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During the recent recess, I got out of Washington and came down to North Carolina to our Raleigh office. I must say that turned out to be a very good thing to do. In the first place, it gave me time to talk to people here in the state, and it gave me enough distance on Washington to get things in perspective.

I was able to sit back and think about my first year in the Senate, and to try to see through to the basic questions which lie behind the hundreds of issues Congress has to decide.

What lies ahead for us? You know, members of my staff have been talking to people in North Carolina face-to-face for several months.

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 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, and the local economic problems of the big city ghettos. 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 possible 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.

Even the question of foreign policy has become an economic question. If you think about it, we hear very little now about the problem of world communism. We hear a lot about the fact that oil, the economic lifeline of this nation, is increasingly in the hands of other nations.

Consider, if you will, how much of the Congress's time during the past year has been spent on this question. We were faced with the terribly complicated issue of revising oil and natural gas regulations in the face of emergency problems. We also had to deal with the much longer-range issue of encouraging energy development, without adding fuel to the fires of inflation.

The economic question had to be faced again and again during my consideration, as a member of the Public Works Committee, of environmental issues. The problem of supplying economical and abundant energy came head to head with the problem of keeping our air and waters clean. How much can we pay for how much improvement in the environment?

As a member of the Committee on Banking, Housing, and Urban Affairs, we twice had to tackle fundamental economic issues. The Financial Institutions Act, which would have changed the banking structure in this country, finally boiled down to the bill's possible effect on the depressed housing industry. And the question was, how are we going to get the rank and file American back into the market for a home of his own -- the most important way in which the masses of people participate in the American dream of financial security and independence.

We also had to consider the effect the policies of the Federal Reserve Board were going to have on the general health of the economy. Congress had to insist that the Federal Reserve, which has always operated in secret, come before our committee to report its economic plans. Too much was at stake for the people's elected representatives not to be heard from on the issue of monetary policy. Low interest rates and too much growth in the money supply feeds inflation; too little growth and high interest stifles recovery. It is the growing importance of the economic question which forced the Fed out of secrecy. Monetary policy must be a publicly-debated issue.

But the bigger, and more 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 get money moving 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 is one thing to finance

a deficit when the federal share of the Gross National Product is ten percent, as it was in 1930, and it is another thing when the government takes more than thirty-five percent of GNP, as it does today.

This means that the government's option to take stimulative action is limited. It may stimulate the economy somewhat; beyond that, its revenue requirements become depressive. We could end up with an economy based not on the wage earner's ability to buy in the marketplace, but solely on the ability of the government to spend. And I ask you what that would do to the small businessman in a local economy.

With the government's decreasing maneuvering room on the economy, it soon gets to be the case that the economic side of government acts cannot be ignored. The matter of transfer payments like medicare and

medicaid becomes a major economic issue. Because of the oil situation and our increased spending at home, foreign policy and foreign aid become central economic matters. Environmental quality becomes an economic problem which would try the wisdom of Solomon. Housing policy has always been a fundamental economic issue; now it is a critical one. The fact is, we can less and less afford government errors. A housing program which fails uses up our limited economic resources and produces no net gain.

For these reasons, the emergence of the Congressional Budget Office, and the Congressional Budget Committees in the Senate and the House, is noteworthy. For the first time, federal spending targets must be argued in the Congress, and -- we must hope -- abided by. If we are lucky, we could get two important things out of the Congressional Budget process.

First, we get a forum in which the question of how best to spend federal resources can be debated in the open. For the first time, fiscal policy can be hammered out by the nation's elected representatives, rather than by the unelected well-insulated budget-drafters in the executive bureaucracy.

And second, if all goes well, we could have for the first time a centralized way of keeping track of Congressionally-authorized spending. And that may give us a way of holding down that spending.

When we have a real need, we must go forward with new programs with the greatest of care. We also need to take a hard look at existing programs. We need to slowly reduce the federal government's share of everybody's paycheck, so that our economic maneuvering room comes back.

And above all else, we need to improve the quality of government programs

so they will be less wasteful.

But we must remember that when we are talking about economics, we are talking about people. To take a look at the President's budget proposal, we see that of those transfer payments, sixty percent must 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.

I have sought the opinion of North Carolinians on this matter. I think you would be interested in the result. Most people favor reduction in the cost of social services. But they are not uncharitable about it. They want to see the waste cut from the welfare program, but they do not

want to see anyone who needs help denied it. People understand the needs of their fellowmen. Who among us does not know someone who would have nothing, were it not for social security? How would the workingman have stood the recent recession, were it not for unemployment compensation?

I say we are at a turning point. But because of the fact that a reappraisal of federal spending methods and priorities involves people, and because of the sheer complication of the issues, we are going to make that turn slowly.

The Congress has been criticized for not making enough progress, and that accusation will be heard more often in the coming election year. But these issues are the issues of decades. A change must be made in economic practices which have been the general habit since the New Deal,

and that is no small order. And doing it right will take a while.