pin the blame solely on construction wages and attempts to institute specific and immediate wage restraints. It offers only a vague promise of some future restraints on construction prices and profits and no mention at all of the major inflationary pressures of soaring land and financing costs.

The AFL-CIO rejects such lopsided double standards. They are unfair. They are unbalanced. They are not workable.

Back in February 1966, the AFL-CIO Executive Council adopted a policy statement which declared:

> "If the President determines that the situation warrants extraordinary overall stabilization measures, the AFL-CIO will cooperate so long as such restraints are equitably placed on all costs and incomes -- including all prices, profits, dividends, rents and executive compensation, as well as employees' wages and salaries. We are prepared to sacrifice as much as anyone else, as long as anyone else, so long as there is equality of sacrifice."

This statement has been reiterated by the constitutional conventions of the AFL-CIO in 1967 and 1969 and on numerous occasions by the Executive Council.

Mandatory government controls are never desirable, but at times, they may be needed. If such controls are deemed necessary by the President and are even-handed, across-the-board on all costs, prices, rents and incomes -- including profits, dividends, interest and executive compensation, as well as workers' wages and salaries -- they would be both equitable and workable.

It is our view that one-sided curbs on workers' wages, with no effective restraints on prices or the incomes of other groups in the economy, are neither a balanced and equitable stabilization program nor a workable policy in a free society.

It is also our view that government measures to restrain wages -- or both wages and prices -- in one industry or sector of the economy are also inequitable and unworkable. In this complex, interdependent and huge American economy, it is not possible to single out one industry or sector, in the hope of curbing price pressures, when all other parts of the economy are free of similar restraints.

How can the government, in good conscience, apply wage restraints on workers in one industry -- to single out one group of workers -- when the prices of the food, clothing and other goods and services they buy are free to move up? Such a measure smacks of punitive action, rather than a stabilization policy.

Moreover, how can the government hope to stabilize prices in one industry, alone -- such as construction -- when that industry depends on materials and services it buys from other industries, whose prices are free to rise? It just can't be done.

On April 1, only a few days after the President's Executive Order "Providing for the Stabilization of Wages and Prices in the Construction Industry," the Labor Department reported that wholesale prices of building materials shot up in March.

"Most of the advance for industrial commodities in March was due to price increases for commodities used in construction," the Labor Department report stated. "Lumber and wood products rose sharply again ... Almost all non-metallic mineral building materials were higher in price, with particularly large gains registered for asphalt roofing and concrete ingredients."

The costs and prices of the construction industry cannot be isolated from the price pressures in the rest of the economy. The prices of no industry can be isolated, for very long, from the pressures on the prices of the materials and services it requires.

The recent report of the Joint Economic Committee of the Congress indicated recognition of the inter-dependence of the economy's various industries and sectors, when it declared: "If a freeze is imposed, it should be general. A freeze should not be imposed on only one industry, nor should it be applied to wages without also being applied to other costs or prices."

A basic prerequisite for a genuine stabilization program, in our view, is that it must be across-the-board, equitable and even-handed.

For that reason, we endorse the bill's extension of the standby authority "to stabilize prices, rents, wages and salaries," with provision for "such adjustments as may be deemed necessary to prevent gross inequities."

We believe the Congress must make it abundantly clear that this authority is for overall, across-the-board and even-handed measures, rather than for singling out one industry or one group of workers. In addition, in the event that across-the-board economic controls are imposed, the Congress should immediately adopt an accompanying tax mechanism on profits, dividends and capital gains to assure genuine, overall and equitable stabilization. A balanced, fair and workable stabilization program must include overall restraints on all costs, prices and incomes -- including profits, dividends, and capital gains -- as well as wages, salaries and rents.

The AFL-CIO endorses the bill's proposed extension of authority to the President to establish selective credit controls. Such selective credit controls and interest-rate ceilings were urgently needed in 1969 and most of 1970 -- to curb the inflationary extension of credit for land speculation, business mergers, conglomerate take-overs, gambling casinos and investments in foreign subsidiaries, while providing increased credit for housing, community facilities and the regular operations of business. Selective credit controls will become urgently needed, in the months ahead, if the Administration does what it talks about -- pursues expansionary measures to rapidly lift the economy.

The AFL-CIO also endorses the bill's provision for variable bank reserve requirements in order to allocate the flow of bank credit to where it is most needed, while restraining the extension of credit for low-priority purposes.

We recommend that the Committee examine the Federal Reserve's operation of this provision, within a year of its enactment. Moreover, we repeat our request that the Congress engage in a detailed study of the structure and policies of the Federal Reserve system, as the basis for a thorough reform of this key economic agency of the federal government.

In addition to authority for stabilization measures, America now needs expansionary economic policies to achieve and sustain full employment. The needed rise in output will, in itself, reduce inflationary pressures by boosting productive efficiency and easing the pressures on unit costs and prices. Moreover, such immediate measures to lift the economy out of its present stagnation would create jobs for the millions of unemployed and underemployed, restoring confidence and health to the economic foundation of American society.

In sum, then, this is the position of the AFL-CIO:

We want inflation ended. We want full employment restored. We are prepared to sacrifice to meet these goals -- as much as anyone else, for as long as anyone else. But we will not be the scapegoat for the economic mess created by this Administration's ill-conceived "game plan."

APPENDIX I

INCREASES IN COSTS, FHA HOUSES 1949 to 1969

	1949	1969	Percent Increase
Land	$ 1,144	$ 4,525	296%
Structure	$ 7,176	$11,850	65%
Financing	$ 520	$ 2,370	356%
Overhead & Profit	$ 1,560	$ 2,800	79%
Sales Price	$10,400	$21,545	107%
Monthly Mortgage Payment	$ 55.15	$168.00	205%
Cost of Structure Per Square Foot*	$ 9.44	$ 13.88	44%

*Excluding land, the average number of square feet of the structure increased from 980 in 1949 to 1,226 in 1969.

Source: Journal of Homebuilding, June 1970, p. 31.

NOTE: In the 20 years, 1949-1969, the size of the structure increased and the cost of the structure -- materials plus on-site labor -- rose 65%, while the cost of overhead and profit went up 79%. But the major inflationary cost increases, by far, were the cost of land which rose 296% and the cost of financing which soared 356%. These cost increases in combination, resulted in a 107% rise in the sales price. The additional costs to the homebuyer of closing fees and charges, which are not examined here, probably rose by a somewhat similar percentage or more.

Moreover, the homeowner's monthly mortgage payments jumped 205% -- nearly double the 107% rise in the sales price of the FHA house. This resulted from the additional impact on the homeowner of the sharp rise of mortgage interest rates -- from an effective rate of 4.34% on FHA new home mortgages in 1949 to an effective rate of 8.19% in 1969.

Essentially as a result of the inflationary increases of land costs and financing charges to the homeowner, as well as the developer and builder, the price of the FHA home more than doubled, between 1949 and 1969, while monthly payments on the mortgage more than tripled. The 205% rise in the homeowner's monthly mortgage payments was almost four times greater than the 54% increase in the overall cost-of-living, as measured by the Consumer Price Index.

APPENDIX II

CHANGES IN BUILDING COSTS, SINGLE-FAMILY HOUSE 1949 - 1969

	1949	1969
Structure	70%	56%
On-Site Labor	33%	18%
Materials	36%	38%
Land	11%	21%
Overhead & Profit	15%	13%
Financing	5%	10%
Average Sales Price	$9,780	$20,534

Source: National Association of Home Builders Economics Department.
Congressional Record, October 29, 1969, p. E9113.

NOTE: This breakdown of building costs is slightly different from the FHA, Sec. 203, houses examined in Appendix I, but the changes in cost components are almost precisely the same.

In the 20 years, 1949-1969, the average sales price of this typical house increased 110%. But the total wages and fringe benefits of on-site construction workers fell from 33% of the price of the house to 18% and the cost of materials increased from 36% to 38%.

The major inflationary increases were land costs which rose from 11% of the price to 21% and the cost of financing to the developer and builder, which increased from 5% to 10% of the price.

On top of the 110% rise in the sales price, the homebuyer also paid the sharply increasing closing costs, which include a variety of fees, charges and taxes. In addition, interest rates on home-mortgages approximately doubled from 1949 to 1969. As a result, the homeowner's monthly payments on principal and interest charges of the mortgage approximately tripled.

This process of compounding cost and price increases has priced most families out of the market for new houses. Since a similar process has affected costs and rents of apartment units, most families have also been priced out of the market for new apartments. The result has been a growing housing shortage in a period of serious urban problems.