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Mike Mansfield 1903-2001

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to time to discuss the economic situation—a good suggestion, agreed to by the President and, hopefully, something will come out of it.

Now, if I may discuss some of the matters which were reported out by the Democratic conference at the last meeting:

1. Creating a job program and expanding unemployment benefits to mitigate the hardships of unemployment.

I believe the Republican leader has agreed to that proposal and, if my memory serves me correctly, the distinguished Senator from Wisconsin (Mr. Proxmire) has voted for legislation of that kind.

2. Reviving the Reconstruction Finance Corporation to deal with the credit needs of ailing businesses during times of economic crisis.

I have stated that I do not think that Congress is the forum to which ailing businesses should come for relief and, I believe, that basically is the position of the distinguished Senator from Wisconsin. Neither he nor I, if my memory serves me correctly, voted for relief for the Penn Central, voted for relief for Lockheed, voted for relief for Grumman, because if you are going to bring big business ailments to Congress on a happenstance basis, you are putting on Congress a responsibility which it should not assume. I do not think that you are doing ailing big business a favor by having them come to us, to lobby and pressure for the purpose of getting handouts, loans, or whatever we want to call them.

Mr. President, I ask unanimous consent that an article which appeared in the New York Times for Sunday, December 1, entitled "A New RFC Is Proposed for Business," by Felix G. Rohatyn be printed in the Record.

There being no objection, the article was ordered to be printed in the Record, as follows:

A New RFC Is Proposed for Business
(By Felix G. Rohatyn)

With the country sliding rapidly into what appears to be a serious recession, suggestions are being made to revive the Reconstruction Finance Corporation as part of an overall economic program. The Democratic leadership has proposed this step and has introduced the necessary legislation.

Revival of the RFC as part of a plan to get the economy on its feet is desirable without any doubt. In the Depression years of the 1930's, the RFC played an important role in providing liquidity to banks and key industries, thereby preventing failures and a deepening spiral of the economic downturn. However, simply recreating the RFC to provide additional credit to borrowers otherwise unable to obtain it, would be to overlook key aspects of the actual role played by the agency and to ignore basic differences between the financial structure of United States enterprise then and now. If the RFC is to be recreated, let it become a vital instrument of economic growth and not just another lender of last resort.

The RFC itself was a revival, in this case a revival of the War Finance Corporation of World War I. It took place in January, 1922. It was charged with providing emergency facilities for banks and other credit institutions. It was also given broad authority to make loans to agricultural, commercial and industrial enterprises. The National City Bank's plan, which is the basis for today's RFC, is clearly a modernized version of the RFC of the early 1920's.
Bank letter of February 1932 stated: "The existence of R.F.C. can be justified only by recognition by the Government of the interest of all the people in supporting the credit of the nation, in overcoming the difficulties of the railways. . . ." It went on to say, "The objections are not on the merits of the R.F.C. but to revive industry by receiving credit."

The initial funds for the R.F.C. were to consist of $500 million of capital subscribed for by the United States Treasury and the authority to raise an additional $1.5 billion through sale of Government guaranteed obligations. Conceived initially as a defensive mechanism, the corporation was not intended to lend to industries or banks for economic stimulation. It was only in 1933 that emergency banking legislation gave the R.F.C. the power to purchase preferred stocks, thus enabling their capital base to be strengthened.

An approximately $4 billion proposed R.F.C. expenditures for 1934, the largest portion, $1.4 billion, was earmarked for the purchase of preferred stocks. Additionally, the R.F.C. expanded into other areas through subsidiaries such as the Commodity Credit Corporation, the Federal Home Loan Bank System, the R.F.C. Mortgage Company and the Federal National Mortgage Association. The agency's new programs, made industrial loans and provided emergency relief.

By October 1932, the R.F.C. had disbursed $10 billion, including approximately $4 billion to financial institutions, $1.5 billion to agriculture, and $1 billion to public works. The fears of many that the R.F.C. would become an instrument of crony capitalism were unwarranted: a vast investor of public funds, the R.F.C. nevertheless was operated essentially along the lines of a private banking institution.

This brief review should be kept in mind when consideration is given to the role and power of a new R.F.C. in today's economic environment. Certain factors would appear to be the most obviously crucial. At every level of our economy our institutions are overburdened with debt. In the past 10 years the debt-equity ratio of individual corporations has gone from 25 percent to 40 percent. Inflation and the collapse of the equity markets has accelerated this trend.

The continued decline in the equity markets has resulted in 80 percent of New York Exchange stocks now carrying a premium of less than 10 times earnings. A majority of such companies have market values of less than book values. Many are not even salable at any reasonable price.

The Big Board has recently estimated that the equity requirements of American industry for the foreseeable future could approximate $60 billion a year. It would appear that 1974 will produce only about $5 billion.

The United States banking system, trying to keep pace with the requirements for credit, has itself become dangerously overextended. The requirements for equity by the banking system may, in some ways, be proportionately greater than those of the industrial sector.

The dangers to the international banking system by the outposts of oil-importing and controlling countries are too well known to require more than a mention.

This environment of fragility in both the industrial and the financial sectors exists at a time of steeply declining production, sharply falling stock prices, and continued inflationary pressures. The downward leverage, under those circumstances, would be very grave.

There exists today no public instrument for providing the only sure safety net that a major corporation or bank should avail itself of in difficulty—a major infusion of equity capital. A massive infusion of new capital to the Federal Reserve System in the case of the Franklin National Bank, will provide temporary support by increasing the capitalization. It will not provide capital support to the bank in the case of a major default. An R.F.C. could have enabled the Lockheed Aircraft Corporation to obtain necessary short-term credits but it did not resolve the fundamental problems; a major restructuring of its debt and a large infusion of new equity capital will be required.

At a time when loss of confidence is an almost palpable thing, accelerating the process of default and bankruptcy either in the industrial or the financial sector is to be avoided at any reasonable cost. The R.F.C. cannot be a safety net, but the cure should be permanent. From its inception, it should be an instrument empowered to make significant equity investments, in the form of either common or preferred stock, for the long-term resolution of financial problems.

There will be wide opposition to such a thesis both on ideological and practical grounds. The specter of socialism will be raised by the cry of "big business bail-out" will be heard from the liberals. Serious concerns with respect to the use of governmental funds, to provide potential political power, to the possible conflicts-of-interest and corruption posed by such a mass of enterprise to be developed and resolved. But the need for the enterprise would appear to be sufficiently great to outweigh the drawbacks.

In addition to being an investor of last resort empowered to make equity infusions into banks and enterprises deemed to be "in the public interest," the R.F.C. could become a catalyst of stimulation in many areas. Large project in the area of energy is ever undertaken, as is clearly required, the R.F.C. could play a major role. It is lender, risk-taker, leader and guarantor in a variety of projects. Although certain concerns such as utilities should perhaps not be eligible investments, the financing of massive generating facilities, the output of which would be shared by the people, could be considered. Construction of over $20 billion worth of generating capacity has been canceled so far this year, its effect to be felt years from now.

There can be no such an organization, with the type of wide-ranging freedom described above, can be perceived as a first line of defense of this economy. Yet the time may have come for a public debate on this subject. Our economy is today subjected to certain traumas which have nothing to do with the result of free market interaction. The oil cartel and the prices of other basic commodities which directly affect our economy such as phosphates and alumina are the result of political rather than economic decisions, and are totally beyond our control.

At a time when the oil producing countries are levying an initial tax of $5 billion a year on the rest of the world, the United States has become capital-poor. The possible impact on our country's welfare, as well as its security, will have a major impact on the life of this country. Yet the time may have come for a public debate on this subject. Our economy is today subjected to certain traumas which have nothing to do with the result of free market interaction. The oil cartel and the prices of other basic commodities which directly affect our economy such as phosphates and alumina are the result of political rather than economic decisions, and are totally beyond our control.

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CONGRESSIONAL RECORD — SENATE

December 2, 1974

Now, No. 5:

MANSFIELD. Mr. President, will the Senator yield to me before yielding the floor?

Mr. MANSFIELD. Yes, indeed.

Mr. SPARKMAN. I want to say that I am in agreement with most of the remarks that have been made.

Mr. MANSFIELD. I go along with the Senator on the idea of the reconstituted Reconstruction Finance Corporation. It did a tremendous job when it was in force before and I think it could again.

Mr. SPARKMAN. I certainly believe that every effort ought to be made with reference to cutting down the unemployment, certainly preventing it from becoming more and more acute.

Mr. MANSFIELD. I do not go along with the Senator on the idea of allocation of credit. Now, there can be some form of allocation, but it is something that will have to be worked out on the basis of policy by the Federal Reserve Board rather than specifically moving ahead of time on what those allocations of credit are going to be. In other words, it would be a policy carried out by the Federal Reserve Board without actual action ahead of time.

I believe that people ought to be greatly concerned with the job situation and I think people ought to be greatly concerned with recommendations which I understand the President has made, whether he has sent the request here or not, of public employment in order to help relieve that situation.

I remember the old WPA days and I know what a job it did. We used to make a lot of jokes about people leaning on their shovels and saying that they were working for nothing, but I think that was a job of that kind. Nevertheless, it was a tremendous force pulling out of that terrible depression through which we lived.

Mr. PROXMIRE. Well, I have some idea in the back of my mind, of Mr. President, that we might take a look at some kind of a proposal of this kind in the light of the critical needs.

Mr. MANSFIELD. Establishing credit procedures so as to allocate credit on a priority basis in the light of the Nation's critical needs.

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time, and it ran for a long time until we worked out of that.

Mr. MANSFIELD. Meina, remain.

May I say that my wife, a high school teacher in Butte—I was going with her at the time, she was not my wife then—cashed her insurance to put me through school.

I thought I had two job offers after I graduated, one paid $75 a month—they made that pay now—the other paid $180. I lost both of them and I got a job then as a graduate assistant at the University of Montana for $25 a month for 10 months and I had to teach. I had to teach the two sections of the course class 3 days a week. One could not get a job in those days.

When I look at the Senator from Alabama (Mr. SPARKMAN) and the Senator from Wisconsin (Mr. PROXMIRE) and the Senator from Mississippi (Mr. STENNIS), all who know far more about the technicalities of the economic situation which confronts the Nation today than I do, I am impressed because it indicates an interest, but what I am asking for is specifics—specifics and detail—about the part of the President of the United States, and cooperation with him on the part of the Congress.

Mr. STENNIS. Will the Senator yield a half minute?

Mr. MANSFIELD. I yield.

Mr. STENNIS. I want to say this, without getting into the specifics. The Senator from Montana has been one who has been pounding, pounding, pounding on this problem, and offering concrete suggestions and exercising leadership, the sound kind, the necessary kind, even though we might not agree with all that he has said.

I think he is so correct in stating that we are being forced with new problems. We can solve them. I do not believe we have any more time.

I thank the Senator.

Mr. MANSFIELD. I think there is a problem we can solve them, but we have to work together and face up to realities.

Mr. PROXMIRE. If the Senator will yield, I want to congratulate the Senator on his presentation. I know how deeply he feels. I think that the debate we have had so far indicates that there is some unfortunate misconception about the kind of situation we face.

There is no question that Roosevelt was a very great leader. There is no question he gave this country the kind of inspiration, leadership, action and specifics that we needed at the time he came into office. I do believe we have to take a look at the economic situation then and now. It is entirely different now. We do not need the kind of stimulus then. We do need action, action that might be more difficult to take for various reasons.

I think we ought to do our best to stimulate the action in the private sector. That is why housing can be so helpful. We have 1 million housing starts below what we had about a year ago. If we can stimulate economic activity in this area, it means we are putting to work idle resources. It is not inflationary because unemployment is now over 12 percent in the construction business and it is not inflationary.

The ACTING PRESIDENT pro tempore. The time of the Senator from Montana has expired.

Mr. MANSFIELD. I yield to the Senator 1 minute under morning business.

Mr. PROXMIRE. I think there are specific actions we can take. We discussed the specific situation. I used the specific bill which I intend to introduce, as I told the Senator, within a few days, or if the Senator from Alabama thinks it would be more realistic I shall introduce it next year.

I do think we have a strong difference of opinion on the RFC. The difference is that I do not think Pan American and Pan Central should be given. They have been reduced to a very small business. I do not think the bill which I intend to introduce, as I told the Senator, within a few days, or if the Senator from Alabama thinks it would be more realistic I shall introduce it next year.

If the Congress decided not to go along on some of these individual corporate bailout proposals that have been before us, it is not because we thought they should be. It is because we thought they should stand on their own feet. When we do it, we do not destroy jobs. If the demand is there, that means that the jobs will be taken up by competitors who are more efficient.

Mr. MANSFIELD. The Senator will yield, may I say that there even you have a Government in the States and perhaps in Pan American and TWA. What about the postal rates? What about the price they pay for landings rights in foreign countries compared to what foreign countries pay in this country?

Mr. PROXMIRE. I agree. Mr. MANSFIELD. We have the difficulties in Pan Am and perhaps Government interests in Pan American and TWA. We have to realize, going back into the woods, what the Government is in everything. So the Government has a responsibility. The Senator mentioned housing. Who is putting up the money to get housing going, when and if it goes going? The unemployment rate in housing is closer to 20 percent in the construction industry than it is to any other. Did we not pass a $3 billion bill not so long ago, by means of which, under favored interest rates, the housing industry and the timber industry—which is in a slump, a decline—a recession could be helped, so that they could recover?

The Government is in everything too much, but it is in there, so we have to make the best of it. The Government is in because of the depression of 1933, when the safeguards that the Senator talks about were created and which up to this time he has kept the lid on, so to speak—and perhaps the cap on the bottle of recession—up to a certain point. In 1933, there were no means by which the Government could help the people. President Roosevelt came in, and legislation was enacted, even though the RFC was inaugurated by President Hoover in 1913, with a specific War agency which did not become effective until 1933 or 1932.

The PRESIDENT OFFICER (Mr. McFARLAND). The 3 minutes of the Senator from Wisconsin have expired.

Mr. SPARKMAN. Mr. President, I just want to make this very brief statement in reference particularly to the housing situation, which the Senator has mentioned.

We did enact a very fine housing law. Secretary Lynn called me after that conference report and congratulated me upon our getting out such a good housing act. But has it been implemented?

The Senator from Wisconsin will recall that in conference, after a very hard struggle—by the way, that conference lasted for 5 weeks, meeting morning, noon, and night, as the Senator will recall—we finally continued two programs that the administration had set against—that is, the 233 and 236 programs.

Has anything been done on those programs? Those two programs have not been utilized. It could be done with a minimum effect on the budget. They should be used.

Talking about the slump in housing, I should think that housing is responsible for more employment than most of us realize, going back into the woods, where the logs are cut, and down into the bowels of the earth, where minerals are found. We have a tremendous slump in that industry now.

We are not building as many homes as we should be. The best way I know of to stimulate the economy is to get people to buy homes. If you will look at the 1932-33 period, the Government essentially had a de facto freeze on the RFC. You could not get any help from that source.

In the 233 program to which the Senator from Alabama has referred, the individual will pay the entire amortization part of the loan, and pay part of the interest. So that is a privately financed program. The Federal Government puts up a small proportion of the total cost of the housing and the interest.

This is true of the 236 program. In the conventional program, the Federal Government puts up nothing. We put up insurance, but this is carried on in the private sector, with the profit motive and the other motives working to keep it efficient, and without inflationary pressure, because we have available resources. This is as the Senator pointed out, that we have enacted these programs, the funds are available, and the program could be put into effect, but the administration simply refuses to move a head. That has been true week after...
week and month after month and year after year.

Since January of 1973, we have had a moratorium on Government-assisted housing. The monetary policies of the Federal Reserve have resulted in a situation in which interest rates are so high that conventional housing has been crucified, too.

We come to the resources and the manpower, and we should move ahead. It can be largely in the private sector and can be without a gigantic Government program. I think that it is an excellent way to move ahead, to proceed. There are other specifics with which I hope to come up in the future.

Mr. GOLDWATER. Mr. President, will the Senator yield?

Mr. PROXMIRE. If the Senator will yield for just 1 minute.

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Mr. MANSFIELD. Mr. President, will the Senator yield?

Mr. GOLDWATER. Mr. President, will the Senator yield?

Mr. PROXMIRE. If the Senator will yield for just 1 minute.

Mr. MANSFIELD. The proposals advanced by the Senator from Montana this morning may or may not be the solutions I do not know. But I think it is mandatory that we attempt something, that we let the people of the Nation know that we are aware of the problems and are trying to find ways and means to face up to them.

I have no compunction in stating that, in my opinion, people like Senator Proxmire and Senator Sparkman know far more about economics than I do. I have no doubt about their desire to do something. But I hope we do not wait too long before we come forth with proposals, not necessarily here but at least lay the groundwork, so that the first things we might be able to face up to in the next session would be the tackling of specific problems on which the people are crying out for us to help them.

Time is running short. The coal strike, if it is not settled, is going to further increase unemployment. The President has told us that when unemployment reaches 6.5 percent, he has alternative plans. I am afraid that he is going to have to put them into operation.

Inflation shows no signs of abating. So we have a problem which is up, up, and about which we should do something.

Mr. GOLDWATER. Mr. President, I could not agree more with the Senator. I think that, above all, we need evidence of leadership.

I might mention to the Senator one specific item with which we might get on. We have an energy crisis facing us, and we should have one regardless of how much fuel comes into this country. We now have five committees of Congress to deal with energy. I have talked with the Senator about that. I am urging that this committee or that committee or the other committee take charge of it; but there should be only one committee in Congress interested in total energy, not five, and we should not have committee chairmen running around this country making politics out of energy. We should be doing something in this body about getting more gasoline, new sources of energy, better use of the atom, better use of the things that have been coming to us from the space program.

I do not offer this as a matter of criticism. I know that the Senator is asking for help as to where we might go, and I think this is one area that we could land on with all five feet, instead of getting just one foot up.

Mr. MANSFIELD. I am very much aware of the problem. I am trying to work out something. Something has to be done. Some action has to be taken, and if agreement cannot be reached, some action will be taken, and taken soon.