

The Economic Club of New York

The Honorable Russell B. Long
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Chairman, Senate Finance Committee

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A Legislative Appraisal of the Nation's Monetary and Fiscal Policies

Mr. President and Members of the Economic Club of New York:

Needless to say, it is a great honor for me to appear before your group. For many years I have regarded the club as probably the most outstanding group of businessmen to assemble anywhere in the United States. While I am not familiar with all of your impressive history, I feel a deep sense of kinship to your group, dating back to the fall of 1962 when the last President John F. Kennedy was your speaker.

On that occasion he described his attitude toward our nation's tax laws. He said that they were antiquated, designed to meet the problems of an earlier day, that they should be modified to meet the problems of his day and the challenge of the future.

At that time our much beloved friend, the late Harry F. Byrd, was chairman of the Senate Committee on Finance. From the first moment I saw the John Kennedy speech I knew, as did everyone else, that the Kennedy proposal for a major tax reduction, which necessarily involved a substantial federal deficit for at least two years, could not and would not meet with the approval of that consistent dedicated conservative who learned his economics before John Kennedy was born on this earth, and who had not conformed to the thinking of the New Deal of 1933 or the

Fair Deal of 1948, much less the New Frontier. It was my guess that Robert Kerr of Oklahoma, the ranking member of the Committee on Finance would speak for the Kennedy Administration of and when the ideas that John Kennedy outlined before you on that occasion should come to a vote in the Senate. The thought never occurred to me that, before this imaginative suggestion could come to a vote in the Senate, Allen Frear would have been defeated, that Bob Kerr and John Kennedy would have passed on to meet their reward; that I, the number four Democrat on the Committee, would be the committee spokesman for the largest revenue measure in the nation's history, the first major bill to be enacted under President Johnson.

As you will recall, the bill which emerged from John Kennedy's speech to you on that occasion involved a reduction of federal taxes by more than 14 billion dollars. It provided great reductions in personal income taxes, to increase demand and consumption of new production. It provided major reductions in corporation income taxes. It provided incentives for new investments. When the bill came to a final vote, I pointed out that this nation was enjoying the longest continued prosperity in its history. At that point the nation had enjoyed more than 45 months of continued increases in production, income and employment. It was my argument, and that of the Administration, that this bill, the Revenue Act of 1964, would mean a continued increase in production, income and employment for as far into the future as any of us were then privileged to see. The events that have transpired since that date are worthy of study in connection with the predictions which we made at the time. Our predictions for employment and production were safely within the events that have transpired. Our prediction for national growth was vindicated.

The only prediction on which we fell short was that we would have by now achieved a balanced budget. With regard to the budget, it is fair to submit that, had this nation not elected to make an expansive and determined sacrifice to prevent a communist takeover in Southeast Asia, we could easily have had a balanced budget for last year and for this year.

While the national debt has increased in terms of dollars, it has decline in terms of the ability of our people to pay. For example, in 1962 the federal debt was 53% of our gross national product. In 1965 it was less than 46% of our gross national product.

Furthermore, when we talk about our national debt, it is appropriate that we make a distinction between our gross national debt and our net national debt. Of the national debt which we are required to report to the American people, approximately 100 billion dollars of that figure is money that the federal government owes to the federal government.

When I speak of money that the federal government owes to itself, I am thinking of the government bonds and funds held by the Federal Reserve Board and other agencies of the federal government. Included in that figure would be government held trust funds, such as the social security fund of 22 billion dollars plus. Some of my more conservative thinking friends challenge my view that a government held trust fund in the last analysis is money which the federal government owes to the federal government.

If I might use the social security fund as an example, we have contingent liabilities running into hundreds of billions of dollars. These liabilities we will meet as they fall due. Most of them will be paid from social security taxes which are currently paid. The remainder of the payments will be financed by general revenues, which general revenues will be used to pay interest on government obligations held in the social security trust fund. Assuming that we do not intend to reduce the amount of money in the social security trust fund, then insofar as the federal government holds money in the social security trust fund, it is that much ahead in meeting its obligations. Other trust funds financed by federal taxes and appropriations appear to me to fall in the same category. Therefore, when I speak of the nation debt of 329 billion dollars I am tempted to point out that 100 billion dollars of this debt is money that the federal government owes to the federal government and that the debt which the federal government owes to the public is actually 229 billion dollars.

Then, when we relate our national debt to our gross national production, it appeals to me to say that our net federal debt in 1962 was approximately 40% of our gross national product, and today it is approximately 30% of our gross national product. It is comforting to note that the tangible assets held by the federal government in terms of property, real and personal, exceed our national debt in value without reference to the nation's greatest financial asset, its ability to tax the income and the property of its citizens.

While the federal debt has steadily declined as a percentage of our gross national product from 142% in 1945 to less than one third of that figure today, the percentage of corporate debt has increased by almost 50%, and the percentage of individual and non-corporate debt has almost trebled. The increase in State and local debt has nearly doubled.

Therefore, I am myself inclined to say when businessmen talk to me about the national debt, “Look who’s talking”. Measured by a relative standard, our debt has been cut in half while yours has increased by 50% to 200%.

Of course, this is not a fair comparison, because each decision to increase the amount of debt outstanding involves a different set of problems. Inasmuch as we have an enormous public and private debt, exceeding 1 trillion 500 billion dollars, we would do well to recognize that the growth of our economy, the expansion of our assets, the increase in the number of jobs, as well as the increase in the pay which those jobs earn, have been made possible during the past 26 years by a steady increase in the public and private debt of the United States, the overwhelming bulk of that increase being in the private sector. So long as our economy continues to grow in any way that is acceptable to any man here tonight, the total figure of public and private debt outstanding will continue to grow. It is well for us to recognize that most of this debt was incurred for good reason, that it was soundly based, that it has created a credit without which the growth of our economy could hardly have occurred.

It stands to reason that we can carry on indefinitely with continued prosperity, or even as we have done for the past 6 years, so long as the debt which we owe is soundly based. The soundness of our debt is greater because we have a number of government programs to assure that Americans stand together in guaranteeing the payment of most of it.

Perhaps I am overly optimistic about the future, but I am satisfied that if we continue the kind of economic approach that we have been pursuing in recent years, nothing can destroy the strength and greatness of our nation, other than a devastating war beyond anything that we have ever witnessed. Such a war we constantly pray and strive to avoid.

Having recognized the existence of a large public and private debt, I would like to make it clear that this Senator for one favors the lowest practical level of interest rates, in order that the burden of carrying our debts may be as light as possible. In the last analysis, the interest cost of carrying our debts falls on the consumer and the taxpayer. While it is true that corporations pay large amounts of interest, it is a cost of doing business and, so long as competition will permit, they will pass it along to their customer in the price of the product.

Forthrightness compels me to express my difference of opinion with the Federal Reserve Board. That board was created by an Act of Congress and most important powers which the Federal Reserve Board exercises are implicitly imposed upon the Congress by the Constitution, which says that Congress shall have the power to create money and to regulate the value thereof. The

Congress quite wisely realized that 535 elected representatives were incapable of doing the detailed task of managing the money supply and the credit supply of our complex economic system. Therefore Congress created the Federal Reserve Board and delegated much of its power to that board.

There is much misunderstanding about the degrees of independence which the Federal Reserve Board should possess. The board is not a creature of the executive branch. If a majority of the board desires to do so, it may exercise a judgment contrary to the views of the executive branch of the government. If a majority of the board desires to do so, it may exercise a judgment contrary to the views of the executive branch of the government. If anyone has ever contended that the board is independent of the Congress, it has never come to my attention.

Thirteen months ago the Federal Reserve Board, by a majority of one vote decided to embark upon a monetary program against the advice of the executive and without the concurrence of the Congress.

Having protested about the matter, President Johnson then bowed to what he seemed to regard as inevitable and undertook to adjust his policies accordingly. Since that date, some members of that board have undertaken to suggest that we in Congress should adjust this nation's tax laws to conform to economic policies decided by this small group which meets in an imposing building on Constitution Avenue. It has been suggested that some of us in the congress should sit down

with members who can speak for the Federal Reserve Board and agree to a given tax policy to conform to the judgment of a majority of the Federal Reserve board.

Lest it be misunderstood in any source, I want to make it crystal clear that, as far as this Senator is concerned, the Federal Reserve Board is a creature of the Congress; they are exercising powers which properly belong to us. We are elected to represent 190 million people of the United States, as is the President. Whenever the Congress and the President can agree upon fiscal and monetary policy, it is the duty of the Federal Reserve to modify its policies to come into accord with us, not the other way around.

The tight money high interest rate policy of the Federal Reserve Board for the past 13 months will find very little approval beyond the offices of the money-lenders who, while powerful and highly regarded, constitute a small minority of the population of this nation. These policies have imposed an almost disastrous depression in the housing industry. These policies have increased the cost of government. They have had a retarding effect upon the growth of our economy. It has even been suggested that members of the board intended to tighten the money supply until the stock market was on the verge of panic in an effort to force Congress to bend its knee to the economic program set in motion by a one-man majority on that board.

Now it has been suggested by the President that Congress should increase taxes, to further retard an economy which at this moment is showing signs of becoming sluggish under a tight money

high interest rate program, with the suggestion that if we do so the Federal Reserve would ease its tight grip on the nation's money supply. If this is to be regarded as a suggestion that we in the Congress, having disagreed with a program which we believe to be economically and socially unjust, should now impose higher taxes on the American people to conform to those policies, then some of us propose to answer with a resound "no". We are willing to consider the President's suggestion on some other basis.

At the moment there is no economic case for the proposed tax increase. Few economists, if any, are attempting to make any such case. In fact, the economic facts available would indicate that a tax increase would be unwise, unless the Federal Reserve Board were to further retreat from its tight money policy. The request for tax increase is based on the assumption that a failure to increase taxes will lead to a large federal deficit.

It is argued that while men fight and die on the field of battle, it is a small enough sacrifice for Americans to pay more taxes. Yet a tax increase of 10 times the size recommended by the President would still not begin to equate the sacrifice of our courageous young men fighting and dying in the swamps and jungles of Vietnam, with Americans who are enjoying income and prosperity greater than they have ever known.

It has not yet been demonstrated that large reductions cannot be made, nor that expenditures cannot be postponed, until some later date. Nor has it been demonstrated that a number of new

programs which the President is recommending even now might not better be deferred that to increase the taxes on the American people.

The Congress is not disposed to deny a gun, a grenade or every benefit of medical science to our fighting men. The Congress is disposed to make reductions in new domestic programs and even in old domestic programs before it votes another tax increase.

As an example of a new domestic program that can be cut, I would point to the poverty program, which is poorly and inefficiently managed. Many of the activities of that program are of very doubtful value. Most Americans would support a poverty program, or any part of it, so long as they are getting 70 cents or even 50 cents return for their investment. They will not in conscience support any part of such a program which yields them less than 10% return on the dollar, and some parts of that program appear to be yielding an even negative return. In peacetime the poverty program could cost several billion dollars annually. But with the pressure of war on our hands, it is well that this program be confined to those areas where it has definitely proved its value and that it serve more in the nature of an experimental pilot program to prove the merit or demerit of new ideas before we attempt to expand it into a multi-billion dollar undertaking.

As an example of an old program that can be cut, I would point to the policy whereby this nation continues to maintain approximately 1 million Americans at taxpayers' expense on European soil. This matter was studied by the Democratic Policy Committee. That committee of fifteen

Senators included some of the most outstanding members of the Committees on foreign Relations, Armed Services, Appropriations and several other major committees in the Congress. It included some of the most trusted friends of the President. Having discussed this matter with the Secretary of State, the Ambassador to the West German Republic and the other able spokesmen suggested by the Administration, this group, composed of a number of the ablest Democratic leaders in the Senate, signed a unanimous proposal that the number of troops and dependents in Europe should be drastically reduced.

Thus far our suggestion has met with nothing more than a few additional flimsy and weak reasons for continuing a program which no longer makes sense long after the facts of life which dictated it have changed drastically, compelling a different answer.

One of the facts of life which has changed since the troops for Europe proposal was voted in 1949, my first year in the Senate, has been that this program along with other grants or, to use a better word, gift programs, have so depleted our supply of gold that this nation is finding it necessary to plead with former beneficiaries of our largesse not to call upon us to pay in the only recognized international currency, gold, the money which we owe to them. In replying, these nations which we have aided in the past are exercising their proper right to insist upon this nation doing things which we would not otherwise do in the absence of our monetary distress. Of all the items which would relieve this nation's difficulties with its balance of payments, none would do

as much good or make as much sense as a reduction, a major reduction, of American troop strength in Europe.

This nation's contribution to the defense effort is roughly 10% of our national product. Our European allies are making a contribution which is 5% or less of their national product. Those nations and Japan are the most prosperous nations on earth, except for the United States. If they are not so concerned about the threat of aggressive communism that they will not make a sacrifice to compare with our own, then we have no business and no proper right bleeding this nation white economically until America becomes an international beggar to do for our friends things which they are well able to do for themselves.

The strongest single reason for continuing the existing level of American troop strength in Europe from the viewpoint of a European is the bountiful blessing of the money that this policy pours into their domestic economy. While some of us may not begrudge this blessing to the economy of Europe, we can no longer afford it.

Another best argument for continuation of this situation has been that the Soviet Union might be willing to agree to withdraw some of its troops from Eastern Europe if we withdraw some American troop strength. But, why should the communist world wish to arrive at any such arrangement. The maintenance of a million Americans on European soil is the largest reducible item of those factors that are making the leader of world capitalism an international pauper. Any

such program which brings us to our knees before first one lesser power and then another, serves the purpose of international communism, in that it undermines and destroys the ability of the leader of the capitalistic world to continue to lead.

It is my fervent hope that this nation may soon reach an honorable termination of hostilities in Vietnam. When we are able to do that, we should embark immediately upon a number of policies which the future and prosperity of our nation would require. Meanwhile we should be planning for them so that they could be put into effect immediately. The investment tax credit should be restored, if indeed it has not been restored before that time. We should make up for lost time in providing adequate highways and eliminating slums, rebuilding the center of our great cities, beautifying our countryside, eliminating pollution from water and air.

At the first possible moment we should start rebuilding our American Merchant Marine, to provide this nation with the strength on the seas and in world trade which that arm of our national policy once possessed. The neglect of our Merchant Marine has been so tragic and so lacking in understanding of the overall problem that the present trend would make this nation impotent to carry its strength around the world to meet emergencies. Russia is launching a dozen new merchant ships for every time this nation launches one. To meet this problem and to help with our balance of payments problem in the future, I will introduce a bill to place a small tax on all cargo entering and leaving this country, and directing the receipts from that tax to the

reestablishment of the American Merchant Marine to its proper position among maritime powers.

In other trade programs, the combination of taxes, tariffs and quotas has not been successful in maintaining American industry at the desired level. Our trade policies need a thorough new look and some hard-headed American businessmen are needed to devote a great deal of independent thought and study to the overall program. This nation in its trade and aid programs has played the part of any Andy Gump until it is on the verge of becoming an international Barney Google. Personnel that have manned the international giveaway programs for a great number of years are poorly equipped to change customs and play the opposite role for the future even if their intellectual makeup could be so transformed.

This next year we will be passing additional trade legislation. The tendency in recent years has been to reduce American tariff protection while foreign countries have give little if anything in return, other than to agree to continue their existing practices, without making trade more onerous for us that it had been in the past. The reduction in levels of American tariffs has brought an increase in imports. The program has not brought us a corresponding increase in our exports. The result is that our favorable balance of trade is being reduced to the vanishing point.

When our unfavorable balance of tourist trade is added to the scales, together with our foreign aid program, troops for Europe and the war in Vietnam, we find ourselves in a serious deficit

position which is steadily growing worse. It cannot be corrected entirely while the Vietnam War continues, but we must start improving the situation so that it can be corrected when the Vietnam War is over.

This nation as it well within its power to correct all of these things which give an unfavorable balance of payments and move toward an unfavorable balance of trade. We can do it by expanding our Merchant Marine, by providing more rather than less protection for any American industry that is threatened, by insisting upon a quid pro quo from those countries which are enjoying favors for Uncle Sam.

The most imperative item is that we must stop profligate representatives of Uncle Sam from committing this nation to international agreements which bind our hands and prevent us from using those tools which could save us in the future.

Unfortunately Americans do not today understand the many things being done by our so-called friends to discriminate against American products and American businesses. Even members of the tax-writing committees and the committees dealing with foreign relations are relatively ignorant in this area. A study should be made and every member of the Congress, particularly those on the responsible committees, should be made aware of its results. Then we should strive for a policy which properly serves American trade interests in the future.

This great and powerful nation holds its place in the world in spite of many mistakes, disasters and adversities with which its people have been confronted. It holds its place foremost among free people because we have realized our mistakes in time and with the guidance of a merciful Lord we have been able to correct our mistakes and find the right course to justice, wealth and leadership. From time to time we would do well to rejoice in our good fortune. Having done so, we should then rededicate ourselves to the task ahead and accept whatever danger or sacrifice may be necessary to achieve it.

End of Remarks