

ADDRESS BY ROBERT MORGAN
UNITED STATES SENATOR
SHELBY LIONS CLUB
SHELBY, NORTH CAROLINA
FEBRUARY 10, 1976

For the past several months, members of my staff have been talking to people in North Carolina face-to-face. One of the questions we asked was "Do you think we as a nation are moving in the right direction, or are we on the wrong track?" A surprising number of people said "neither one." They felt we were either marking time, or at a turning point -- marching in place or undecided about our direction.

I think that is true. We are at a turning point. But I do not think there is any doubt about the direction we are going to have to take. The questions before us, I believe, are going to be bedrock economic questions, for a long time to come. The issues will concern the role of the Federal government in

American society, and the price of that role. But the issues will be presented in mostly economic terms.

In the decades following World War II, this nation went through a long period of prosperity. It was only natural, therefore, for the old American questions of democracy to be set forth in other than economic terms. Rather, we heard about foreign policy and America's role in a world rapidly going Communist. We heard about school integration and civil rights. We heard from the young on the subjects of the Vietnam War, drugs, and changing life-styles and values. And finally, we heard strident warnings from those who care about our environment, that we are rapidly fouling our own nest.

But the fact is that in American history our biggest

question, the one which sums up all other questions, has been that of the economy. Actually, there have been two questions -- How is the free economy to be kept healthy, and how are the most people going to participate in that economy to the greatest extent? What I believe is going to happen, judging from what has come before Congress during my first year, is that these questions are once again going to occupy our mind for years to come.

The most troubled economic question is that of the government's fiscal policy -- the question of deficit financing, taxation, and spending. I felt, as we considered the issue of New York City's bankruptcy, that we were seeing the first major incidence of failing fiscal policy since the Depression.

And as I sat there, I could just see us, in the future, talking about the bankruptcy of the Federal government.

The difference between New York and the U.S. Government is that the government can print money; New York City only thought it could. But beyond a certain point, increasing the money supply -- in order to devalue a former deficit and to stimulate an economy -- merely bankrupts the poor, the old, and the sick, instead of bankrupting the government. That must not happen.

The fact is, times are changing. The government's ability to stimulate the economy has become limited, and there is a reason for this. Because of this reason, the continued appropriateness of New Deal economics has begun to be challenged

in Washington, even among some liberals.

What is the reason? Well, it used to be the case that government took a relatively small cut out of the economy through taxes. Therefore, when recession and depression needed to be fought, the government could spend at a deficit and move money through the economy. Because the basic tax was small, an increase in taxes later on -- to pay for this deficit -- could be tolerated. Besides, the money would then come out of a booming economy, and the debt could be paid off in somewhat inflated money.

But things have changed. The federal bite out of the economy is no longer small. The level of what are called "transfer payments," like social security and similar social

programs, has grown tremendously. The biggest portion of the budget President Ford has proposed does not go to defense or to federal salaries, but to the flood of government checks which go back directly to the public under one benefit program or another.

Did you know that ten percent of the personal income in this country comes from the government? Did you know it has been estimated that government benefit programs in some measure help support a third of the population? This is the reason the government's ability to stimulate the economy -- without causing a subsequent disaster of inflation and recession -- is now limited. There is now a floor under government spending, because of transfer payments. And that floor is so high that

an increased level of spending raises the need for taxation beyond what the average paycheck can bear. It was one thing to finance a deficit budget when all governments put together took ten per cent of the Gross National Product, as they did at the beginning of the Great Depression. But it is something else again to finance a deficit when the share of GNP taken by all governments is more than 35 percent.

In the Depression, with great need to break the economic decline, total public expenditures could double and still be only 20 percent of GNP -- which they did do. But who could pay the taxes which would result if we tried to double the present governmental expense of 35 percent, in order to get us out of depression? In fact, who could pay much more in taxes than we already do? I feel we are now at the point

where any increase in spending substantial enough to really stimulate the economy would cause taxes and interest rates so high as to offset any gain. We just can't have an economy based on the government's ability to spend, instead of on the wage-earner's ability to buy in the marketplace.

Now, I said we are at a turning point on this basic economic question. But it is a hard fact that we must and shall make that turn slowly. There are two reasons why.

The first reason we must move slowly is the fact that -- like it or not -- the government is substantially involved in the economy, and its budget is a prop under that economy. We cannot just kick that prop away. Those who want to wave a magic wand over the federal budget and have all our problems

disappear should remember that this has been tried before --
in the eight years just before the Great Depression.

Sharply decreasing public expenditures has a depressing effect as surely as over-taxation, and it is the effect of deflation: the only thing worse than inflation.

Besides, we ought not to forget that the government can and should make capital improvements which benefit the economy as a whole, and no "austerity" budget should cut out such things. A man who lets his business run down invites a private "depression" of his own. Likewise, the government needs to put some money "back into the business," so to speak. I think the interstate highway program was a good example. It was a boon to the nation's

economy to build those roads, even if we do have to go 55 miles per hour on them.

The second reason we must make the turn back to fiscal conservatism slowly is that when you are talking about economics, you are talking about people, and not abstractions.

When we take a look at the President's budget proposal, we see that of those transfer payments, sixty percent would go to the elderly under Social Security and other programs. That is 100 billion dollars -- more than the defense budget. Another sixteen percent would go to the disabled. Ten percent, or over \$15 billion, would go to the unemployed -- which is part of the high cost of administration policies tolerant of a high level of unemployment.

Those who would have you believe that cutting out expenditures for social services is simply a matter of dropping a few welfare cheats are unfortunately misinformed. We need to stop such practices, but that will certainly not get rid of all those Social Security checks. We will still have the problems of the old and the really poor to deal with.

Now, I have sought the opinions of North Carolinians on this matter, and I think you would be interested in the result. Most people favor a reduction in the cost of social services. But they are moderate about it, and they are charitable.

The consensus seems to be this: cut what is not essential. Cut the waste, from social services, and also

from the military, but do not leave us undefended, and do not fail to help those who really need it. The main thing is, avoid excessive, useless programs which don't work, and plain-down mistakes with taxpayers' money.

As usual, the people show their wisdom. I think they are right, and the moderate course they point out is clear.

As we tread the narrow path between depressing the economy by over-taxation, and depressing it by cutting spending too rapidly, there are several things it will be wise to do.

We must be very, very careful about new programs.

It may be that we ought to set up a kind of health insurance program for catastrophic illnesses. But moderation would

not be served by Senator Kennedy's cradle-to-grave federal health insurance system. As for old programs, we must examine them for their effectiveness and their place in national priorities. And without doubt, we must realize the recession is receding, and move as soon as possible to a balanced budget and an end to deficit spending.

Finally we must continue to help people who really need it, but we must do so without destroying everybody's wage-earning abilities with taxes used to pay interest on the national debt. We need to help the old, but we must do so without destroying their life savings and the value of their social security checks by reckless inflationary spending.

With the government's decreasing maneuvering room on the economy, it will long be the case that the economic side of government action will be paramount. The matter of transfer payments like medicare and medicaid will be the major economic issue. Because of the oil situation and our increased spending at home, foreign policy, foreign aid, and foreign sales of our food become central economic matters. Environmental quality and economic growth together become a problem which would try the wisdom of Solomon. Housing policy has always been a fundamental economic issue; now it is a critical one.

We can less and less afford government errors. A housing program, or any program which fails, just uses up our limited economic resources and produces no net gain. We will have to face all these issues, as we return to fiscal responsibility. These questions will not go away, and answering them will take some time, and some doing.