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Congressman Charles W. Whalen, Jr. (R-Ohio) tonight said that the administration's budgetary policies in the long run will lead to a recession.

Whalen, former chairman of the University of Dayton Economics Department, said that inflation, stemming from the expected deficits for fiscal 1967 and 1968, is the primary cause.

He said that when an economy is at "full or near full employment," it lacks the capacity to meet the increased demand generated by large deficits.

The result is higher prices, which, in turn, reduce demand and ultimately production, he said.

What eventually ensues is a "reduction in employment and, finally, an economic recession," Whalen said.

He said evidence of softening already has appeared. He cited inventory build-ups and significantly lower auto sales in January, 1967, versus the corresponding month a year ago.
This will involve the scrapping of many programs, he said.

"Thus, the hopes and aspirations of many persons, built upon the establishment of programs which the administration knew could never be adequately funded, will be destroyed," he said.

Whalen, 46, is a former member of the Ohio Legislature, having served as a state senator and representative for the last 12 years. He has been assigned to the House Armed Services Committee.

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(Excerpt from Congressman Whalen's speech is enclosed.)
During the present period of full employment these deficits violate every precept of sound economics and are, therefore, opposed by economists of all persuasions.

The probable results of these irresponsible fiscal practices are these.

First, misleading budgetary information, such as occurred during all of last year, will create a further loss of confidence by the American people in the administration's integrity. This we can ill-afford at such a critical period in our history.

Second, the projected deficits of FY 1967 and 1968 make it mandatory that appropriation requests be pared so that expenditures more closely approach anticipated federal income. Leaders of both political parties are committed to this policy. This will necessitate the scrapping of many programs, particularly in the community action field. Thus, the hopes and aspirations of many persons, built upon the establishment of programs which the administration knew could never be adequately funded, will be destroyed.

Third, during periods of full or near full-employment, such as exists today, substantial federal deficits generate inflationary pressures. This simply results from the fact that the government, by spending more than it takes in through the medium of taxes, adds to the total demand for goods and services. However, inasmuch as the economy lacks the resources to meet this increased demand, the
inevitable result is increased prices. This explains the 3.6 percent increase in living costs in 1966 and the anticipated three percent increases in prices this year.

Fourth, inflation sows the seeds of its own destruction. As prices go up, certain segments of the economy, such as those living on fixed incomes, eventually suffer a relative loss in buying power. This reflects itself in a reduction of units demanded in the market place, ultimately causing a reduction of employment and, finally, an economic recession. A "softening" within the economy already has been observed. Inventories are reaching dangerously high levels, while automobile sales for January, 1967, were significantly lower than those of the corresponding month last year.

From the foregoing analysis, it is evident that the current inflationary budgetary policies being pursued by the federal government in the long-run can only lead to a recession.

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1/ Reference is to the estimated fiscal 1967 deficit of $9.7 billion and the estimated fiscal 1968 deficit of $12.6 billion (at current levels of taxation), both of which may be substantially larger by the end of each fiscal year.
Whalen made the remarks in a Lincoln Day dinner address before the Syosset-Woodbury Republican Club at the Villa Victor in Oyster Bay, New York.

Whalen estimated that the deficit for fiscal 1968 might be as high as $17 billion to $20 billion despite the $12.6 billion that the administration projects at present levels of taxation.

In addition, the 1967 fiscal year deficit, now estimated at $9.7 billion, could reach $15 billion by June 30th of this year, he said.

Whalen supported his scepticism of administration deficit estimates by referring to the original $1.8 billion forecast for fiscal 1967.

He recalled that when the $1.8 billion figure was announced in January, 1966, many, including himself, predicted it would reach $10 billion to $15 billion. He said this was clear because the budget failed to take into account the real costs of the Viet Nam War which the administration since has attempted to explain as a budgetary "goof."

"During the present period of full employment, these deficits violate every precept of sound economics and are, therefore, opposed by economists of all persuasions," Whalen said.

The misleading budgetary statements "will create a further loss of confidence by the American people in the administration's integrity (which) we can ill afford at such a critical period in our history."

The projected deficits "make it mandatory that appropriations requests be pared so that expenditures more closely approach anticipated federal income."