

P U B L I C   H E A R I N G

before

ASSEMBLY TASK FORCE ON THE IMPACT OF THE 1980 RECESSION

Held:

May 22, 1980  
Assembly Chamber  
State House  
Trenton, New Jersey

MEMBERS OF TASK FORCE PRESENT:

Assemblyman Joseph D. Patero, Chairman  
Assemblyman Thomas F. Cowan, Sr.  
Assemblyman H. James Saxton

THE STATE OF TEXAS

County of \_\_\_\_\_

Know all men by these presents, that \_\_\_\_\_

of the County of \_\_\_\_\_ State of Texas

do hereby certify that \_\_\_\_\_  
was duly elected \_\_\_\_\_  
on the \_\_\_\_\_ day of \_\_\_\_\_  
19\_\_\_\_ at \_\_\_\_\_  
Texas.

Notary Public in and for the State of Texas  
My Commission Expires \_\_\_\_\_  
19\_\_\_\_

Witness my hand and seal this \_\_\_\_\_ day of \_\_\_\_\_

19\_\_\_\_ at \_\_\_\_\_  
Texas.

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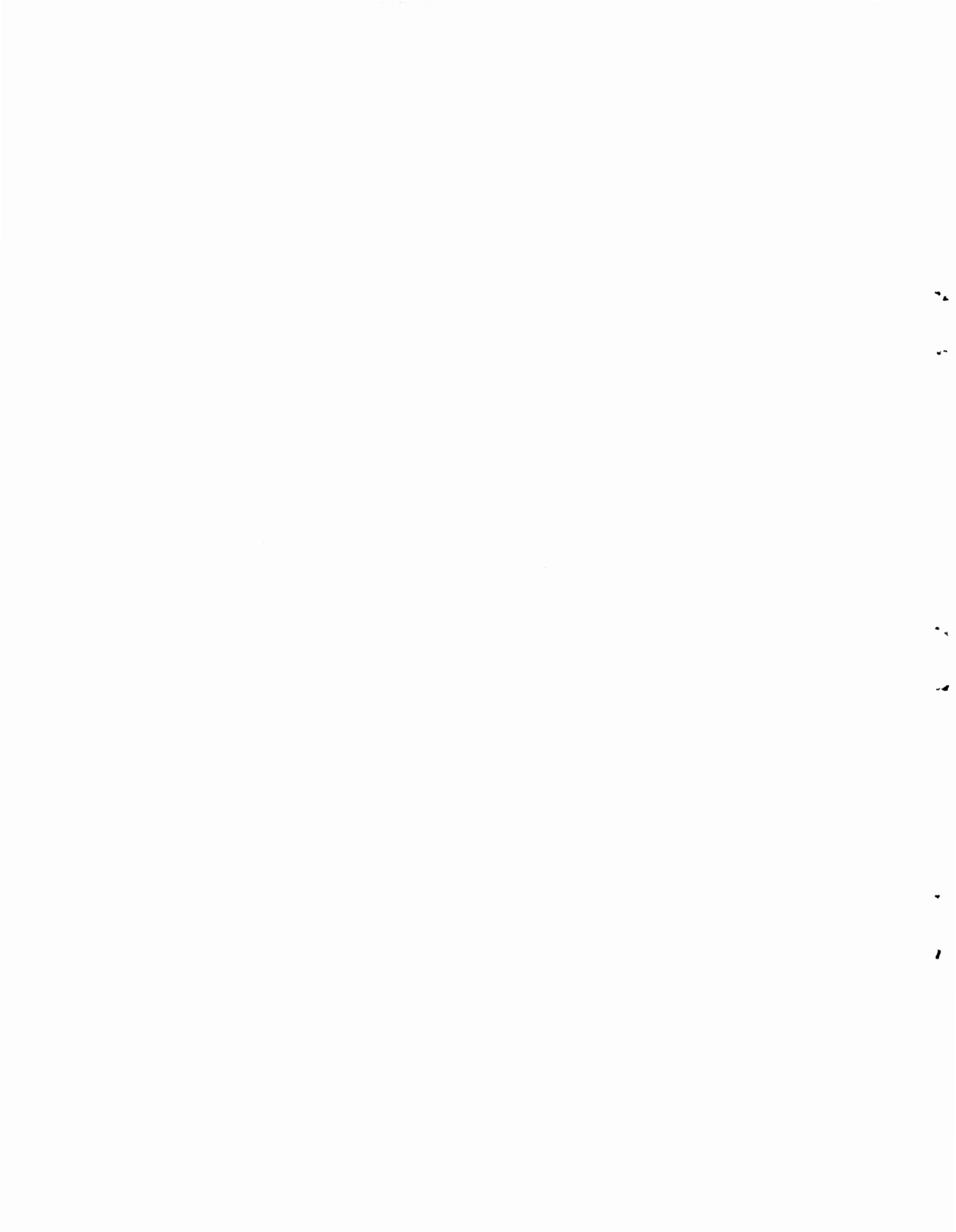
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ASSEMBLYMAN JOSEPH D. PATERO (Chairman): Good morning everyone.

I am Assemblyman Joe Patero, the Chairman of the Emergency Task Force Commission, which was created by the Assembly -- by the Speaker of the House. To my right is Assemblyman James Saxton, who is also a member of this Commission.

We are having a hearing today, and we have invited various people from the private sector, from labor, and from the State Department to come and address us today.

I would like to read the part of the Assembly Resolution, which was passed by the Legislature, that says: "The Speaker, operating under his authority, hereby establishes the Emergency Task Force on the Impact of the 1980 Recession. First, it shall study the impact of plant closings and relocation in this State and propose specific means of cushioning the effects of this recession and future downturns in the State's economy on those workers and communities most affected."

This Commission has had several meetings. We have designated our officers. They elected me to be Chairman of this Commission, and Assemblyman Tom Cowan is Vice Chairman.

The first speaker we will have today is from the Department of Labor and Industry, Mr. Tom Rennehan.

T H O M A S R E N N E H A N: Thank you, Assemblyman Patero. I am appearing here on behalf of Commissioner Horn and the Department of Labor and Industry. I have submitted copies of my testimony to Sam, at your request. I would like to read that testimony.

Commissioner Horn wishes to extend his gratitude to Speaker Jackman and Assemblyman Patero for providing him with the opportunity to offer the following comment regarding the impact of the 1980 recession. In addition, the Commissioner has asked me to personally convey his admiration to the General Assembly for their wisdom in establishing the "Emergency Task Force on the Impact of the 1980 Recession." As the Executive Branch's principal agent in this area, the Department of Labor and Industry welcomes your initiative. I know the result of your work will benefit the State of New Jersey, and I appreciate this opportunity to work with you. I am confident that through a joint effort, the State can more effectively confront the future with optimism and hope.

At this point I would like to mention the efforts undertaken by this Department during the 1974-1975 recession period. During the 1974-1975 recession, when the total unemployment rate reached more than 12%, the Division of Unemployment and Disability Insurance paid over 1.1 billion dollars in regular unemployment insurance claims in the two years. The combined number of first payments to unemployment insurance recipients for 1974 and 1975 was over 900,000. In 1975, the regular unemployment insurance program paid out more money than had been paid in any year prior or since that time.

In order to serve the needs of New Jersey residents during the last recession, unemployment insurance offices operated on extended hours and a six-day work week. In addition, "quad-weekly reporting" was implemented, with unemployment insurance claimants reporting to local offices only once each month, and receiving checks in the mail once each month. The Division of Employment cooperated with the Unemployment Insurance staff

on a program to refer claimants to jobs and to private sector and school training programs in order to equip them with new skills. The Division of Employment Services also made use of on-site application-taking activities at plants with major layoffs -- similar to the Ford-Mahwah situation. These efforts and additional efforts I shall mention in a moment provide the citizens of New Jersey with a responsible mechanism through which state government can lessen - or at least attempt to lessen - the negative impacts of a recession.

Presently, New Jersey's economy is beginning to show the signs of recession already reflected in national statistics. Although, as of April, 1980, the state unemployment rate, at 6.7%, had not shown significant recessionary effects, the state's nonagricultural wage and salary employment level fell in March after increasing for five months. The April employment figures, which were released yesterday, show another decline in the seasonally adjusted total. Manufacturing industries in general, construction and retail trade employment are beginning to show the effects of recession.

Unemployment insurance claims loads are running in excess of the year-earlier figures, and have been since mid-April. This is an indication that the total unemployment rate in New Jersey should show increases over the next couple of months. We, in the Department, foresee a total unemployment rate between 8% and 9% by early 1981.

If our projections are accurate, New Jersey will not experience as severe a recession as during the 1974-1975 period. We think that the manufacturing base in New Jersey is much firmer than it was prior to the last recession, and we also believe that the activities surrounding casino gambling in Atlantic City will help provide a cushion. In addition, the state's economic development efforts should help to counteract some of the recessionary pressure.

As a result of the day-in and day-out administration of programs designed to ameliorate the consequences of unemployment, legislated at both the state and federal levels, the Department of Labor and Industry has confronted recessionary forces throughout its long existence. The experience gained over the years provides us with a unique qualification to deal with the issues involved.

From an administration point of view, last October, in anticipation of the then "forthcoming" recession, Commissioner Horn ordered the creation of a task force to develop contingency planning for administration of recessionary workloads. The objective of this group was to anticipate administration problems that would be encountered, to provide alternative solutions, and to insure that organizational units would join effectively in pursuing our common goal. The effect of this action was to achieve a state of preparedness within the department to meet developing unemployment workloads smoothly, efficiently, and effectively.

The task force report of March, 1979, entitled, "Contingency Planning for Recession," is submitted herewith. As you know, this planning document, like any other, is an evolving one, subject to modification as new requirements, information, and knowledge are developed. At present, I do not have copies of that contingency planning report; however, they are due to be brought to me here before I leave.

The first subject I guess we ought to touch upon, in terms of

departmental response, is unemployment insurance. Our first priority in cushioning the effect of unemployment, is the provision of unemployment insurance benefits in a timely, efficient manner to those qualified, and eligible. I will briefly summarize some key elements of our planning effort in this area:

We have intensified staff training to insure that our personnel are knowledgeable about the law, regulations, and policy.

We have increased our staff of permanent employees in both unemployment and disability insurance programs, and have built a cadre of experienced temporary workers for use on an intermittent basis as workloads warrant.

We are prepared to increase the number of hours our claims offices are open to meet the public's need, and every effort will be made to process mass layoffs at plant sites and other locations convenient to the workers. If necessary, our offices will be open during evenings and on Saturdays.

We will accelerate processing of claims and reduce waiting time in the local offices by streamlining as much of our paperwork process as we can, while insuring proper control.

We have worked closely with the Division of Purchase and Property, in Treasury, to insure that adequate space will be available to meet our anticipated increases in workloads. The process of finding, negotiating, constructing, and contracting appropriately located situations is both time-consuming, and frustrating. While we are hopeful that space will be available when needed, we have designed alternative procedures to handle people traffic in space-short offices, and we are prepared to implement them when necessary.

While we have taken many actions to facilitate the prompt and efficient payment of benefits, we are mindful of our responsibility for the integrity of the unemployment system. We have, during the past few years, increased our benefit payment control investigative staff, and have conducted intensified staff training with the Attorney General's office. We are confident that our staff will be extremely effective in investigating fraudulent activity. If necessary, we will augment our staff to insure that benefits are paid only to those who are legitimately unemployed.

Lastly, in relation to unemployment insurance, I want to bring forward a considerable problem that is not as susceptible to administrative resolution as others. The problem is the \$652 million we currently owe to the federal government as a result of the depletion of the unemployment trust fund during the 1974-1975 recession.

During the past two years, we repaid approximately \$83 million. Unfortunately, it is likely that a recession will almost certainly cause us to borrow again from the federal government. This will compound our problem with respect to repaying such a huge amount while establishing an economic development program designed to attract employers to the state.

The administration has been working closely with the Congressional delegation to amend the federal repayment provision to make it less onerous than the present escalating increase of .3% each year until the loan is repaid. To put it simply, unless the federal law is amended, New Jersey's employers will be required to pay the federal government approximately - and these are estimates - \$45 million in 1980; \$90 million in 1981; \$135 million in 1982; \$170 million in 1983; and \$215 million in 1984. If we

have to borrow again, the schedule will continue to increase by an additional \$45 million each year.

I am sure you will agree that this situation is extremely serious and must be rectified. New Jersey's position is that it does not want forgiveness for its debt; however, we must have a repayment schedule which will not negatively impact on our present and future economic development efforts. We are hopeful that Congressional Bill HR 4007 can be amended to provide for a reasonable cap on the escalating tax rate. This would allow us to repay the debt and restore our trust fund to solvency without undermining New Jersey's economy.

ASSEMBLYMAN PATERO: Excuse me a minute, Tom.

MR. RENNEHAN: Sure.

ASSEMBLYMAN PATERO: On this last point you just mentioned, does the Labor Department feel they will have to borrow any more money from the Federal Government?

MR. RENNEHAN: Yes. The Department of Labor and Industry feels that if the recession continues as it has been going, and it reaches our original projections of 8% and 9%, it seems to be unavoidable.

ASSEMBLYMAN PATERO: And, that is a procedure that is up to the Commissioner?

MR. RENNEHAN: Well, I am not sure of how much discretion the Commissioner has in that regard. That may be an initiative that comes from the Commissioner through Governor Byrne -- that request to the Federal Government.

ASSEMBLYMAN PATERO: I just wanted to know if there was some legislative action that we would have to be taking, or if that was something that the Governor and the Commissioner applied for.

MR. RENNEHAN: Yes. It is an Executive Branch administrative action. I don't believe legislation is necessary for that.

ASSEMBLYMAN PATERO: Okay. We have one more question.

ASSEMBLYMAN SAXTON: While we are on the subject, it has been brought to my attention that our unemployment insurance rates are the third highest in the country, I think. At the same time, the benefits we pay are something like twenty sixth or twenty seventh highest in the country. Can you tell us, in your opinion, why that is, and does it have anything to do with the repayment of the federal debt that we have?

MR. RENNEHAN: Unfortunately, at the present time, I cannot provide you with an adequate answer. I would be willing to find out for you and report back to this Task Force on that question. That is about all I can say right now - okay? Is there anything else?

ASSEMBLYMAN PATERO: No. Thank you.

MR. RENNEHAN: Sure.

As I said, we have been working closely with the Congressional delegation, to get some sort of provision in that rate that they set for repayment, to allow us to repay without imposing an inordinate burden on the business community in the state, and to set up something that would not conflict with the Economic Development of the state. So, I am sure you agree that this situation is extremely serious and must be rectified.

New Jersey's position is that it does not want forgiveness for its debt; however, we must have a repayment schedule which will not negatively

impact on our present and future economic development efforts.

I was talking about a bill, and, as I stated, we are in the process of working that out with the Congressional delegation and the Governor's office, both in Trenton and in Washington. Something I must point out though is, it has always been the history of the process that the states have to deal with the problem, in a sense, that is caused by the federal government. At present, I think the Department and Governor Byrne are taking as responsible an approach as they can, under the circumstances. Until we are in the midst of a recession -- I would say in a number of months from now, maybe in September or October, when we know how far the unemployment rate is going to rise, how many people are going to be out of work, and what measures the state can therefore take -- the state cannot really address inflation and the state cannot really address the recessionary trend. But, we have to be provided - and I think that is the purpose of the Task Force - with the preparation to deal with that situation as best we can. I just wanted to point that out.

It is important to understand that during recessionary periods, we anticipate substantial increases in employment service activities. While this seems somewhat anomalous, experience tells us that certain occupations will remain in demand, that job orders in certain areas and localities continue, that the numbers of people seeking employment increases, and that the task of coordinating new training efforts with employers takes on added importance.

The Employment Service will concentrate on locating job opportunities and maintaining an interested, supportive employer relations program that, in turn, will lead to effective job development and job placement activities.

Where mass layoffs and plant closings are involved, in the nature of the Ford-Mahwah situation, the Employment Service will operate on on-site employment service designed to bring our services directly to the job seekers. I alluded to that earlier. Should there be additional closures of this type, the Employment Service is primed and ready to act.

While our immediate focus is the area of service to the unemployed and the job seeker, it is well to recognize some of the less visible departmental programs that support employment in New Jersey. For example:

1. The minimum wage laws provide supporting wage levels that serve to retain workers in employment that would be vacated in the absence of such a wage.

2. During recessionary periods, labor disputes become increasingly intense. The Board of Mediation lessens the frequency and duration of such disputes through mediation and conciliation.

3. The Workplace Standards Occupational Health and Safety Consultation Service and the Governor's Departmental Safety Awards Program reduce time lost because of accidents and illnesses, encouraging the best economic and spendable returns from existing jobs.

4. A special task force that Commissioner Horn instituted in the northeastern part of the State works toward minimizing illegal manufacturing in homes and in sweatshops, thus making more jobs available for factory workers.

We expect that recession will impact our disabled citizens in various ways. These include citizens that require assistance from our Division of the Deaf, Division of Vocational Rehabilitation, and others.

First, the number of clients referred is likely to increase as the rehabilitation program is seen as an alternative path to training and employment.

Second, the sheltered workshops which provide employment to our severely disabled will find competition for contracts more intense. This will result in fewer contracts and less income, with layoffs and lower wages for those remaining in employment.

Third, disabled persons who have been placed in competitive employment and who are laid off will be competitively disadvantaged for employment and will seek placement in the workshops, exerting additional strain on the facilities.

The recession will increase the number of persons meeting our financial needs test and reduce the client's, or the family's, ability to participate in paying for rehabilitation services. This will have the effect of reducing funds available for services and thus the number of clients serviced.

We will attempt to meet these challenges by intensifying our efforts toward obtaining similar benefits for our clients. Similar benefits is any appropriate service or financial assistance available to handicapped individuals from a resource other than our Division of Vocational Rehab. Basically, it is a supplemental type program.

We are also encouraging the rehabilitation community to support the proposed State Use Law, now being drafted, which will encourage government contracts for the workshops and work for their disabled employees. I think this is an example of how both branches of government - Executive and Legislative - can work in cooperation. And the purpose of this Task Force under the Resolution itself is that in 60 days we will offer ideas on legislation.

ASSEMBLYMAN PATERO: Tom, to your knowledge, is this the complete plant shutdown, the Ford Mahwah Plant, that you know of?

MR. RENNEHAN: At the present time, yes. The Commissioner has designated other staff personnel to monitor that situation much more closely than I. As I have stated, my purview is basically legislation and in-house administration. Sometime ago, it was brought to our attention by a member of the Early Warning Task Force that the U. S. Steel closings or, I should say, steel industry closings that were effected in Detroit and, I believe, Pittsburg --- There was a layoff of a number of workers in the plant in Pennsauken, I believe; but this is going back a number of months. I guess this would be the warning shot that similar things are in order.

Since I have mentioned the Early Warning Task Force, I would say that I have talked with Bob Powell, Economic Development Authority, and other people in our Department about possible assistance from the federal government to expand the operation, duties, authority, etc., of the Early Warning Task Force. In the situation of the Ford -Mahwah Plant, Ford gave no indication to anyone of their intentions, including the State government. There is a question of where the public interest comes into play. We believe that there may be possible federal funding to increase the operation of the Early Warning Task Force to make it a viable entity, so that it does indeed live up to its title.

Are you familiar with the purpose of that Task Force?

ASSEMBLYMAN PATERO: Yes.

MR. RENNEHAN: So, to the best of my knowledge at this time, the Ford Plant is the only plant that is considering laying off such large numbers of workers. As we have stated, as of last month, our Division of Planning and Research in our Division of Economic Research has compiled recessionary trends. As I have

stated previously, we do not see such a significant upturn in unemployment figures for the month. They expect the recession to be less severe than the one previously five years ago. They expect the unemployment rate not to climb as high as it did during that period. At present, it is difficult to say if there are going to be more Ford situations. The situation with Ford happens particularly in that type of industry and I think the steel industry is similar. I am not sure if any other type of industry is going to have such a great negative impact on a one-shot deal.

ASSEMBLYMAN PATERO: I am really surprised that you feel the recession is not going to be that great because I know in our area, which did not have layoffs in the '74-'75 recession, we are now having these layoffs. I am surprised that the Department does not feel that we are going to be in such a serious situation.

MR. RENNEHAN: As you must understand, we are right at the brink here. An illustration I might give you is that you are standing at the edge of a precipice and you have to predict or estimate how deep it is to the bottom. Indications that we have now are that it is not going to be as severe. By no means should these preliminary estimates be taken as gospel truth. As more information comes in - and this is why I am offering the services of the Department to this Task Force - I intend to keep you abreast on a monthly basis or as soon as possible - a weekly basis, bi-weekly or whatever - of any revision in the statistics. As I have stated earlier in the testimony, they have just begun to notice a change in unemployment rolls. They are increasing, not simply because of the Ford layoffs, but it is happening in a number of cases. The trends are there. The figures are starting to come. Whether or not these figures are going to compete with the '74-'75 recession or exceed them, we are uncertain. We believe that they are not going to be as severe. But, as I say, when you are standing on the brink, you can only make estimates that carry a certain amount of credibility. You tend, obviously, as a responsible State agency, to keep an update of those figures; and we will provide them to the Task Force so you can respond as you see fit.

ASSEMBLYMAN PATERO: I believe right now the receiving weeks of payment for unemployment are up to 26 weeks.

MR. RENNEHAN: I believe so.

ASSEMBLYMAN PATERO: Do you feel the Department might be going to add another 13 weeks like they did ---

MR. RENNEHAN: The extended benefits program?

ASSEMBLYMAN PATERO: Yes.

MR. RENNEHAN: There have been some revisions made to the extended benefits program down in Washington. The way that works is, for example, the decision to trigger on benefits would be made this week. By the time those benefits are actually extended, we may be approaching a period when they will trigger off. The trend now is that extended benefits are off. But with these new figures that are constantly coming in that will meet the extended program criteria for eligibility for the triggering-on mechanism, they will probably come back on.

ASSEMBLYMAN PATERO: Would the approval have to be received from the federal government first?

MR. RENNEHAN: You see they have certain eligibility criteria that are set for when the program triggers on and triggers off. That is done basically on unemployment figures and on a number of other figures. So it is really not a decision. It is like an automated light switch. It will turn on when the clock reaches a certain point. When the criteria are met, the program will trigger

on. When the criteria are not meant, it will trigger off. So it is an "on and off" floating mechanism that they use.

Last, but perhaps the most important of all in the long run, is the State's efforts in economic development. This Department, in coordination with the New Jersey Economic Development Authority has and is continually in the process of solidifying a sound economic development base from which to assist the business community in New Jersey. The Authority will continue to use existing programs to assist private businesses. The loan guarantee and direct loan programs are more important to business operations in a recession and can be used as effective tools to help reduce the financing difficulties of individual firms. The Authority is well prepared for such increased assistance requests. Ample resources are available to take on an added exposure as the demand for loan guarantees and direct loans increases. The urban industrial parks program has been used effectively to provide industrial and commercial space for business expansion in New Jersey's urban cities. So far, three industrial parks are underway and the Authority will probably undertake two more parks in urban aid cities in 1980. However, funding for these projects is limited. Added capital is needed to continue the business expansions, jobs and ratables created through these industrial parks. The New Jersey Economic Development Authority will look to the Legislature for new appropriations to continue this important program. Industrial revenue bond activity has been very strong in 1979 and during the first four months of 1980. More than a half billion dollars of incentive financing was provided to businesses in New Jersey during 1979 by the Authority, more than double the 1978 level. Two hundred million dollars of incentive financing was closed during the first four months of 1980, well ahead of the first four months of 1979. If I may, I would say this is an example of what I was referring to in the use of figures. If we compare this year when we are going through a recession with last year when we were supposedly going into a recession, there has been a number of increases in activity to assist the business community. As an example, the level of industrial revenue bond activity will probably slow down for the remainder of 1980 because we will then be getting into the hot and heavy part of the recession. So, at present, there has not been significant change in unemployment figures, in the level of activity of the Small Business Administration and of the Economic Development Authority, all of the criteria you use to determine if there is going to be a downturn. The things that have affected the construction and housing industry and that have been happening for the past number of years are still prevalent. But the supplemental indications are now starting to surface. We don't know how much they are going to rear their heads above the water yet.

However, the program will continue to be an active and important tool for businesses seeking to expand or locate in the State. The Authority's Trade Adjustment Assistance Center has helped 61 firms become certified as eligible for technical assistance under the Trade Adjustment Assistance Act. Loan approvals have been granted for eight firms to date. The federal government through its general economic policies and its operating programs of assistance to businesses, for example, the U. S. Economic Development Authority, the Small Business Administration, Housing and Urban Development's UDAG program and the Farmers' Home Assistance Program, will play a critical role in coping with the economic recession in New Jersey.

In conclusion, I believe the measures I have mentioned that the Department of Labor and Industry has in preparation, and those already in progress, combined

with the initiatives this Task Force sees as necessary to combat the recession, should provide the people of New Jersey with the necessary governmental assistance to weather this unfortunate economic period.

Thank you. Commissioner Horn and myself are eager to assist this Task Force in this new mission.

ASSEMBLYMAN SAXTON: Can I ask you a general question first? I think what our Commission is all about is to try and determine whether or not there is something that the Legislature ought to do or could do to assist you in your efforts in the way of legislation or in the way of appropriations. Specifically, can you give us some idea if there are some things that we should do?

MR. RENNEHAN: As I mentioned, Bob Powell's group is going to be looking for increased appropriations to assist that program. And, as I mentioned in another part of this testimony ---

ASSEMBLYMAN SAXTON: Which program is that?

MR. RENNEHAN: The Economic Development Authority - the ability to grant assistance in the business community.

What I mentioned originally, I believe in an early part of the report, why we don't think the recession is going to be as severe as the '74-'75 recession is that the conditions which the Economic Development Authority was created to alleviate now exist. There has been a number --- I don't have the figures at hand. But the Authority has provided direct loan guarantees, industrial revenue bonds in millions and millions of dollars since 1974-75. And these programs are now taking hold, allowing businesses to stand on their own two feet. Of course, the assistance has been provided by the Authority. But the impact of the Economic Development Authority is now in place and this is what I am referring to when I say solidify the base of support to assist the business in the State of New Jersey. We have something now that may help us react to the recession much stronger than we had in '74-'75.

As we can see, the Economic Development Authority has always been a reputable institution. Bob Powell is doing a heck of a job over there. Under his leadership, I think we have been able to see the Authority grow, be able to assist the businesses that most require it, and live up to its legislative mandate.

ASSEMBLYMAN SAXTON: In your Department, there is an Office of Business Advocacy. Is that staffed and in operation and functioning up to what you consider to be a high level of performance?

MR. RENNEHAN: Under Dr. Guerrieri, there is a capable staff. I am familiar with them all. Their purpose may need to be expanded, to answer your question. What they are doing now is providing an expediting service in permit procedures, which I believe is Governor Byrne's Executive Order 57 - the Permit Coordination Committee. They are assisting businesses. They are acting as the expeditor for business's problems in State government, be it with Environmental Protection, Transportation, Labor and Industry regulations, the Attorney General's Office, whatever. So that is their purpose.

Now, no doubt, in recession they will expand their duties, but to what extent, I am not sure. Whether or not this Office of Business Advocacy should serve the same role - maybe I am reading too much into what you are asking --- serve the same role as the Economic Development Authority or our Division of Economic Development, I am not sure.

ASSEMBLYMAN SAXTON: I understand this office is primarily responsible for helping business to solve bureaucratic types of problems. Do you know whether or not they were involved in the last two days with the Texaco problem

in Moorestown?

MR. RENNEHAN: I am not aware of that. Again, at the completion of my testimony, I will be willing to entertain any questions; and I have already stated Commissioner Horn and myself are willing to assist the Commission in any way, shape or form that we can. If that is providing answers to specific questions like that, providing you with legislative initiative as to how we can better organize our Department or Division or possibly the Authority, that is what we want to do. Everybody is concerned with the problem. And, as I stated, a joint effort is the best way to do it.

ASSEMBLYMAN SAXTON: Can you tell us generally what the Department has done with the Mahwah situation in terms of specifics that you have been involved in?

MR. RENNEHAN: They have already done a number of things that I have mentioned in the report that we do in recessionary periods, extending on-site facilities for the claimants so they don't have to find an Unemployment Office. We are trying to lessen as much as we can the negative impacts, be they extending our hours into the evening, working on Saturdays, putting on increased staff, lobbying with the congressional delegation or working with the Governor's Office to see how Congress is going to respond. Of course, this is of immediate concern to New Jersey because New Jersey workers are being laid off. But it is a regional problem - the same with the steel industry and the auto industry in other parts of the country. Though they should not be our concern; they should be the concern of Congress. We are voicing that to them, asking them to offer some sort of assistance.

I talked with the Governor's Washington Office yesterday and they have gotten an extension on the Trade Adjustment Assistance funds which were to have run out, I believe, a week ago. They have this until the end of the month. This is the fund by which any domestic workers that have been put out of work or harmed economically by foreign imports receive up to 95 percent of their salary, as well as unemployment benefits, providing it doesn't reach a ceiling level that they have set. It is rather complicated. I am just giving you an indication that New Jersey will be getting and has gotten presently from Congress an increased supplemental appropriation for the end of this month. Again, the mood in Washington is that we must increase that money. We need more money to carry us through because, as we have to borrow in a recession from the federal government when the unemployment trust fund doesn't have enough in it, this is a similar type program.

ASSEMBLYMAN PATERO: Let me interrupt here. Do we have to pay this back?

MR. RENNEHAN: No, that is not paid back. The unemployment insurance fund is different from the trade adjustment. Trade adjustment goes directly to the worker. It is a federal program. I believe we administer that program as part of our benefits to offset the negative impacts. But we don't have to pay it back. That is an entitlement program.

ASSEMBLYMAN SAXTON: In the Bergen County area, particularly within a radius of 20 or 25 miles of that plant, there is obviously going to be a very, very serious problem very shortly. One of the things that has been talked about is to encourage some kind of backfill for employment, to try to either retool the plant, or to encourage someone to buy the plant, to encourage a foreign investor to buy the plant, to encourage the federal government to use the plant to produce something. Has the Department been involved in any of these discussions?

MR. RENNEHAN: Very much so, in cooperation with the Governor's staff

people in Washington and the White House. And I believe Secretary Goldsmith from the Federal Department of Transportation visited the Ford-Mahwah Plant. He indicated that it is a prime site for location of a bus manufacturing plant or a truck manufacturing plant. It is the largest plant in the world. It has assets that many other sites don't have. Commissioner Horn has sent a letter - this is going back, I believe, when we first got notice that they were going to close down the plan - to a number of foreign auto manufacturers asking them to at least consider locating a plant there. Volkswagen is locating a plant out in Michigan. I am not aware of what our responses were from the foreign auto manufacturers, but the Commissioner has already been involved in that.

The Governor's Office requested Goldsmith to come up and take a look at it and provide us with some expertise. That has been done. The big problem I think that we still have is: that is Ford's property. I have to curb myself sometimes. As I said, the public interest is at stake here because a large number of workers have been laid off. It could be viewed that Ford did not act in the public interest. They haven't given us any idea as to what their intentions are for the plant. They have been very cooperative. They understand the problem. They realize what the problem is. You really can't fault them because they are the people that are being hurt just as much as GM and the other companies by foreign imports.

So, in response to your question, there are a number of things being done by both Commissioner Horn and Governor Byrne with assistance from the White House.

ASSEMBLYMAN SAXTON: Do you have anything to report that would make the folks in Bergen County feel any better about their situation?

MR. RENNEHAN: No. I would love to be able to provide something like that of a positive nature, but there is nothing yet. I think that is going to be a long process because of the sensitivities of everyone involved. It is unfortunate that it had to happen. But I think we ought to look as much as we can at the silver lining and hope that that is the only mass layoff that is in the cards for the next couple of months during the recessionary period.

So, yes, there is a combined effort by the Governor's Office, the Department, Commissioner Horn and Washington - both in the Executive Department, the White House; and Secretary Goldsmith - in trying to get people to use the plant. We are undertaking efforts as a Department. The Governor's Office is working closely with Washington to provide that assistance.

ASSEMBLYMAN SAXTON: Can I explore one more area with you?

MR. RENNEHAN: Surely.

ASSEMBLYMAN SAXTON: South of Trenton, the economic situation is much different seemingly than it is north of Trenton. The two basic industries, I believe, are tourism and home-building and that type of activity. Very recently or within the last year, we have had the Pineland moratorium. We are apparently about to adopt, through regulation, the Pineland Planning Commission's recommendations in some form or another. That accounts for a terrific slowdown in an area which comprises about half of that area south of Trenton. In addition to that, there are sewer bans throughout all of Camden County, which has created a tremendously bad situation for the economy of South Jersey in terms of building. Then, of course, you can look at the overlays that certain special interest groups have prepared to show the effect of CAFRA and the wetlands legislation, and so on. How does the Department of Labor and Industry view this situation south of Trenton? Is there anything that you can suggest to the Legislature that we have done that

that is good or bad. It is obvious there is an adverse impact there on the economy. Is there anything that you can suggest that we can do to protect the ecology of the area while we are going to try to put some folks back to work in South Jersey?

MR. RENNEHAN: Obviously, that is a very sensitive issue not only in South Jersey but throughout the State, for ecological reasons to the northern people, and South Jersey has their economic development reasons. However, the Governor has indicated the preservation of natural resources is a priority. We follow as a member of the Executive Branch the Governor's lead. There are some problems, but I have all the faith necessary that those problems will be resolved. I can't provide you with a time table. I can present initiatives that I can think of at this point as to how we can obviate those problems.

ASSEMBLYMAN SAXTON: Thank you.

ASSEMBLYMAN PATERO: One last question: I have been watching public television and have seen where they have brought in people to take a look at the Ford Plant. Say we do happen to get a bus company or Volkswagen to come into the area. What is the response from Ford Motor Company in regard to that plant? Do we have any jurisdiction to say, "This is what we are going to put in there"?

MR. RENNEHAN: That is obviously an issue that is of interest to everybody: how Ford is going to respond. Again, I can't emphasize the importance of championing the public interest. If it is necessary that we get involved in a debate with Ford Motor Company because the public interest of New Jersey citizens is being harmed, I have no doubt in my mind that the Governor will make sure that the citizens of this State are protected, with jobs, job security, and a number of things. I can't really predict what Ford's reaction would be. But at this time, we have to use a shot-gun approach to try and solve the problem that was created in that area. If one of the options that we have may not be looked upon positively by Ford, that is something for the policy-makers to decide, Assemblyman, not for me. Governor Byrne, Commissioner Horn and the Legislature should address those questions. I understand why you are asking it and I have thought about it a number of times, but I really can't answer that question, other than what I have said so far.

ASSEMBLYMAN PATERO: This will probably end up in litigation if we do have anyone coming in interested in this.

MR. RENNEHAN: It is a possibility. I know the Governor will maintain that the citizens of New Jersey should get whatever he feels is in their best interest. He has been doing that on a number of occasions. This is another occasion where we have to work closely, as I said, with the White House and with Washington, all on the Governor's initiative. He realizes the problem. He can understand the problems that Ford Motor Company is facing. But I think we all know where his priorities are, and the Commissioner's, and the Legislature's - the citizens of the State of New Jersey.

ASSEMBLYMAN PATERO: I said that was my last question, but I have one more. On the Economic Development Authority loans, are the applications higher for this quarter compared to the past quarter?

MR. RENNEHAN: I don't have that information. But I had a talk with Bob Powell yesterday. Bob indicated to me what I have so far given in testimony. In terms of the numbers of applications that are being made to the Economic Development Authority, I don't know that they have increased. But, as I have said before, we are just on the brink of seeing some changes in the important figures that indicate, yes, we are in a recession, or, yes, we are going into a recession.

I can provide that to you, but I don't have it right now.

ASSEMBLYMAN PATERO: Thank you very much.

MR. RENNEHAN: You are quite welcome.

ASSEMBLYMAN PATERO: Our next speaker on the agenda is Mr. Archer Cole, Executive Vice President, Industrial Union Council, AFL-CIO; and Mr. Cole has been Chairman of the Employment Security Council and has also been working on the unemployment insurance plan. So what we are going to be hearing will be very interesting.

A R C H E R C O L E: My name is Archer Cole. I am Treasurer of District III of the International Union of Electrical, Radio, Machine Workers, which covers several hundred manufacturing plants in New Jersey and New York State. I am also First Vice-President of the New Jersey Industrial Union Council, AFL-CIO; and in the past five years, I have served on the Governor's Economic Recovery Commission, the Governor's Job Creation Program, and I am presently Chairman of the New Jersey Employment Security Council.

I want to commend Assemblymen Patero and Saxton and others of your Task Force for your concern about the growing recession and your desire to mitigate its effect on the people of New Jersey. A recession is a cruel thing. It throws into the streets hundreds of thousand of wage earners previously gainfully employed and reduces immediately their ability to take care of their families. It imperils their mortgages and their children's education. It reduces their purchasing power which further snowballs a recession. It forces them to rely on government payments for survival, whether it is unemployment compensation benefits, enforced early retirement, food stamps, welfare, all of which are poor alternatives to being gainfully employed.

The announcement the other day that unemployment rose .8 of 1 percent in March, 1980, means that there are close to a million more unemployed today than one year ago.

My union had a district meeting of our local unions in New Jersey yesterday and, just in our own industry, here is what we came up with since January, 1980: The Fedder's Plant in Woodbridge, 540 people working today, 1300 people working last year at this time; Delco Battery in the automobile industry, 370 people working today, 700 people working at the end of 1979; Regina Plant in Rahway, which makes floor polishers and vacuum cleaners and which has been affected by home-building, 380 people working today, 680 people working at the end of '79; General Electric, the lamp manufacturer in Newark, a two-week furlough, down to 150 employees - they were 600 not so long ago.

We talked about plant shutdowns. The Industrial Timer Plant in Parsippany, shut down and closed its doors in February, 1980, throwing 300 people out of work, sold out to a company which is operating the same type of work now in Connecticut. Westinghouse-Newark, with a thousand people being phased out currently, and by '81, the doors will be shut. This is the second plant in the United States opened by George Westinghouse in 1896. So these are long-time employees involved here. Westinghouse-Jersey City, an elevator plant, being phased out by June 1981. Over a thousand jobs will have been lost. There are 700 still working there presently.

ASSEMBLYMAN PATERO: Mr. Cole, the unemployment figures you are giving to us, are these union members or is this the total?

MR. COLE: I am giving you the combined.

ASSEMBLYMAN PATERO: So that would be personnel management and union personnel?

MR. COLE: We don't discriminate against personnel managers. No, this takes in population for the most part. These are the best figures I have.

Champion Generator, again a company in the automobile industry, in and around Camden, a shutdown is imminent and 150 people have been laid off already. Tonight, I have the unenviable distinction of meeting with the President of North American Otis Elevator with the local presidents involved - three locals - in Harrison, New Jersey, trying to persuade them not to close the Harrison Plant which has been in existence for about 60 years, producing the foremost elevator in the world. Here they are about to close the plant. Unless by some miracle we can persuade them by some aid that we can direct through the State of New Jersey to that plant, they will close with the loss of 500 jobs. The remaining jobs will probably be moved to Indiana. Bloomington makes elevators and they want to consolidate in a newer plant. Right in the impacted area of Newark where we need the work, these jobs are about to go out. If they decide to close tonight - and the word is bad - they will be out by September.

Process Engineering, a small firm of 75 employees, shuts down this Friday for good. They are in Elizabeth, New Jersey.

We heard about the Ford-Mahwah experience with the loss of 4,000 jobs in the production-maintenance. You asked about other plants. General Motors-Linden has laid off for good 1,000 people, by discontinuing the night shift. These are indefinite layoffs. In speaking to the union leadership there, they don't expect them back. On top of that, there have been continuous sporadic furloughs, ranging about two weeks, and then people are called back. As the automobile industry continues to lose its market to foreign imports, which now are close to 30 percent, we can expect more rather than less of this. This carries out to General Motors, Clark Township, which makes roller bearings, to Trenton, which makes parts, to Ford-Metuchen, which assembles Ford cars. There are several thousand people laid off right now in those three plants.

Now, as we look at this, some of this recession is man made and we can't look for solutions, therefore, to Jersey alone. A recession is a national catastrophe. And some of these, unfortunately, are made in the White House.

There continues to be unrestricted imports in this country. Despite the fact that labor has urged over a period of years that there be something done to control imports, the thrust of the administration, based on their own foreign policies, has been to encourage imports. So we find that we have an imbalance with Japan right this moment of \$9 billion. That is we sell \$9 billion less to Japan than we import from them. A car which sells for \$6500 in the United States, a U.S. car, by the time it gets into Japan with all the tariff and non-tariff barriers, will retail for \$21,000. How can we sell any cars in Japan? But we welcome all theirs and we say, "Come on in." In 1972, when the first round of tariff reductions took place, the tariff on cars was 30 percent; it is now down to 5. We are the only country in the world that does not protect its industries and we think it is a dirty word to say "protectionism." They say they will retaliate it. Well, they have retaliated before we even got started. We are being set upon in this whole world trade situation.

Unfortunately, the administration in Washington, when asked what they could do about protecting the automobile industry, said, "There is nothing we can do." In my own industry, the electronics industry, we have had as a result of the pressure of the unions, orderly marketing agreements on color television, because we lost the whole black and white industry. We lost the whole tape-recording industry. We lost all radio manufacturers out of this country. So

we said, "Hey, let's hold on to color television at least." We had orderly marketing agreements with the help of the administration. They now say they see no need for the continuation and the renewal of those agreements which are now expiring.

ASSEMBLYMAN PATERO: Mr. Cole, you are saying, besides having some State legislation, we would definitely need some federal legislation.

MR. COLE: We need the impact of industrial states, such as ours, seeing the tragedy of Mahwah and electronic firms shutting down and moving overseas -- we need protection. Whatever influence the industrial states, the Northeast-Midwest Coalition of Governors and Congressmen, and your Assembly, can muster has to be brought to bear in view of the peril that we are in.

The next thing that is killing us now in this recession ---

ASSEMBLYMAN SAXTON: Before you go on to the next thing, there is a proposal - I am not sure whether it has been introduced as legislation at this point or not - that the New Jersey sales tax might be suspended for some period of time on domestically manufactured automobiles in New Jersey. Have you heard of that and how would you react to it?

MR. COLE: I haven't heard of it. I would react favorably to anything which spurs the sale of automobiles or our products that would keep people working. That is number one. Despite the decision in Washington that you have to treat inflation by laying off people - that is the only weapon they have left apparently - we don't believe that is so. Some people would say it would be inflationary to take the sales tax off because the government revenues will be decreased. We say employment problems should be number one and we commend your Task Force for recognizing that right now.

The next thing is the tight money policies. That, of course, has done more to hurt the economy now and to kill the building trade improvement that we had since '75 --- as you know, it was in doldrums and then it picked up. Now, we are back. I think the housing permits this year are 40 percent down over last year because of tight money. If you think I am exaggerating the peril of this recession, this was an article in the New York Times yesterday, quoting the Secretary of Commerce of the United States. It says, "Nevertheless, he contended the great danger now facing the administration is that we will try to cut the recession short and not stop the inflation." That is a cynical statement. He says, hey, there will be pressures on us to stop the recession and we won't be handling the inflation properly. We have them both. We have an 18 percent inflation rate, which is not coming down because of other things like the idiotic policies on fuel, on oil and gasoline, which again the administration made possible by decontrol and other measures.

We have no protection against plant runaways - and I know it is part of the work of your Task Force to look into it -- plant runaways, relocations abroad and at home. They are killing the industrial Northeast. It has been estimated in the last ten years over a million manufacturing jobs have been lost to the Northeast and Midwest. And, in the State of New Jersey, at least 500 plants have moved elsewhere with a loss of better than 150,000 jobs.

ASSEMBLYMAN PATERO: Mr. Cole, this loss of jobs, are they relocating or is this because of the foreign market, or is it just a reduction of sales?

MR. COLE: I am talking about relocations, either abroad or the Sun Belt or rural areas or the Far West. I am not talking about shutdowns for business reasons, recessionary shutdowns. I am talking about just picking up a thriving business in some cases, like Westinghouse-Newark, and moving it to Clearwater,

Florida, because they will save \$3 million on wages there. This is what bothers us.

Now, we have got to come to a decision on the question being asked in the United State today in many quarters and in the State of New Jersey: Is it in the public interest that the corporations have the sole right to determine whether industry remains in a given area, in a given location, regardless of its impact on the workers and the communities involved? I must say that twelve states, including New Jersey, have said, no, it isn't their sole right, and have put into place legislation which would limit the right of business to be the sole determinant of whether they remain in a given location. Those states are: New York, Pennsylvania, Connecticut, California, Illinois, Rhode Island, Maine, Wisconsin, Massachusetts, Michigan, and now New Jersey with the Codey Bill which I have here. They are saying that the public interest - you were asking about Ford - may surmount the individual interests, be they greater profits or mobility of an industry of what have you, than these parochial considerations. Not only are these states involved, but Senator Williams has introduced in Congress S 1609, the Plant Relocation Bill, which impacts upon this problem. Now, whether it is a state bill or whether it is federal legislation, they have very much in common; and the Codey Bill has the same characteristics.

Number one, they would require prenotification of any plant relocation or closing, a year to two years, depending on the bill that has been introduced. This is absolutely vital because there can be a great deal brought to bear by the public, by the Governor, by the Assembly, and by the unions to try to convince a company not to leave. It is a sad situation when you learn, like they did in the Ford-Mahwah situation, with just a couple of weeks notice, "Hey, in June we are going out," or in one plant that we had in Cranford, the people left on vacation on Friday night and Monday they got the telegram saying, "We are not reopening again." There is nothing in the world in the present law that said that that was an improper act - and it is - it is - because these people are not going to get jobs again. We have to remember, as against ordinary layoffs where you go out and three months later or two weeks later you are recalled to your job, you have seniority, you have pension rights, and so on, this is the end of your job and your ability to work, and the end to the community to get the ratables that they need to have the payroll, as per Mahwah. I was up at Mahwah when they had that big rally about three weeks ago. I met the mayor. She happens to be a woman. We asked her, "What will this do to your community?" She ticked off all the problems they are going to have: police, firemen, roads, and sanitation. The whole budget will be thrown into a kilter and the survival of that community in education and housing as it now exists will just be turned topsy-turvy, because the payroll is at least \$20 million a year, the ratables must be in the hundreds of thousands of dollars, and the whole budget has to be looked over. A recession or depression mentality and condition will set in there.

These bills require prenotification of a year so that wiser heads can sit down and see what is possible.

In the Industrial Timer situation, we learned at the end of January that they were getting out in mid-February. We found there was a Jersey buyer in Kenilworth who would have liked to have bought that company. The union heard of it. We took that fellow by the hand and we took him to the EDA. He had never heard of the EDA and this man was a manufacturer in the State of New Jersey. EDA told this gentleman that if he wants to buy the Industrial Timer Plant and

prevent its exodus to Connecticut, they would make available as much as \$2 million in various types of low-cost loans, which were very attractive. We did not swing that thing because they had made the deal well before they told the union. We had two weeks; we found a buyer; we could have been operating there; instead, we have 300 good-paying manufacturing jobs down the drain. EDA should be able to publicize its activities better so people will know about it. It should be out front. I have found it has been one of the best things our State has done. And we ought to be bragging for a change about the good things we do. As I think has been said here before, more moneys and more local authority ought to be placed in EDA to assist business in staying.

The bills that have been introduced in this year's time would enable the State to provide assistance plans for continuing operations; and all of them would allocate funds, whether federal funds or state funds, depending on the bills that might pass, to help these companies. You talk about the early warning system. I have been involved with that. I say there is one simple thing the State should do. First of all, we should take an inventory of the old plants. We see them all over the State, especially in the cities, 5-story plants, 4-story plants, 60 and 70 years old like Westinghouse right here in Trenton on Pennington Avenue. Take a drive out there today and you will see. That plant once had 700 lamp workers. They are down to 200. I don't know how long they are for this world. The company told us a few years ago, we have a 5-year plan of remaining. There are 3 years left then. What can we do? Why shouldn't they build around here? Why do they have to go down South or someplace else? So we ought to take an inventory of those plants. These are plants that would go first. This is a simple and uncostly thing for the Assembly or for the administration in their deliberations to put together. Let's take an inventory. Ask the unions, ask the companies, ask the Chambers of Commerce, ask the cities: What are the plants that might close down? They know it. We shouldn't wait until even they give one year's notice. We should be meeting with them now and saying, "Hey, we see, Otis Elevator, you have an old plant here that is over 60 years old. Do you need some assistance in remaining? We see you need better parking facilities. We see you need better lighting." This is foresight. This has to be done. Two years ago, I made this proposal to the Governor's Job Creation Council. Everybody said it was a great idea. I don't see it in place yet. But this is what a year's notice would do: it would direct funds and attention to plants that might be impacted by the problem. Then it gives assistance to employees and community organizations for the continuation of the plant by the community or the unions or the employees, themselves. Now, we have the Okonite Plant not very far from here in New Brunswick where they were going into Chapter 11 proceedings, bankruptcy proceedings; and, through the help of our congressional people - the Senators and Assemblymen involved - and the company and the union, the employees set up a corporation to buy the plant. It is operating and has been, I believe, for almost five years.

My own union up in Herkimer, New York --- Sperry Rand made library furniture there. Of course, they are big in electronics and sophisticated technical machinery, etc. They got out of library furniture. The community and the employees set up a corporation. Now, it is in its third year. I just read with great delight, they gave the people a 10 percent raise. I thought that was terrific.

I don't see this as a great solution because obviously Ford in Mahwah doesn't want to sell to a competitor. They don't want Volkswagen in there. They don't want Japanese manufacturers to take over their plant. Yet,

wherever that could be done, state moneys and federal moneys ought to be directed to assist with technical know-how, with low-cost loans, etc., to enable the community and the employees to remain afloat there.

Most of the state legislation I have seen requires companies to make a percentage contribution of their annual payroll, a one-shot contribution, which would be money paid for community assistance. If you are leaving these communities in the lurch, there should be some payment made before they leave to the communities so they they can adjust and assist, not just leave them hanging high, wide and handsome.

As to the unemployment phase of this, let's say a Westinghouse goes out, there is an obligation to pay to a thousand people. They don't have enough in the fund, so that the rest of the employers will be left to pay the outstanding unemployment insurance claim for the next six months or nine months, depending whether there are extended benefits, or what have you. So, moving out, certainly leaves the whole community with a problem and they have some obligation to take care of it. There should be severance pay or relocation options to affected employees; that is, if they are relocating elsewhere, the present work force should have an opportunity to go with the jobs. If the people can't relocate, there should be severance pay contingent upon length of service with the company, at a fair rate.

I feel that the full strength of your Commission ought to be placed behind this Codey Bill, as well as federal legislation. Now that I have learned only recently that twelve states have such bills, you should be able to create a groundswell leading to federal legislation which would be uniform then and non-punitive to any one state that goes out front. But now that we have twelve, I am very encouraged that we would not hurt in any way the State of New Jersey by being among those twelve - and they are all industrial states, I notice.

As I said before, we have to work hard to retain what we have and then get into the job of job creation. EDA has been in that field and I don't want to belabor that point. We should see where their authority could be expanded so that new companies coming in would be encouraged to come in by the type of low-cost borrowing that they could have available to them in coming here.

I think also that we have to look to the State and to the Legislature to help develop new industries, be they solar or other types of industry, and train people. For instance, if we knew that solar energy was expanding, we could possibly help taxpayers to take advantage of retrofitting their homes, having housing audits made, as Bill Bradley and Joel Jacobson have advised, to see if the houses need to be retrofitted to conserve energy, or whether certain houses are adaptable to solar energy. We could assist in that process. That would bring in new industry and create jobs at the same time as we conserve energy.

I am encouraged by the work done by Assemblyman Schwartz in the pilot program in Middlesex County in job transportation where they bought two mini-buses and they were able to bring 1100 people in a short period of time together with jobs listed at the Employment Service. This program should be expanded by the Legislature throughout the 15 counties if it is feasible. Certainly, it is feasible beyond Middlesex and I know there are moves in that direction.

I think if we are undertaking dealing with the recession in New Jersey, we have to think of public works programs dovetailing with the federal government. There are all kinds of programs out there. I think that your Task Force could profitably sit down with the congressional delegation and with the Governor's

representative in Washington, Miss Thompson - I think that is her name, Mildred Barry Thompson --- and sit down and say, "What programs are there out there? How can we get our hands on some of that money? What defense work is available through the ITT's and the General Electrics?" For example, one of the things we are going to talk about tonight with Otis Elevator is that they could do all kinds of defense or federal work in that plant. We are going to discuss it and we are going to meet with our congressional delegation, together with the company, if they make themselves available today.

There are programs out there and I think we have to know what they are. And if that means sharing revenue from Jersey to do that, it is money well spent.

When I sat at the Northeastern Governors' Conference, they developed figures to show that --- the law now requires the Defense Department, for example, to give priority to impacted areas in placing orders. That has been observed in the breach and less than one percent of all federal orders go to the Northeast, even though New Jersey gets back 67 cents on every tax dollar - that is what it is - we don't get back the type of jobs and industry available to us if government orders were placed on a priority basis where the need is greatest. It wouldn't have to go only to the Northeast. If Atlanta is suffering a decline, then that is an impacted area - or Houston, or anywhere. It should be done fairly and the lion's share of the work should not be given to the Sun Belt states, which are getting it now, because they happen to have Southerners on all these military affairs committees. And that is the way it was done in the past.

On unemployment insurance, I would say - and you know we have been studying this for two years and we have a program that we have recommended to you, Joe, and the Assembly Labor Committee - it would be tragic now at this time when we are anticipating and experiencing this great unemployment to start to crack down, as the Chamber of Commerce would do, to prevent people from being entitled to collect or cutting their benefits, especially the lower-paid people, which has been proposed, as you know, in the Bedell Bill. It would be tragic to have somebody going out with an 18 percent inflation rate today find out, instead of getting \$80 a week, he is going to get \$70 a week. That is the Chamber of Commerce proposal today and there are all sorts of disqualifications that they have proposed. You know that labor, as well as the Employment Security Council, has opposed this type of measure which would disqualify people at a time when the need is greatest.

These are my observations. I know I share them with many union people. I hope in your wisdom in the work you do, at least some of these can fall into place. Thank you.

ASSEMBLYMAN PATERO: I would just say, Mr. Cole, that I was contemplating putting in the legislation proposed by Mr. Codey at the last session. But after talking to various people, I found out that this might be a very dangerous precedent because you might discourage new industry from coming into the area if they know you have this type of legislation in effect. I was very happy to hear that Senator Williams is proposing something like that.

MR. COLE: Yes. I will leave the bill here. It is S 1609.

ASSEMBLYMAN PATERO: But, Mr. Cole, you understand what I am afraid of is what this will do to industry that would want to locate in our area.

MR. COLE: I tried to deal with that by telling you about the twelve other states that have that legislation. Wisconsin has already passed legislation.

Last week in Ohio, it just went through the Labor Committee. It passed the Labor Committee by a vote of four to two. So it looks as though there might be good sailing on that one.

What we are saying is that our first obligation is to protect what we have. If you lose Westinghouse in Newark, you lose 1,000 good paying jobs; or if you lose Otis Elevator, you lose 500 jobs. You know the new type of industry we are getting in. We are getting service-type occupations that typically pay \$3.10 an hour. While I certainly don't want to discourage that - I want to encourage that. If they know that the major industrial states are doing the same thing we are doing, I don't think that we will have the impact that you have explained certain people are concerned about.

ASSEMBLYMAN PATERO: It is good that we are getting world headquarters coming into our State. But I agree with you that we have to get heavy industry and keep the industry that we have in the State now because there are certain people that just have to work with their hands.

MR. COLE: That is right. I worry about our members who are about 50 years of age and don't have pension rights yet in place and who have their plants closing. But I worry even more, because we have vesting and we have certain things that we are negotiating during plant closings --- I worry about the young people where I live in Union County. Singer Sewing Machine employed about 10,000 people. If you didn't go to college - and only half of our people do - where do you go for a job anymore? So if Singer shuts down or Phelps Dodge or Otis or Westinghouse or GE or Ford-Mahwah, where do young people go for work? This is a major concern that I think we should all share at this time.

ASSEMBLYMAN PATERO: I think we all do.

Thank you very much, Mr. Cole.

MR. COLE: Do you want the William's Bill?

ASSEMBLYMAN PATERO: Yes.

MR. COLE: I will be glad to give it to you.

ASSEMBLYMAN PATERO: Next, Dr. Joseph Seneca from the Economic Policy Council.

J O S E P H     S E N E C A: My name is Joseph Seneca. I am the Chairman of the Governor's Economic Policy Council. I have been a member of the Council for the past five years, and I have chaired the Council for the last four. I also am Professor of Economics at Rutgers University in New Brunswick. I have served on the Governor's Job Creation Committee, Hazardous Waste Advisory Commission, and several of the other committees that Archie has served on as well.

I greatly appreciate this opportunity to appear before you and speak to this critical economic concern for all the citizens of New Jersey. I applaud the interest of the Legislature in watching closely the unfolding national recession and its willingness to take measures as far as State Government can to alleviate the economic problems of New Jersey as caused by the developing national recession. We are eager, myself and the staff of the Office of Economic Policy, Dr. Adam Broner, on my right, to provide you with the results of our work on the New Jersey economy and to answer your requests and questions not only today but certainly throughout the period of your work. The uncertainties of the current national economic situation are very much with us. We are in the midst of a national political campaign that will affect, no doubt, economic events. Other things will also occur to affect these events, and that requires a continual need

for revision and updating our work on just where the New Jersey economy is headed in this recession. What I thought I would try to do today is not to compete either with the eloquence or the specifics of testimony like you have heard thus far on individual issues, but rather to attempt to provide you with what I think your task force will need to establish the basic dimensions of the overall problem that confronts New Jersey - when will the recession occur, how severe will it be, how long will it last?

To that end, I would like to organize my remarks as follows: First, I would like to review the major economic indicators of New Jersey and answer the basic question which I think is a fundamental interest, where are we now, as of last year, as of last quarter, as of today? And, I would like also to provide for you a forecast for the next year, for the New Jersey economy, based on our work on the leading economic indicators and indicate where we see the economy heading. I would like to summarize that data for you in terms of answering the basic question that I set out, how deep will the recession be and how long will it last, and finally to address your specific interest as well it should be, what can we do about it. I would like to suggest some ideas for your consideration on how we as a State can alleviate some of the recession's effects on New Jersey, although I believe very strongly - as Mr. Cole said - the recession is a nationally induced one and there is little the State can do about that basic condition.

The major economic indicators of New Jersey, economic conditions in New Jersey as they are now, have two points to make. The first is, on the basis of the data we have to date, that is, through approximately the first quarter of 1980, we do not look for a recession for New Jersey, however, my second point, we see it coming, and it is coming right now. I would like to provide some specifics for each of those two points.

First, in terms of employment, in the first quarter of 1980 for New Jersey employment increased at a rate of 2.8%. That is an annual rate. If that rate would continue - which we do not expect it to - for the rest of 1980, that would translate out to 80,000 new jobs. It does represent an actual gain in the first quarter of about 20,000 jobs, and that rate is higher than the rate for 1979, the last half of 1979. That job growth, however, has not been evenly distributed. The rate in the individual sectors, construction is up 6 1/2% during the first quarter, and the service sector is up 3.2% and the manufacturing is only up 1%. These are some of the problems that we face, some of the hints of the problems that we face.

In terms of unemployment statistics, the latest data we have available for New Jersey is that the unemployment rate of April, the 6.6% of the labor force or 236,000 people wanted to work but were unable to. But, this is the first time since 1972 that the New Jersey unemployment rate was below the federal unemployment rate. In April the United States unemployment rate stood at 7%; moreover, for the U. S. as a whole the unemployment rate has been rising in comparison to 1979, while in New Jersey it has basically remained constant or indeed fell a bit. In 1979, the national unemployment rate was 5.9%. In April that national unemployment rate was 7%, while in New Jersey, the New Jersey unemployment rate for all of 1979 was 6.8%. It is now 6.6%.

Now, I think an important question to ask is, why have we shown this relative improvement in the New Jersey economy? I am not suggesting that the

outlook is rosy. I am not suggesting that there are not severe problems, but certainly relatively, from others we have experienced in the past, we have had an improvement in the employment situation. I would suggest the following reasons behind this, which lead me to my second point, that we are in the midst of the recession right now.

The economic problems thus far of the national recession have been concentrated in two industries and in the ramifications of those industries, the automobile industry and construction. In both of those industries, New Jersey's share of employment is significantly smaller than the national counterparts. For example, if you look at all employment in the country, 4.4% of employment in the U. S. is in motor vehicles. If you look only at New Jersey employment, only 1/2 of 1% is in motor vehicles. Thus, the automobile industry has felt the brunt of the national recession, but we have proportionately less of that industry. Obviously, we have a significant and major problem developing in it, but up to now, that is why the numbers don't show it, whereas, the U. S. numbers do.

Also, in construction, our share in the construction industry is relatively smaller. Nationally 5.2% of the work force is employed in construction, while in New Jersey it is only 3.5%. The basic reason for that differential is the stable population of New Jersey compared to a growing population for the nation. What we do have in construction particularly anchored by Atlantic City has thus far been able to weather the recession; although we do see the building permits referred to by Mr. Cole as a coming problem.

Another major reason why New Jersey employment statistics seem to be showing up better than the national counterparts is our slow growing labor force, because the population is growing slower in the State. We have not had to define as many jobs just to keep the unemployment rate stable.

Other current economic indicators, in addition to employment, show New Jersey through the first quarter, or through the end of 1979, faring reasonably well. Personal income was up 1 1/2% through the fourth quarter of 1975. That compares very favorably with the national increase, once you adjust for the difference in population growth. Inflation in New Jersey - and this is a number we developed in the Office of Economic Policy, a consumer price index for New Jersey alone - from March, 1979, to March, 1980, the last calendar year for data we have available, the inflation rate in New Jersey went up by 12.8% as the consumer price index, and the equivalent national rate was up by 14.7%. Increases in New Jersey were lower in all areas except for fuel and utilities.

All this is encouraging, but I do not intend it to be a rosy picture. Obviously, things are beginning to develop and hint and point very directly to signs of significant trouble. Retail sales in New Jersey are slowing down. The latest period for which we have data indicates that sales are on the increase by 3% and in the U. S. they have increased by 11%. After you account for price changes, and after you try to take out the effects of just increases in prices and get to the increase in actual things bought, sales in New Jersey have fallen by almost 8% compared to only 1% nationally. New car registrations are down in New Jersey by over 5%. Building permits are down in New Jersey by 24%. The Mahwah closing forthcoming in the next month will be a major economic blow to

the State. That leads us to our forecast for the next year. We recently developed a set of leading economic indicators for New Jersey, which is a unique development for the State, and it enables us to forecast three components of the State's economy, total employment, income, and the unemployment rate. Those indicators are based on labor market conditions; this includes initial unemployment claims, the quit rate, work hours in manufacturing and new job openings. Also included are building permits, and the money supply. Using these indicators in conjunction with some reasonable judgements about their future behavior, that is, a national forecast, we are able to forecast those three important barometers of economic activity for the State.

Those graphs that I have handed out are an attempt to answer the question, what does the national forecast look like? I won't attempt to go into these in depth, although they get to be somewhat perhaps confusing looking, but we have a graph with three components: national product, industrial production, employment and housing starts --- Excuse me, there are four components.

The point of those graphs is that they measure the behavior of each of those statistics from what we call the peak of the economy, where that is at 1.0, and how the economy has been behaving since that peak. What we are interested in comparing is the current recession with the last one. The current recession is indicated by the dark line. The last recession of '73-'75 by the shaded line with the horizontal breaks in it. If you just look at those two lines, what we see for all those indicators is that we suspect the recession will approach that of 1973-1975. If you look at industrial production, where it is indicated current period, the second graph, it is turning down just as the '73-'75 one is turning down. If you look at the next graph, total employment, and notice the shape of that dark line, the current period, and compare it to the shape of the '73-'75 line. It is turning down at just about the same rate. If you look at housing starts, they are faring perhaps even worse on a steeper decline.

Therefore, our best judgement at this point in time is that the national recession will be approaching the dimensions of the '73-'75 one, and that leads us to the obvious question, what does this mean for New Jersey?

Based on that judgement, that the coming recession would be similar, if not quite as severe as '73-'75, I refer you to the last table in that hand-out which contains our forecast for New Jersey. The three columns are what we are forecasting - total employment, the unemployment rate and the change in real income. We start as our base the first quarter of 1980 - and that is 1980-I and we are forecasting out for you for the next year, through the first quarter of 1981. Our forecast indicates New Jersey will lose 70,000 jobs from the peak, which is the 1980 patched first quarter to 1981 first quarter, a loss of 70,000 jobs and an increase in the unemployment rate from where it stands now at 6.6% to 9% or an increase of 2 points in the unemployment rate, and a decline in the income of the State of 3% which translates out to \$1.7 billion.

That really brings me to the answer to the question which I attempted to answer for you, what is the severity of the recession going to be in terms of its dimensions? New Jersey, we predict at this point in time, will lose 70,000 jobs. We should remember during 73-75 we lost 150,000 jobs. Why are we saying now that although the national recession would be as severe or approach it, we

will not be as severely affected as we were last time? Several points come to mind. The manufacturing firms that we have lost already - a very painful experience - have had some long-term impact on the structure of New Jersey's economy. Just to give you some perspective, in 1960, 40% of our work force was in manufacturing. The national average at the same time was about 30%. We were much more heavily a manufacturing state in 1960 than the nation was. By 1979, 26% of our work force was in manufacturing and 24% nationally. In other words, we have aligned very closely with the national average. Painful as it has been, and painful as it is, recessions always affect manufacturing more than other sectors. We are now approaching, sort of, the national profile of manufacturing employment, vis-a-vis, total employment, and therefore, that painful experience is hopefully somewhat behind us. It doesn't mean that the manufacturing jobs that we will continue to lose will not create major problems.

Also, the construction industry this time around is likely to remain relatively more healthy again anchored by Atlantic City, which would be recession resistant. As we get more information, we will be happy to revise and update these numbers. These are our best estimates up to now, and we are available for revisions. That leads me to the not very cheerful possibility - and I don't mean my remarks were cheerful up to now, because there is the loss of this number of jobs, as Mr. Cole indicates - of enormous human suffering and disruptions and difficulties in every day life. It is not a cheerful outlook, and we have come to the question that Assemblyman Saxton has asked, "What can we do about it." The backdrop of this is the environment that I always have to address in meeting both with the Governor and the Cabinet and the Legislature, what can we do about it that is effective and doesn't cost anything. That becomes a much more difficult thing.

First off, let me suggest a few things that you might want to think about that the State can do and then I would like to address myself to the State's relationship to the Federal Government. The fundamental economic problem of this decade has been the slow down in capital investment, both nationally and in New Jersey. We have seen this for sometime in the New Jersey statistics. A critical issue that provides the basis for and the vitality that leads economic growth to translate out into job creation is the need to stimulate private capital investment. I see two things that the State could possibly do marginally to help in this area. First is the positive one, and that is to investigate, as we were talking about several years ago, the possibility of providing investment tax credits. Investment tax credits against the state and corporate income tax would provide the incentive for private investment expenditures in this state. These tax credits can be as wide or as narrow as costs and revenue considerations justify. You could limit them to small businesses only, as an example of one idea, to reduce the revenue impact on the Treasury. But, we do see a need to have the State take a positive role in providing some incentives for investment tax credit.

Secondly, there is still on the New Jersey books a part of the corporation income tax which is a negative incentive for capital formation in New Jersey, and we have strongly recommended over a series of years the removal of that negative incentive. I am speaking now of the net worth tax. Consistent with the philosophy

of the 1976 income tax reform where we argued quite rightly, in this Assembly and in the Executive Branch and in the Senate, that we want to move away from taxing property to taxing income on the basis of ability to pay. The idea of property tax relief for both businesses and individuals is a correct one from all points of public finance, and the substitution of those revenues with a revenue generated on ability to pay through income taxation. The net worth tax is a tax on business property and business net worth. It is a regressive tax. It is overtly regressive; the rate declines with the size of the company, the smaller companies paying higher rates, and it is a tax on net worth of business allocated to New Jersey. We have recommended the repeal or the phasing out of that tax. We believe it inhibits investment. The cost estimates - an outright repeal - would cost the Treasury from between \$70 million to \$75 million a year. If you want to ask me how to come up with that amount of money, perhaps I can respond.

If we just phase this out as we did with the business personal property tax, any new net worth is not taxed, that would cost about \$3 million a year. So, those are the two things we see the State might do in the area of capital formation which perhaps you would consider.

Secondly, in terms of the timing of trying to alleviate the coming recession as it unfolds, we suggest that your Task Force look into the possibility of speeding up, accelerating, capital spending from already approved bond issues, so that that capital spending is pushed forward into 1980, second quarter, third quarter, from when it would have been spent. These are bond issues already approved; the monies are already there; speed up the spending for them during the recession.

Related to this idea of capital spending is the fact that we strongly endorse the concept and the appropriate legislation for what has been called the rainy day fund. Mr. Cole indicated something like this in his testimony about counter-cyclical measures, but again here we are talking about on the State basis. It may not help this time around, but it could help the next time around to have it in place, to accumulate a fund in surplus years to provide an expenditure source for capital expenditures and job creation during the years of hard times. Michigan has a law and a fund in place as an example. It is an excellent idea and it is something the State can do and should do.

The third thing that we see the State as possibly doing, which you could perhaps consider, is to provide assistance to small businesses. We are becoming a State of small businesses. The average size of the firm in New Jersey has been declining steadily since the 1950's. Recessions are particularly lethal in terms of their effects on small businesses. Any financial, organizational, technical assistance to small business which the State can provide would be very useful. We strongly support the concept of the small business development centers, Senate Bill 878, and any similar legislation in this area that provides a whole range of assistance to small businesses, again, at reasonably low cost.

ASSEMBLYMAN PATERO: Excuse me, is that Senator Hamilton's bill?

MR. SENECA: It is. I also think the State might consider reviewing government regulations in the area of economic development for possible problems. The Economic Development Authority has been mentioned previously this morning. Their work has been outstanding. We might propose, however, that you consider

the following: During national recessions on some sort of trigger mechanism when unemployment rates in New Jersey get to such and such an extent, that the geographical restrictions on Economic Development Authority aid be suspended; that is, not only confining it to urban areas. The point is, if someone wants to come somewhere else during the recession - maybe you want to help them during a recession and not at some other time - and if it is a choice between having it or not having it somewhere in the State, you may want to have it somewhere in the State, even if it is not in the urban areas, although I strongly support the concept of dealing with urban problems.

By the same token, and perhaps this sounds rather controversial, again during times of national recession based on a trigger mechanism there could be wage regulations on Economic Development Authority assistance projects be suspended. The intent of having to pay a union wage on any Economic Development Authority project. It certainly is laudable, but again if it is a question between no job and some jobs, it may be worth considering this.

My list about what we can do from the point of view of the State is not very long. I would like to turn now to the Federal Government. Something that was mentioned in the spokesman for the Department of Labor and Industry's testimony and again by Mr. Cole, and something I would like to return to, is the non-wage labor cost of employment in this State. It represents a major deterrent to hiring. The fixed cost of employment has invited an unemployment insurance trust fund debt, that was referred to, to provide high non-wage labor costs, which simply work against new employment. I perhaps would be a bit stronger than the other speakers this morning. The message was made that we want to pay our debt, but we want to do it fairly and perhaps more evenly over time. I think that should be maybe a fall-back position. Our problems with that debt were created during the '73-'75 recession. We were solvent up to that time. New Jersey did not create that recession and that was a national event, and relief from that debt is something to be sought after by not only New Jersey, but the whole northeastern states. We have a national recession imposing very high costs on a selected number of states. The states did not cause this. So, I would be very vigorous in attempting to get complete relief. I know the Governor has been very active here.

Finally, I think the State Legislature should support through resolution or through the New Jersey Federal Delegation approval of the Federal Accelerated Depreciation bill, the so-called 1053 bill that provides 10% to buildings, 5% for equipment and 3% for vehicles to make sure that that accelerated depreciation applies not only to new investment but to renovations where we may hold industrial stock and you want accelerated depreciation applied to our existing stock.

ASSEMBLYMAN PATERO: Is that a House bill?

MR. SENECA: We think it is a Senate bill. But, we will check on that. That support for that legislation, perhaps, should be manifested formally.

Finally, I think it is important for the State Legislature to realize the importance of a major issue that has perhaps not received the attention that it has deserved on the national level. This is the so-called severance taxes on energy extraction.

Wyoming has a corporation income tax of zero; Alaska has just given money back to its residents. These types of severance tax legislation have

enabled states with high energy sources to ship their tax burdens outside the State, and therefore provide tax reductions within the State both for individuals and for corporations, distorting the locational incentives of natural market forces between states, and among states, therefore, becoming very attractive places for companies to move. It is equivalent to our gross receipts tax problem that you addressed before. Few localities are getting lots of revenues, and don't know what to do with them and therefore this revenue problem develops.

The Legislature and the Governor must present this issue on the Federal level and make sure there is equity among the states in these State Severance Taxes. I think that is a very, very critical problem, particularly for states like Texas and Louisiana. We are not losing industry to Wyoming or Alaska, but to other energy producing states that are able to ship their tax burden outside the State. This is a significant problem.

I am sorry my list is not longer. Thank you for your time. Certainly, I am available for questions right now or further work for your Task Force later. Thank you.

ASSEMBLYMAN PATERO: That was excellent. We will be keeping in very close touch with you and your agency. Thank you very much.

Our last speaker before we adjourn for lunch will be Ms. Eileen Measel and Robert Woodford, New Jersey Business and Industry Association.

ROBERT A. WOODFORD: Thank you for inviting us to join you today. After hearing what Dr. Seneca had to offer you, I am sure that our assessment of the recession will not give much additional information to you.

I want to begin by indicating that I very recently checked over two issues, 1974 figures and 1979 figures, published in New Jersey Business Magazine which took the 100 largest employers in New Jersey - and this is an annual feature that our association is provided to indicate who the largest investors and employers in the State are - and I was curious to see what had happened with the manufacturing portion which was thirteen firms in the year 1974 and comparing those with the latest figure that was published this month, which was the 1979 employment of the same firms. I found that there were thirteen manufacturers of the twenty-five largest employers in New Jersey. Of those thirteen, eight in 1979 had lower employment, four had increased employment, and one had remained constant. Overall the thirteen firms combined had dropped in employment by 7.3% over that five-year period. I wouldn't indicate that this small a sampling necessarily means anything in trend, but it is reason for us to be alert to the fact that New Jersey is still a state in which major manufacturing concerns are moving employment elsewhere.

As we look back at the last two recessions, in our judgment the problem of New Jersey's slow recovery, or lag time, between the national and state recovery is due for the most part to the higher cost of doing business in New Jersey. The multi-state firms, particularly those with a similar manufacturing capacity, in a number of states across the country, the high cost state will be the last to re-employ its full labor force and make use of its total idle plant capacity, because the more efficient, lower cost of operation will be the first to re-employ and those firms that are not multi-state are faced with higher market costs, and find themselves in an intensely competitive period with a smaller market and almost as many firms seeking to serve that market, which tends to reduce the sales of firms in the high cost state. They cannot cut prices enough to compete for their total share of business. So, the full recovery nationwide precedes New Jersey's rebound or a good part of the recovery where the building up of demand begins to reach some of these New Jersey firms.

We agree that there is very little the Legislature can do at the present moment to keep us out of a recession. We are beginning that recession. But, there are many things that can be done to stimulate an earlier and stronger recovery. The major costs of locating and expanding our modernized plants can be reduced, and the major government imposed costs of operation can be reduced. The business climate image of New Jersey can be improved. What we feel is needed now is the dramatic demonstration by the Legislature and the Governor of efforts to strengthen New Jersey's economy by tackling a long standing problem such as unemployment compensation and avoiding fuller damage to the economy as is threatened by some pending legislation in the workers' compensation area, which we will specifically mention.

The actions we recommend in brief will be the adoption of tax incentives to stimulate capital investment and the passage of broad unemployment compensation reforms in the form of Senate Bills 942, or Assembly Bill 1035, and the reconsideration of the present direction in Assembly 1206, which will increase workers' compensation

costs through higher pay out in the second injury fund. In lowering tax incentives, I might start by endorsing what the Economic Policy Council statement recommended, although our statement does not include the investment credit, because we have reflected on the present state of New Jersey's budget. That has long been one of the major tax incentive objectives of our organization and one that we feel is very important, given New York's credit. There is a form of credit in Connecticut, a form of credit in Rhode Island, Massachusetts, West Virginia, and this is something that the older industrial states in particular have looked to as a means of offsetting their higher costs of construction. The Corporation Net Worth Tax, phase-out, as mentioned by Dr. Seneca is incorporated now in Assembly Bill 1704 introduced this past session by Assemblyman Van Wagner and Flynn, a bill that we hope will have very broad bipartisan support. The form that that bill takes is a reduction of the net worth tax, two mills times the new investment, new purchases by the plant for equipment, new construction, timed to have minimal impact on the current year's budget and to really give us the first phase of its major costs in the 1982 fiscal year. But, it would provide for the reduction of net worth tax for those who have construction contracts entered into after July 1, 1980, and those who make acquisitions or construction from January 1, 1981, which means that firms considering actions which could have an impact on this State during a recession and towards the end of that recession, hopefully, would have a major incentive to invest in New Jersey, and the relief of that net worth portion of the tax on their new investment or the renovations, or new modernization of the plant and equipment.

Other areas that I will mention just briefly are the fact that we add approximately 4% to the cost of construction which is high in this State by taxing under our sales and use tax the materials that go into that construction. We would recommend that business construction or more narrowing construction and manufacturing, research and development be excluded, that there be an exemption for the purchase of materials going into plants for those kinds of businesses to reduce the relative cost of construction in New Jersey. Also, the sales tax on pollution control equipment, which is a major cost item for manufacturing, which is a non-productive investment which penalizes compliance with law, should be lifted. The sales tax should exempt purchases for the construction or installation of pollution control equipment in compliance with New Jersey or federal laws.

Finally, in the tax area, the corporate net income tax does not include a loss carry-over. There are few states in the country that fail to provide some provision for loss-carry-over. I would like to explain to you very briefly the impact that this has on a firm, particularly a small business, as we go in and out of recessionary periods. A larger firm which may be profitable to some extent in every year, and has no loss to carry over is being taxed at 7 1/2%, now 9% income tax rate, on unearned income. If you average their net income over a period of years, they are still being taxed on that 9% of net income. Take a small firm that is in and out of the profit and loss column, if that firm earns \$100,000 in one year and then loses \$100,000 in the next year, they will be paying a tax of 9% on the \$100,000; they will gain no relief from the \$100,000 loss, and yet their average income for the period would be zero. You can't even calculate the rate or percentage of net income paid by that firm,

because they are actually paying out of capital. So, the net effect for the firm with a fluctuating earnings history is not to recognize their long-term earnings, but to deplete their accumulated capital.

This is very difficult for a new firm investing in New Jersey to confront those early years in establishing a business, in which profits are less likely and then to receive no credit for that investment and income flow in those early years to sustain their operations. There are various forms of net loss carry-forward-carry back. One which would be the least expense to the State would be to have a carry-forward only for a period of years, or to introduce a carry-over in terms of a carry-forward with a carry-back only through the year of initiation, so that there is no adjustment in past tax returns to create a one-time only major revenue loss for the State, on the past year's filings.

We might add that if the budget figures keep improving over the course of time this year, any rollback that is possible in that net income tax hike that occurred this January would help to allay the very poor impression of New Jersey that was created by that move, both in the manner in which it was accomplished and the fact that the combined net worth and net income taxes of New Jersey place a second in the nation, tied with two other states in the relative burden of the corporation tax.

If I may, I would like to turn this over to Eileen Measel who is our expert in Unemployment Compensation and Workers' Compensation areas.

ASSEMBLYMAN PATERO: You brought up the point about elimination of the sales tax on tax construction material and tax pollution control, but as we just heard from Assemblyman Saxton, he is talking about removing the sales tax from automobiles. Where are we going to get the money?

MR. WOODFORD: Well, obviously priorities have to be established. Our present first priority in the tax area would be the net worth tax phase-out, because it is totally affordable at this time, and because it is totally affordable, it should be approached now, immediately.

To the extent that budget revenues permit these other programs, they should be looked into. We are quite aware of the budget problems this year, having participated in a few of the budget studies--- I was working with the Governor's Budget Priorities Committee, and I was working with another Committee on the budget and we don't think that you can pull rabbits out of hats here. But, it is important to make some moves at this time, those that you feel can be accommodated with this year's budget to get that plant investment, that new equipment investment and to relieve those costs, those operating costs such as the unemployment compensation tax, over a burden, that do have a major impact on the survival of firms and the willingness of firms to continue investing in New Jersey.

ASSEMBLYMAN SAXTON: I would like to make one observation and ask you to comment on it. There was recently established a Joint Committee to study the economy of New Jersey. One of the things that surprised me, when I read their report was a statement which indicated that the tax posture of New Jersey is not truly a significant deterrent as, I think, you and I think it is. I just wondered if you could comment on that.

MR. WOODFORD: Well, it depends very much upon what you include in

taxes per se. If you are talking about the direct business taxes, on income and property and are excluding the unemployment compensation tax, which is another major burden, then a relative cost of taxes may be certainly lower than that. There are certain other types of expenditures. But, I think you have to look at this in terms of marginal impact of relative costs from one State to the next, and that includes all costs. There are certain of those costs over which you have control, because they are government imposed. There are certain costs over which you have no control, and those are beyond really the scope of your interest to that extent today, perhaps. But, we have found back in 1975 that the type of industry was also something you had to review, because certain types of industries were particularly sensitive to tax costs and unemployment compensation or workers' compensation costs, and others less so.

Certain industries we found to be in a fairly competitive position, and others less so. You are marginally impacting various classes of industry with any change that you can make in government initiated, revenue imposed costs. They become important to you, because they are the things over which you have a degree of control. That would be my response.

ASSEMBLYMAN PATERO: A question came up before with regard to a bill that has just been introduced by Assemblyman Codey, whereby an industry that would want to be leaving the State of New Jersey would have to notify the State. The thing is, does your organization know that a company is starting to have ideas about moving from the State, and would it be helpful if the State had an agency that could go and talk to this corporation and ask them just what the reasons are?

MR. WOODFORD: Well, we cooperated with and are working very closely with the Governor's Early Warning Task Force. And, to the extent that we can pinpoint problems that businesses are confronting, both our organization and other business organizations and the Office of Business Advocate have become involved in trying to head off those problems driving that firm either out of business or out of the State.

No, we do not have advance notice on a firm's closing. As a matter of fact, the firm that gave advance notice, and substantial advance notice, probably would have trouble with its suppliers. They would be telegraphing the fact that they may be in financial difficulty, and the chances are that would accelerate the decline of that business. It would also make it impossible to replace employees and probably would accelerate the closing of the operation. You are less likely to replace people in the event that you say, "Well, in the end of the year we think we are going out of business here." Your lines of supply, your labor supply will dry up in that operation, and while you can take a very negative view of the business that continues to operate for that year, under circumstances where they know they probably will not operate at the end of the year, this kind of legislation could have the effect of forcing them out even earlier. I mean, the economics of their situation decline with that kind of announcement.

ASSEMBLYMAN PATERO: I can see that, but to be hit all of a sudden with a plant shut-down like Mahwah is also a tough situation.

MR. WOODFORD: That is why we have unemployment compensation programs and ERISA and the Trade Adjustment Act on the Federal level and so forth, I think, to cushion that.

ASSEMBLYMAN PATERO: Does your organization have any communications or any background on why some of the plants have left the area? Do you know any of the reasons, or don't you keep studying this?

MR. WOODFORD: It is very difficult sometimes to get that precise a reading on why the firm is leaving. The Industrial Development Association of New Jersey tried some years ago to follow-up clients who were lost, or potential clients, and also follow-up businesses that left the State with confidential questionnaires; the firm did not even have to identify itself. The tendency of a firm leaving the State is to try to go out with the best public relations possible. They have customers continuing in those states, and the last thing they want to do is take a State that they are depriving of some economic benefit and give them a slap in the face. So, the tendency is to obfuscate with a long list of things that are having an impact. We personally would like to see those firms lay it on the line, as a few do, and say, this is driving us out, this made it impossible to operate. Somewhere in the higher echelon someone in the public relations of the business says, "Well, we are going to offend a lot of people; we are going to offend your customers, and let's not be that precise." So, unfortunately, that tends to be the way it goes.

EILEEN MEASEL: Despite the information that we heard earlier this morning that New Jersey has an unemployment rate that is currently lower than the national level, our employers face unemployment compensation taxes that are far in excess of the national average and exceeding comparative costs in all but a few states. Despite these high non-competitive costs, our unemployment compensation trust fund is only marginally solvent at the moment. And, as you know, has outstanding borrowings from the Federal Government of \$652 million with the prospect of an additional \$200 million to \$300 million of additional borrowing during the next three years. I might point out that these estimates of the additional borrowing were done by the Department of Labor and Industry, and there was also a federal study done that come in somewhere in the vicinity of \$300 million projected additional borrowings. These studies were done before the announcement of the Ford Mahwah dislocation and also the substantial layoff at the General Motors plant of some 900 jobs.

The failure of high tax cost to provide a healthy fund reflects serious deficiencies in the provision and administration of the law, and this is the reason that our organization feels that major reform is essential. In other words, we are paying high unemployment compensation taxes to fund a trust fund that is only at the moment marginally solvent and has an enormous debt, despite the fact that we agree it was certainly exacerbated by the last national recession.

In January of 1981, New Jersey's employers must make their first payment on this \$652 million debt to the Federal Government. Annually, all employers who are subject to the unemployment compensation law are required on January 31st to pay that tax. The tax is 3.2% of unemployment compensation covered payroll. Our wage base right now for unemployment compensation is \$6,900. Against this, employers are permitted a 2.7% Federal credit. This is the offset credit subject to reduction which we are talking about. Unless Federal legislation is enacted, New Jersey's employers will face the .3% of the feuded credit for 1980 wages, payable, as I said, in 1981. The following year that reduction credit would

escalate to .6%, .9%, 1.2% in 1983 and possibly 1.5% in 1984. In dollars, this would mean that employers would pay \$45 to \$50 million additional unemployment compensation taxes in 1981, \$100 million in 1982, with about \$250 million by 1985. Again, this does not reflect any additional borrowings which have been projected.

What is necessary is the long-term reform of New Jersey Unemployment Compensation law. We feel this can be accomplished through legislation such as Senate Bill 942, which was sponsored by Senator Bedell. I may add that New Jersey took its case to Washington recently in an effort to get some relief from the escalating provision of the loss of feuded tax credit, the Chairman of the Senate Finance Committee, which currently hold H. R. 4007, Congressman Broadhechts bill, which would permit states to raise these repayment monies through experience rated trust fund monies. When we were in Washington, the Chairman of the Senate Finance Committee, Senator Barne from Oklahoma, made several things very plain to the people in the audience who included Dan O'Hern from the Governor's Counsel Office and also Art O'Neal. First of all, forgiveness of this debt, regardless of the fact that I believe some recognition - or at least a portion of that is recognized it was due to circumstances beyond the northeast's control - is out of the question. The Senator in charge of the Finance Committee is interested in seeing states such as New Jersey and Pennsylvania, which currently owes \$1.2 billion, do something with their unemployment compensation laws.

The solution here is not merely to raise additional employer taxes to pay the debt. The problems I outlined earlier - the fact that we have had a substantially higher unemployment compensation tax rate than other states, and yet to continue to run this neck in neck marginal solvency of the fund and do get into trouble in periods of national recession are indicative of the fact that we have substantial problems with the law itself, and also with the way the law is administered.

Because of these problems, passage of S-942 and A-1035 - which you yourself Assemblyman Patero sponsored - takes on added importance. It not only revises the benefit formula, but strengthens the eligibility, disqualifications, and fraud provisions under the law. We would urge at this time adoption of a hearing timetable on these pieces of legislation which will place these bills in a position for floor action this fall. Anything New Jersey does in terms of passing it, if we get the Federal bill, which we have been actively working for, that would provide us another mechanism of raising the funds. Any further mechanism of generating the money would have to be in place relatively quickly in order to forestall this January, 1981, repayment date.

I would like to move at this time to another piece of social benefit legislation.

ASSEMBLYMAN SAXTON: May I ask you a question before you do?

MS. MEASEL: Yes.

ASSEMBLYMAN SAXTON: The rate of contribution to the unemployment fund in New Jersey is comparatively very high.

MS. MEASEL: About 67% higher than our neighboring states of New York, Pennsylvania and Delaware, if you want to just take the bordering states that we might be in competition with.

ASSEMBLYMAN SAXTON: Is it true that one of the reasons for that is

we are using contributions into the fund to pay off our debt?

MS. MEASEL: No; no, the tax rate of employers--- Perhaps to a very miniscule extent, but the tax rates are based, one, upon the taxable payroll an employer has, first of all; second of all, to some extent whether the State fund is solvent or not comes into play as to which rate is applicable. If the fund is solvent, the rates are dropped for everyone, and another factor in the component of what rate an employer pays is his experience over time. A new employer comes into the State and three years later he is assessed an average tax rate for the first three years, and then after that the experience rating comes in. If he has a negative rate - that is to say, if he has laid off people or had problems with the business - then he will more than likely get a deficit rate. The rates range currently between 1.2% and 6.2% - 6.2% being for those negative account balance people.

So, the fact that we have an outstanding debt has not really been reflected in these high rates that employers are paying. They were paying them in 1970 and they were paying them in 1968 and 1970. We have not had an overhaul or a revision of these high tax rates in quite some years.

ASSEMBLYMAN SAXTON: Is the reason for the high rate because we pay a high benefit?

MS. MEASEL: I had an opportunity to look at a document that some of the labor unions put out, because the employer community is constantly saying we pay these high taxes, and they took the unemployment compensation maximum benefit of the fifty states and showed that New Jersey - our current maximum benefit is \$123 a week, which is based upon two-thirds of what the individual earns up to half or 50% of the State average weekly wage. That is where you get your \$123. New Jersey is somewhere in the middle in terms of the States in terms of the benefit amount that we pay. We do not pay an exceedingly high benefit amount in some cases.

The problem is that back in 1975 when there was a benefit formula reversal, it would have adversely affected 70% of the claimants. The people collecting unemployment compensation benefits in New Jersey right now tend to be part-time individuals, people with less than full-time attachment to the labor force, not high wage earners, collecting because of the way the law is written and the administration of the law. What we find is the fund is being drained by lower wage earners who receive a substantial higher portion of what they were earning in tax free dollars. The benefit change would have given the higher wage earners two-thirds replacement as opposed to 50%. It would have given everyone two-thirds. So, that the problem lies particularly with those people who can in some fashion afford to get by on unemployment benefits because they have a primary wage earner in the family; they may be a student; or, their wages are supplemental. That is not to say they are not needed in the household, but if they are unemployed, and they are collecting 26 weeks of benefits, they do not immediately turn to welfare after the benefits are terminated. They either just drop out of the labor market, or go and find another job. We find that in looking at isolated cases many people after running 26 or 39 or even 65 weeks of benefits within a relatively short period of time do find re-employment. So, we believe it is a question of running out the entitlement.

ASSEMBLYMAN SAXTON: Thank you.

MS. MEASEL: One other area I would like to turn to, which is a particularly serious problem at this time in terms of the placement of the legislation, because the legislation was up for an Assembly vote on Monday, and will undoubtedly be placed up for a vote on the 9th of June, and this is the bill which will supplement workers' compensation awards for totally disabled and second injury fund people and their dependents.

The legislation which was passed by both houses of the Legislature last year was enumerated Assembly Bill 1735. The Governor vetoed this measure citing for a reason of the veto the inadequacy of State revenues to pay for these benefits and also the cost to the business community.

The State under the 1735 had to assume three years of partial financing of these additional benefits. After the legislation was vetoed by the Governor, the Governor's Office drafted another measure which would have phased in the benefit increases for beneficiaries over a four-year period. Further, it would have reduced the entitlement of any disability benefits which would be received under Social Security, black lung disability, or pensions or other disability benefits where the benefits to the individual exceeded \$185 a week. The funding will come from employer assessments under the original A-1206 with initial funding provided from the mutual and staff carriers insolvency funds. However, when the bill was heard by the Assembly Labor Committee, it was amended and essentially all of the costly provisions of the original A-1735 were reinstated. Not only are there high costs associated with this measure, which at this time I believe the sponsor of the legislation has attempted to get some figures on, some independent figures, it also creates a new class of beneficiaries and provides for an annually escalating benefit after fiscal year 1984.

I would like to stop at this point and make a comparison with what this legislation attempts to do, and I would like to compare that with an individual's ability to purchase, let's say, an annuity insurance policy. For the sake of argument, let's say I purchase an annuity in 1980, payable to me twenty years hence, and I pay for that every month as the case may be and I find that twenty years from now, because I purchased this perhaps to retire or do something such as fund an education for my children twenty years from now, and I find that in twenty years, because of the ravages of inflation and some other problems, that benefit, that annuity, that I paid for with 1980 and 1990 dollars is not adequate for what I intended to do. I cannot go back to the insurer, the person who has reserved these funds, and invested these monies and say "I am sorry, sir, the \$10,000 is not adequate and now you must give me \$20,000."

The problems that we have heard about the totally disabled people are very real, and we admit that. In working with the Governor's Office and working out the original 1206, I think the business community indicated that we admit that perhaps something needs to be done for these individuals. However, the mechanism in the current 1206, we believe, is not the way to go, particularly in view of the costs that have been associated with the recently enacted omnibus workers compensation bill. As a result of the higher benefits which the employer community supported under that legislation an initial increase of 18 1/2% was announced a couple of months ago by the Commissioner of Insurance. We believe that as currently written A-1206 would cost the business community in the vicinity

of \$40 million to \$50 million per year. I might add that it will take many people from the current \$40 or \$80 rate to bring them up to \$185 and in 1984 and every year thereafter they would receive the then current maximum rate. In many cases, this far exceeds the wages these people ever earned.

Other objections to the bill, besides the high cost and the unfair method in which we believe the benefits would be distributed is the failure of any recognition of a federal law which mandates that an individual receiving a state workers' compensation benefit and social security benefits, and I would say most of the people who would be eligible for the increased benefits are also receiving or are eligible to receive social security disability cannot receive in combination of the two benefits more than 80% of their former wage. If they do, the federal government moves in and reduces the social security entitlement. No ands, ifs or buts about it, there is nothing that the New Jersey Legislature can do about that.

So, the bottom line for many of these people will not be greater, however, the bottom line for workers' compensation costs for New Jersey's employers will be substantially increased. The payout from the second injury fund in 1984 will be quadrupled, so that this certainly is a rather unfair provision in the bill, because in essence it is a fraud. The people will not receive increased benefits, because of the social security reduction.

The other thing that is not taken into consideration in this bill is the fact that on the very date of enactment, July 1, 1980, written in the law, a social security cost of living increase would go into effect at 14.2%, which is an annual cost of living increase, and there will be one in the years to come. We believe that legislation of this nature goes into the mix of what certainly exacerbates recessionary times. I am not saying we have caused in any way the recession in New Jersey. We see that it is a national thing. In fact, the last quarter's figures indicate that we are faring a little better than the national average. But, the impact of this legislation coming at a time when we are certain to feel some recessionary impact will certainly exacerbate the situation in New Jersey unnecessarily, we believe, because again this legislation and what it contains are the kinds of things which are totally controlled by the legislature, which you can do something about. That concludes my remarks here.

ASSEMBLYMAN PATERO: Thank you. Ms. Measel, what you said is true in regard to Assembly Bill 1206, but the bill cannot come up for a vote without a financial statement, and when you try to make a comparison between an annuity program that you paid for, in regard to 1206, you have to remember that these were people that were injured on the job and there was a very small percentage--- We still don't know what the cost is going to be, but I don't think you compared both plans.

Our figures do not come up to the \$40 million that you people have come up with. But, no way will that bill move without the financial statement. That is the reason it came down Monday.

MS. MEASEL: I think the sum total of my remarks are, whether the bill in fact--- There is a phase-in provision I failed to mention, 35% of the benefit they get in the first year, and 75% in the second, and then of course they receive the total benefit in the third year. Regardless of whether it

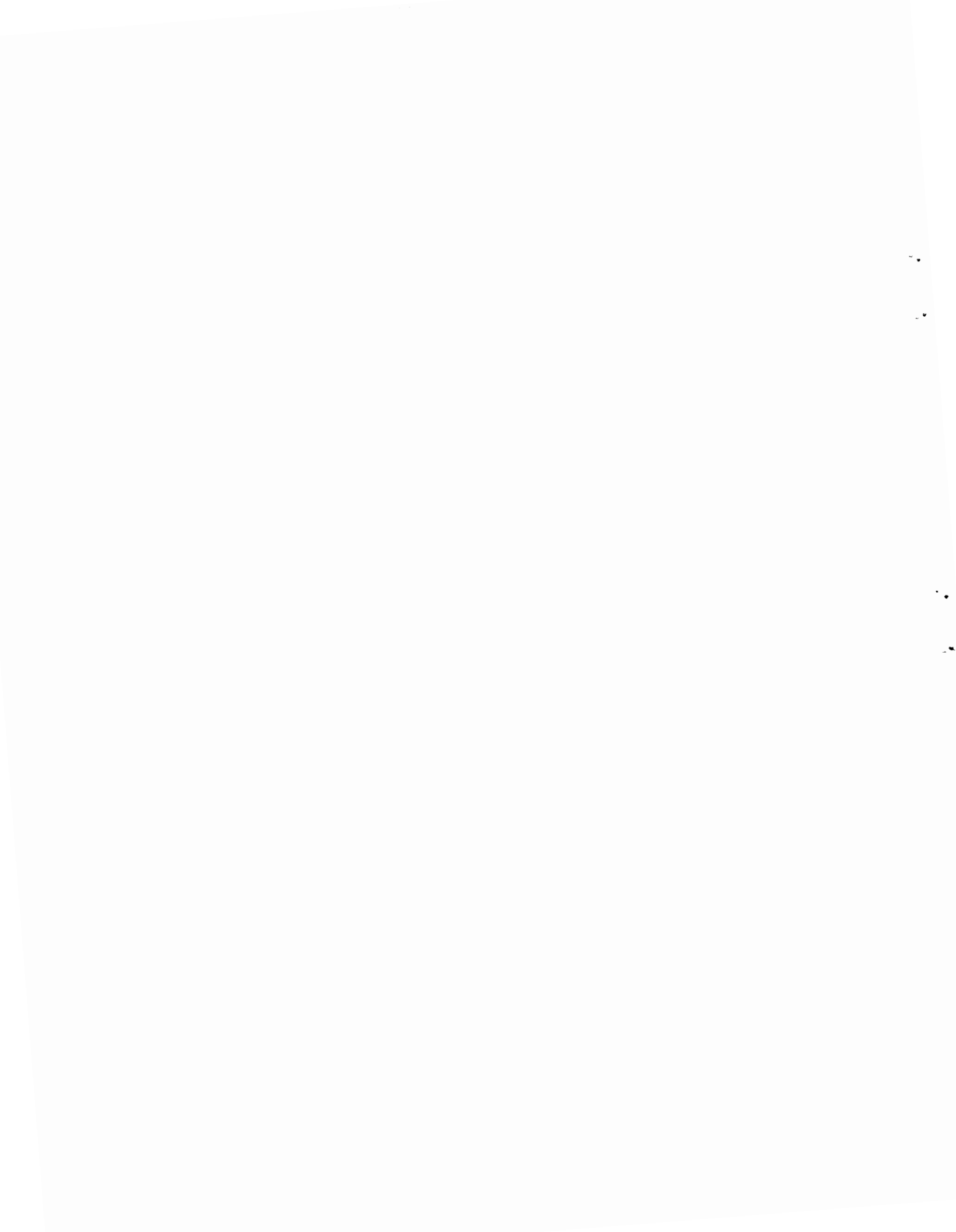
is \$22 million or \$40 million or \$80 million, sending money back to Washington, employer money that the people that we intend to get a benefit, really, I think, we can discuss the inequity or unfairness of that particular provision without knowing what the cost of the bill would be, because that certainly is not something we want to do here in New Jersey, underwrite the Social Security data. So, we can talk about that. We are interested in seeing the cross figures on this bill, and again it is difficult, because first of all there was a new class of dependents included in the bill. There are no statistics or records kept on them, so it is difficult to calculate how many of them are. Most of the people who have testified on this bill, the disabled workers, are very reluctant to discuss their social security entitlement or whether in fact they are receiving social security, I think, for obvious reasons. Because of the privacy law, we do not have access to social security data, so, again, it is going to be difficult to estimate how many of them will be subject to this reduction of social security benefits.

But, I think, regardless of whether we come out with \$40 million or \$50 million, or perhaps the State estimates are \$25 million or \$35 million, the way the bill is designed, locking in an escalating benefit at 100% of the current year's disability rate, we believe, is the wrong way to go, regardless of the cost. Again, we are taking away the legislative prerogative perhaps in 1985 to look at this problem as other states have done on a periodic basis. Other states attack the problem by giving a one-time increase and then looking at it again in light of the economics three or four years down the road.

Thank you.

ASSEMBLYMAN PATERO: Thank you very much for your testimony. We will now take a short break.

(Whereupon a short recess was taken. )



Afternoon Session

ASSEMBLYMAN PATERO: I will call the Task Force on the Economic Recession Commission meeting to order. We now have Assemblyman Cowan with us and Assemblyman Saxton.

The next speaker on the agenda is Mr. Jim Morford, Director of Governmental Relations, New Jersey State Chamber of Commerce.

J A M E S C. M O R F O R D: Thank you, Mr. Chairman.

Members of the Task Force, I am Director of Governmental Relations, for the New Jersey State Chamber of Commerce. The Chamber welcomes this opportunity to share its views with this special task force on the Economic Recession.

Permit me to begin my statement by quoting from the statement of State Chamber President Donald H. Scott to the Joint Economic Committee of the Legislature on February 14, 1979.

"I wish to emphasize that the interests and concerns of the business community, by and large, reflect also the economic concerns of the people of our state. Business not only provides people with the products and services they need, it provides the employment base from which workers and investors alike derive their income and from which they pay their taxes. Moreover, business itself is a prime source of tax revenues for the support of government at all levels."

There is a widespread perception that the policies of New Jersey's government are, whether purposeful or not, anti-business.

New Jersey is a high-cost state in which to do business. These high costs have encouraged manufacturers to relocate certain operations or launch new facilities in other states.

Energy costs in New Jersey are among the highest in the nation. Most of our energy must be brought in at considerable expense.

Our Unemployment and Workers' Compensation Programs are among the most costly in the nation.

Another serious problem we face is that seemingly each day we are inundated with still more volumes of administrative rules and regulations.

It is disturbing to note that the rules and regulations promulgated by New Jersey's administrative agencies and having the force and effect of law, in the decade since they were first codified and published now require almost the same amount of shelf space as is needed to house all of New Jersey's Statutes enacted since the days of the Colonial Legislature.

The Governor's Economic Recovery Commission Report, issued in January of 1976, stated:

"We have projected a largely unfavorable image of our State to the rest of the nation which, in turn, hinders our efforts to move forward. We seem to be perceived as projecting an attitude of government disinterest, often outright unfriendliness, toward business and industry which we sorely need to attract. We do not properly encourage new enterprises because of the lack of small business financing. In fact, we provide a tax system that not only discourages the accumulation of capital, it also accentuates the problems confronting our urban areas. . . Throughout our Commission hearings, the statement that New Jersey is anti-business was heard time and time again. Whether this is the result of a conscious or unconscious attitude on the part of State government, the effect remains the same. To the business executive, New Jersey's negative attitude is real."

New Jersey's business tax structure is not encouraging. There were in recent years some positive signs with the exemption of business machinery and equipment from property and sales taxation and repeal of both the retail gross receipts tax and the unincorporated business tax. However, the business community has been discouraged by the recent \$90 million increase in the corporate income tax.

Other tax increases to business and industry now on the books or anticipated include:

-- Workers' Compensation Reform which was supported by business as a needed reform, but will cost business and industry over \$100 million.

-- Enactment of Chapter 346 of 1979, the Spill Compensation and Control Act will cost the chemical industry additional millions of dollars.

-- Repayment of the federal government's unemployment compensation advance will cost business approximately \$650 million and, very likely, a great deal more.

-- The proposed A 1206 for the second injury fund will hit business for another \$30 to \$40 million.

-- The proposed unemployment compensation reform legislation with an estimated cost increase in the area of \$60 million.

And we have yet to see what surprises may be in store for our State's business and industry as a result of the budget work of the Joint Appropriations Committee.

Permit me to offer a few suggestions that we feel will improve the business climate in New Jersey.

First, repeal the corporate income tax increase which was rushed through during the holiday season last winter.

Second, enact S 874 by Senator Hamilton which will establish a Department of Commerce. This legislation imposes no significant budgetary burden because it essentially restructures existing agencies into a more cohesive entity that will be more responsive to our State's economic problems. It will give business what it has long needed - a voice in the Cabinet.

Third, tax predictability is a vital factor in the business climate. However, when the need for additional revenue arises, the first thought of too many legislators is to increase business taxes. The Chamber represents to you that New Jersey business has always paid its fair share of the tax burden and then some. And we will continue to do so. We ask, however, that you seek to stabilize business taxes and therefore relieve us of the unpredictability of the tax burden.

Fourth, enact legislation to establish legislative oversight procedures that are meaningful and effective. Run-away rule making is fast becoming an impossible burden. Legislation such as A 610 and A 611 will reform administrative rule making and provide for effective executive and legislative oversight. It is long past due.

The times ahead look ominous for the New Jersey economy as we apparently enter another period of recession. We think it is wise to continually examine in depth the economic climate. We urge the State to be willing to work cooperatively with the business community and other interests as together we seek to meet the challenges and resolve the problems of building a stronger New Jersey economy. Thank you.

ASSEMBLYMAN PATERO: Thank you very much, Jim.

ASSEMBLYMAN SAXTON: I have no questions.

ASSEMBLYMAN PATERO: That was very good testimony. As we were talking about before, it seems business wants us to keep removing all these taxes. Someone is going to have to pick up that burden someplace. It only goes back down to the consumer again. We do have a problem and we understand that that is one of the problems with industry in our State. We will take a very close look at it. The only thing that wouldn't cost money is the Department of Commerce. We will take a very good look at that one.

MR. MORFORD: We appreciate that. I don't want to suggest that the recent increases or perhaps "about to occur" increases were necessarily totally opposed by the business community. I just wanted to put on the record we are talking many, many new millions of dollars in the last, let's say, six to eight months and the next six to eight months projected that either have come on business or are about to come upon the business community. So we are not looking for specific programs at this point or, at least in my presentation, I am not looking for specific programs other than perhaps the roll-back of the hastily enacted corporate income tax increase.

ASSEMBLYMAN PATERO: There is no question but that something has to be done. If I remember with regard to the corporate tax what happened was that that was only supposed to be for a year or two years and it was extended for four years. But the Commission will look into it and probably make that one of our recommendations.

MR. MORFORD: Just one final comment, I want to underscore the need, having sat through once again a presentation from the Department of Environmental Protection this morning in another committee, to do something to have this Legislature more actively involved in seeing that it is the intent of the Legislature that is carried out in the rule-making procedure and not the exploding of bureaucracy, the exploding of rules and regulations. This is having a very severe negative impact on the business community in our view and the economy.

ASSEMBLYMAN PATERO: Thank you very much, Jim.

MR. MORFORD: Thank you.

ASSEMBLYMAN PATERO: I do not see Mr. Charles Marciante, President of the AFL-CIO, here at this time.

Is Mr. Peter Tucci here? (Not present.)

Is Dr. Stephen Director here? You don't mind speaking ahead of time, do you?

DR. DIRECTOR: No.

ASSEMBLYMAN PATERO: We will get you out of here quickly.

Dr. Director is an Assistant Professor, Institute of Labor and Management Relations, Rutgers University. Do you have copies of your statement?

DR. DIRECTOR: I don't have a written statement at this time. I will provide one later if it is desired.

ASSEMBLYMAN PATERO: All right. You may proceed.

D R. S T E P H E N D I R E C T O R: Let me introduce myself. My name is Steve Director. I am Associate Professor in the Institute of Management and Labor Relations at Rutgers University, and currently acting as Director of the Center for Human Resources within the Institute. That is a unit which is engaged in staff development activities to prepare current and future practitioners in

employment training. It used to be referred to as the manpower field. We do that through a series of non-credit programs as well as concentrations within existing degree programs. We are also engaged in a variety of research activities pertaining to the New Jersey labor market and employment training programs in the State.

The thing that I think I might be able to do today that might be most useful to this Commission would be to take this opportunity to share with you somewhat my view on the extent to which the State can look to federal employment and training programs, principally CETA, to cushion the blow of any recession that we might be confronting in this upcoming year. To do that, I would like to separate my talk quickly into three components: one, to sort of distinguish between the different types of federal employment and training programs, those that are designed to be countercyclical or counter recessionary tools, those designed to meet other objectives; then to comment on what mix of these types of programs, I think at least, are most appropriate for the New Jersey economy; and then, finally, to compare the actual volume and mix of federal programs available to the State in 1975 versus 1980, so we can get an idea to what extent these kinds of programs will or will not be able to cushion ---

ASSEMBLYMAN PATERO: Doctor, before you start on those three. Where do you feel New Jersey is with regard to a recession right now? Are we just starting to get into it?

DR. DIRECTOR: We will get into that a little bit. I don't think that we are deep into a cyclical downturn yet. I am maybe jumping ahead a little bit in response to your question. It is my view and some people have commented that we are very slow to come out of the '75 recession. I think that is a little misleading if you really look at it as a cyclical downturn and then expect the New Jersey economy to respond when the nation goes into a cyclical upturn. I think part of what we have seen - and I want to address that issue today - is a long-term trend, a structural change in the State's labor market, the State employment. What the '75 recession did, in my view, was simply to accelerate the decline of those already weakened in the State's economy. So we simply accelerated the rate of decline, primarily in the urban manufacturing sector in the State; and to expect that to have risen, along with the rise in the national economic conditions at the end of the '75-'76 recession, I think was a little misleading.

I did have an opportunity to hear Dr. Seneca's presentation this morning. I think I would concur that we are likely to confront a recession, probably not as severe as we did in '75. But I think we take a chance of being misled if we concentrate too much on the cyclical aspects of it, saying it is simply a temporary downturn. I feel what is really happening in New Jersey in many sectors is that we get a cyclical downturn that aggravates the pressure points that are already there because of the long-term problems that we are facing. That is one of the issues I would like to talk about: how manpower programs can deal with these various types of unemployment problems. This sort of leads me into the first point I wanted to make. In talking about manpower programs, one way to divide them would be simply into three categories, the first of which deals with what is described as structural unemployment, and find some sort of mismatch in the structure of the labor market. The simplest and classic example is a job vacancy existing and an unemployed individual existing, but the two can't get together because the job requirements don't match the skills of the individual. If that is the source of our unemployment problems - and it certainly is to some

extent - we can deal with that primarily through training programs and make the individual fit better into the requirements of the job.

A second type of ---

ASSEMBLYMAN SAXTON: Before you leave that, may I ask you a question?

DR. DIRECTOR: Surely.

ASSEMBLYMAN SAXTON: I have been curious about this for sometime. One of the major objectives of our county college system is to do that type of training that you just referred to. Do you think, one, that they are meeting that objective; and, two, should we as legislators advocate an expansion of that role within the county college system?

DR. DIRECTOR: I don't personally have the data to make a competent assessment of how well they are performing that right now. Even without that data, it would be fairly safe to speculate that there is room for an expansion of that role. Clearly, there is room to coordinate that type of activity with other deliverers of those same types of services, primarily the CETA structure which is delivering much of the same types of training with federal dollars rather than local dollars. I do know there are many county colleges that actually have received grants from their local CETA prime sponsor and are engaged in joint efforts. Certainly that should be encouraged in areas where it is not the present practice.

As I started to say, one way to sort out governmental employment training programs is by objective. If you allow me, I will use a three-part categorization: One of the structural programs deals with the structural mismatches, training people to make them fit into the jobs, assuming the jobs are there. Another would be countercyclical programs - countercyclical or counterrecessionary programs - the type of thing that really came into widescale use for the first time during the '74-'75 recession, the short-term job creation programs; the CETA public service employment is the prominent example of that type of countercyclical effort. A third area that has not been used as heavily and in my personal view is somewhat underutilized would be trying to utilize manpower programs to stimulate economic development, as opposed to dealing with either a structural program where you assume the jobs are there or a cyclical problem where you assume it is short run and, when we go back up into an improving business cycle, we will be all right. Another one I think would be the economic development where we say what we really want to do is do something about long-run business trends and stimulate employment in the long run.

If we take those three categories of programs and go back now and look at how the mix of resources devoted to those three has shifted between the '75 and this now expected '80-'81 recession and look more specifically at not only how it has shifted nationally but how it has shifted in New Jersey and what would seem to be the ideal mix in New Jersey, I will assert that the ideal mix for New Jersey seems to be something a little different from what may be the ideal mix on average for the nation as a whole.

I won't go back through a number of the types of employment statistics that Dr. Seneca did this morning, but simply point out a few basic trends, to use that as a context within which to analyze these employment training programs. We do know that over the last ten years, overall employment in New Jersey has been growing. The percentage of the population employed in the State is greater now than it was ten years ago. But, again, we don't want to be misled into unfounded optimism by those types of statistics. I just saw some numbers that compared employment growth by state from 1973 to 1978. New Jersey ranked 45th

in terms of employment growth by states during that five-year period. So we have had growth in employment. We have not had anywhere near the growth rate employment that 44 other states have had. I should say 44 other states, anyway, have had greater rates of growth in employment than we have. So, we have to acknowledge that the employment growth rate overall is slow. When we begin to talk about the appropriate manpower programs, we have to go to the obvious disaggregation of the labor market by industrial sectors or employment sectors. Again, I needn't go back through those statistics. We realize that government service, wholesale and retail trade have all been growing consistently, and that the manufacturing sector and most particularly the urban manufacturing sector have actually been declining in absolute terms during this time period.

As I mentioned earlier in response to your question, it is my view that what happened, particularly in the manufacturing sector, if we look at the very large drop in the number of manufacturing jobs that existed in the State between '74 and '75 --- and I might say it is somewhat misleading really to view that as a recessionary or a cyclical result if we then go on to infer from that that we can expect some sort of recovery when we come out of the recession. I think a lot of that was just an aggravation, an expediting, of these long-term trend forces that had shown us this clear decline in New Jersey manufacturing over the last ten years and during that recession we simply increased the economic pressures on the marginal firms and increased the rate of decline in the manufacturing sector.

Therefore, I would assert that countercyclical employment training programs, those aimed at short-term job creation, should comprise a smaller percentage of the policy mix in the State of New Jersey than they should nationally. Clearly, they seem to be less appropriate to New Jersey where we cannot expect this rebounding at the end of a short recession than we can in many other states. It seems also to follow that we, therefore, need a greater percentage of our employment training dollars devoted to economic development type activities as opposed to things that might make sense in a state where we were expecting a recovery nine months, twelve months, or eighteen months down the line.

The third item I said I wanted to look at was what the mix of employment training program actually was between in the '74-'75 recession and what it looks that we will have available in '80-'81, in terms of primarily federal dollars. The centerpiece, the majority of all the federal employment training dollars, is now under the CETA program. If you were following it at that time or if you recall, CETA was just getting underway in '74 and '75. When CETA was first enacted, it was a follow-up on the previous MDTA legislation with an emphasis on structural programs - job training programs for the disadvantaged, for the unskilled. Immediately, within a year anyway, after the CETA Act was signed into law, the country began to slide in the '74-'75 recession. The U. S. Congress reacted rather quickly with a very large dose of countercyclical public service employment dollars. So, we went into this position in '74-'75 with a rapidly expanding public service employment program, a short-term job creation program prompted by countercyclical kinds of motivations.

The point I would like to make is that we should be looking at the change in the number of PSE jobs in the State as we were going into the '74-'75 recession and the change of the number of PSE jobs in the State that we can expect in '80-'81. In '74-'75, the program was new and we were undergoing a period of start-up of rapid expansion. We did create approximately 20,000 public service employment jobs within the State in '74-'75. My reading of some of the numbers was that

total employment in the State decreased by about 100,000 jobs between '74 and '75. So, in fact, with 20,000 PSE jobs, we were offsetting about one in five of the jobs lost due to the recession. I think that is a point we have to remember. that because of the expansionary period at that time, we were offsetting one in five jobs lost.

What I would like to do now is look ahead at the prospects for '80-'81 and try and come up with a comparable number.

ASSEMBLYMAN COWAN: I was wondering, when you say it was a five to one ratio that was lost, was there any further study done as to the type of industry where the loss occurred?

DR. DIRECTOR: Maybe I should comment generally on that factor. The loss I am talking about was the decline in overall employment that occurred during the '74-'75 recession. There is data which I can share with you and your staff that indicates, not surprisingly, that the government and service sectors continued to grow, even though by small amounts, during that period. The major losses were clearly in manufacturing jobs. That data is available in some detail from the State Department of Labor and Industry. The jobs we were creating then were public service employment jobs under the CETA system where the federal government fully funded positions in local government and private not-for-profit agencies. There has been a continuing debate about what percentage of these are real jobs versus "make work" jobs, etc. My impression is that a large percentage are just as real in the case of a CETA policeman as a locally funded policeman.

ASSEMBLYMAN COWAN: The only reason I asked the question was because I was wondering if there was some type that you sort of target in, some one particular industry or some one particular product.

DR. DIRECTOR: The manpower programs of that period did not target in on particular industries or occupations. They have targeting requirements in terms of client eligibility with regard to low-income status and weeks of unemployment in order to participate in one of these public service employment jobs. It was targeted that way and not by industry.

ASSEMBLYMAN COWAN: The industry loss was what I was referring to in my first question.

DR. DIRECTOR: You are asking which industries?

ASSEMBLYMAN COWAN: Which type of industry or which type of product was basically lost to the State?

DR. DIRECTOR: I probably would do better not commenting on that off the cuff. I have some of those numbers here and could pull them out. They have been generated by the State Department of Labor and Industry, Bureau of Planning and Research. But overall, in terms of just cushioning the effects of the recession, we were creating about 20,000 jobs at a time when we were losing about 100,000 in the private sector. So that, combined with other things, such as supplemental unemployment benefits in industries where they existed, state unemployment insurance, etc., did provide a degree of cushion for those suffering the job loss during that recession.

If we look at the level and mix of programs available now today versus 1975, the first thing we notice is that total national CETA funding is now about \$11.9 billion this year as compared to \$5.7 billion in '76. So we have almost a doubling in total CETA dollars available now. I would assert that it is misleading, however, to look at that and say CETA is going to be a greater cushion this time than it was during the '75 recession. My reasoning is, as follows:

What we had in '74-'75 was a rapid expansion - creation, in fact, at that time - of the public service employment program. What we are seeing now with the budget-balancing fervor in the U. S. Congress is a reduction in PSE employment. In fact, the administration has put a freeze on hiring in Title 6 public service employment jobs in the CETA Act at this time in an attempt to bring the national level down from 196,000 job slots that were funded nationally by March 30, to about 140,000 by the end of the fiscal year. What that is going to mean in my rough approximations here is a loss of about 2500 PSE jobs in the New Jersey economy between, say, March 30th and the end of the fiscal year. The U. S. Senate has proposed much greater cutbacks in the PSE program than the U. S. House of Representatives. If those go into effect, we might have reductions in PSE jobs in the State, maybe not 2500, but maybe up to 4,000 or 5,000.

So I think we are in a very different situation. The total CETA funding is much higher than it was in '75. We are not going to have, in my view, in '80-'81, CETA replacing one in five of the jobs lost, not even one in a hundred of the jobs lost; but actually adding to the job decline, because the number of PSE slots this year is being cut back. Whereas, in '74-'75, the number of PSE jobs was being expanded. We have still called these countercyclical programs, but for a number of other reasons which I won't get into today, we have competing national objectives and we are not pursuing CETA purely as a countercyclical job creation program at this time. We are really balancing that against other objectives and cutting back on that program. So, instead of replacing one in five jobs, it is actually going to mean more people out of work. It is not going to cushion us at all in terms of the CETA public service employment program, but put out of work another 2,500 to 5,000 people, which are numbers comparable to a Mahwah Plant closing or whatever. Clearly, I am aware that one is a short-term kind of thing; the other is a problem hopefully we are not losing on a long-term basis.

I would stress that the impact of manpower programs is not going to be the cushioning of the recess to the extent that it does occur the way it did in '75.

One other factor I perhaps should mention is that the major new initiative on the national level in terms of CETA national employment training programs is the involvement with the private sector, a private-sector initiative program, the creation of something called TJTC, a targeted jobs tax credit, which as opposed to creating jobs in the public sector provides employers with a credit on their federal income taxes equal to 50 percent of qualified first wages up to \$6,000 in the first year that they hire one of these targeted individuals and up to 25 percent of qualified second year wages up to \$6,000. So we have shifted, at least on some of our emphasis from public sector job creation to a job subsidy for a group of seven categories of individuals. Six of those categories are economically disadvantaged individuals: welfare recipients, handicapped, general assistance recipients, youth 18 to 24, Vietnam veterans, and ex-offenders. The one group that is not also required to be economically disadvantaged are: cooperative education program students, ages 16 to 18.

So, we have this program and I am personally comfortable with a private sector employment subsidy, employment tax credit, kind of a program as an alternative PSE. I don't think, however, we can assume this is going to pick up much of the slack created by the reduction in PSE jobs. For one thing, the funding is at a much smaller level, something like \$18 million nationally as opposed

to \$2.4 billion this past year for Title 6 of CETA.

Secondly, it is not clear what percentage of the individuals who are certified as falling into one of these target groups and being hired by an employer is really going to represent new jobs. If I am an employer and I have a vacancy and I hire someone in one of these categories, I am entitled to the employment tax credit. It doesn't mean employment has expanded. It may be desirable even if employment has not expanded because we may have shifted the burden of economic hard times somewhat away from these most disadvantaged workers. It is not clear to what extent this is really going to create employment.

The second problem I have with the TJTC type program is my concern that a state like New Jersey may not fare very well under it and internal to New Jersey we may have some allocation problems that would result. That is based on the reasoning that any employer who hires an individual in one of the seven targeted categories is entitled to this tax credit. What that means then is that employers who were most likely to expand anyway are going to be most likely to receive tax credits under this program. That can affect New Jersey in two ways. One, if employers in the Sunbelt are more likely to expand than manufacturing employers in New Jersey, that means they are going to receive a larger employment tax credit than people in New Jersey who are laying off and may find it very difficult to pick up anyone under this program. Secondly, as I think the data fairly clearly indicates, New Jersey's employment situation is very mixed with the declining manufacturing sector and declining most dramatically in the urban centers. This may also tend to favor the non-urban centers versus the urban centers. If urban employment is declining and suburban or non-urban employment is increasing within the State, we will also get a larger subsidy for that type of employment than we will in the urban areas.

So, I think the TJTC, the Targeted Jobs Tax Credit, in principle is not a bad idea. I am not opposed to investment incentives for investing in human capital or people the same way we provide physical capital investment incentives. But I am somewhat concerned the way the formulas are written now, we may have a disproportionate amount of these resources going to Sunbelt areas and going to the growing areas of the State, rather than to the areas where I would personally like to see it go, where I feel the stimulus is most needed.

Just let me summarize then, my concern is that we cannot count on governmental manpower programs to cushion the effect of this recession, though they are at higher levels, because they are cutting back at this time. I think they may actually increase the number of unemployed. The targeted jobs tax credit I think is going to be a small program. Its overall impact will not be very large and what impact it will have may not necessarily be in the best interest of the New Jersey economy.

In terms of any recommendations I might have to offer for getting around what I see as somewhat imbalances between policy and the State situation, again, it is not easy to come up with things. I would, personally, favor a greater utilization of the employment training dollars we have geared towards economic development purposes. Dr. Seneca this morning made a pitch for greater investment tax credits, perhaps aid to small business, etc. I think we ought to be thinking more creatively about how we can package physical investment tax credits and the kinds of money that are available for training workers, and go to employers and offer them those packages. I know some of this is going on in the State with customized training programs, and so forth. We may be able to combine those to

a greater degree. Another possibility would be lobbying with the federal government to make receipt of something like the jobs tax credit conditional upon the local economic conditions, not have it go to any individual who hires a disadvantaged worker, but have the moneys earmarked for or a larger tax credit going to employers who hire those workers in specific labor markets in urban areas and high unemployment areas, so we could avoid the almost, in a sense, procyclical dimensions of that type of program.

Another possibility that I haven't thought through in detail that a Commission such as yours might want to consider if you are going to consider the types of things Dr. Seneca talked about in further investment tax credits, is the ways which those can be linked to the existing federal programs, such as the TJTC - whether you can put together a package and say, "This amount of money is available from the federal government. We will match that or we will add to that either on the tax credit side or the physical side," and package some of those things together perhaps to make those programs a little more attractive in New Jersey than they are in some other areas. Thank you.

ASSEMBLYMAN PATERO: Thank you very much, Doctor.

DR. DIRECTOR: Thank you.

ASSEMBLYMAN PATERO: Peter Tucci, President of the New Jersey Builders Association.

P E T E R T U C C I: Good afternoon, gentlemen. I owe you a few apologies, one for being late.

ASSEMBLYMAN PATERO: It is working out all right.

MR. TUCCI: I also apologize for having no written testimony for this hearing; but, if need be, I could have it made available. I will proceed on that basis.

I am the President of the New Jersey Builders Association. I am an active builder in all forms of construction, both residential, industrial and commercial, in Northern New Jersey.

I would like to start out by giving you the impact on the national scene of the residential industry. In 1979 on the national scene, there was a projection of some 2 million starts. In 1980, with the federal government's approach to curb inflation, using the credit aspect to control inflation by the high cost of money for our industry, we are going to be closer to 1 million starts on the national scene. As a result of the loss of the 1 million residential units, there is a projected loss of 1.6 million full-time construction jobs, \$27.5 billion in wages, and \$7.5 billion in combined taxes, federal and state, also \$5.8 billion in federal tax revenue due to the loss of profits as a result of the 1 million loss in residential units. The total loss on the national scene would compare to about four Chrysler Corporations going bankrupt.

Now that we have the national picture, let's get to the State of New Jersey. In the State of New Jersey as it relates to residential construction and what we are experiencing in this so-called recession, we could look forward to 1.6 jobs per residential unit and a 1.6 rippling effect of jobs per residential unit, giving a total of 3.2 jobs per residential unit that is generated by each one constructed in the State of New Jersey. It appears we will experience somewhere around a 50 percent decline with the federal government's approach of tightening up the credit to curb inflation. This will result in around 15,000 units lost in the State of New Jersey, which in turn would mean about 45,000 jobs lost in the residential field, again using that 3.2 as the sum total. So we have the 1.6 for each one attributed to residential, 1.6 to each one in the rippling effect

per unit.

In light of these figures, where is the building industry now? As you know the reports are out that as of February the number of permits issued are 48 percent down from 1979 - February of '79 to February of '80. The problem with this kind of a report is that these are permits issued and not really starts, which means, at best, this is 48 percent down. There are people who take out permits and never really start the construction. So we must add some value to those reports that come out of the Department of Labor and Industry. Another factor we must plug in is the fact that 90 days of the report are, you might say, late. The February report is received now, which means we still do not have an accounting for March, April and May. So we must rely on those figures that are given to us as of February.

We are projecting for 1980, should the Federal Reserve continue in the manner they are of tightening up the credit to curb inflation, somewhere around 15,000 units to be completed by the end of 1980. Now, in '79, we saw somewhere around 30,000 units. So we are back to a 50 percent downturn.

I would like to mention some of the problems that our industry is experiencing in New Jersey which contribute to our recession. Needless to say, the most highly contributing factor is the high cost of money which make mortgages for people who want to buy residential units unavailable at an affordable price. As you know, the prime rate approached close to the 20 percent mark, which in turn increased the cost of the residential unit. This had a tremendous rippling effect. It increased the cost of supplies that went into that unit. It increased the cost of construction money to the builder. Where some builders were 2 or 3 over prime, people were put in the 22 to 23 percent category of money, which obviously had to be added to something and that went into the cost of the residential unit, which in itself added to inflation. So, in essence, raising the cost of money did not curb inflation as it relates to the construction industry.

There are other areas of concern and problems in our industry and they relate to controls and regulations. We are overregulated. We have regulations and controls in areas of the riparian lands, the wetlands, the critical areas, CAFRA, and more recently the Pinelands. When you add CAFRA and the Pinelands together, we have some 3200 square miles in the State of New Jersey out of some 7000 available in which no construction is permitted.

There are other areas that we must address ourselves to on the regulations and controls: the Delaware Canal Commission, the flood plains, in addition we have approximately 100 communities that have sewer moratoriums out of the 567 existing communities. Then there are controls on the local level relating to zoning, the size the lots, etc., and, particularly rent controls that exist in various communities that do not help in any way, shape or form the development of multi-family construction in New Jersey.

We have another area in which legislation plays a role in that there are no incentives for the construction of residential units. Most of our legislation today leads to a no-growth pattern in the cities. Then there is the landlord-tenant legislation which is a deterrent to multi-type family construction and a deterrent to those investors who want to get involved in multi-family housing. This type of legislation is not one to provide additional residential units, for which there is a great demand in New Jersey.

Then, of course, the overall policy of the administration with regard to urban revitalization is one which I must address. To meet the demand for housing

in the State of New Jersey, there is nothing wrong in rebuilding cities, but there must be an opportunity for people to have a choice as to where they want to live. The administration should take a good hard look at this.

I would like to leave you with some suggestions as to ways our industry could be helped in meeting the 80,000-unit demand in the State of New Jersey in the '80's.

There should be legislation to encourage multi-family construction. There is the old saying, if you provide incentives for free enterprise, free enterprise will come in and do the job. For example, if incentives were provided for multi-family construction and single-family construction, free enterprise would come in and meet the demand. People should have a right to say where they want to live. If they want to live outside of the cities, there should be provision for that through legislation and it should not be as it is now where provision is made solely for rebuilding cities and totally disregards any building outside of the cities. As things are now, there is a no-growth situation outside of the cities.

Someone must address the lack of affordable money. There should be a long-range plan of some type to provide affordable money for the residential industry. We cannot operate on a 90-day cycle where money goes up in one 90-day period and the next 90 days it is going down, as we are experiencing now. Construction money and mortgage money are starting to come down. But our industry works on a longer range plan than on a 90-day plan. For that reason, I believe the State of New Jersey should start looking at areas of other available funds, such as pension funds. We put together what is called a MAP program, which was a mortgage assistance pension plan, to make use of pension funds for residential construction - for residential, permanent-type mortgages. This will fill in those times when moneys are not available at an affordable level. This is something legislators should address themselves to.

Another thing that they might want to look at is expanding the tax-exempt bonds, relating them to tax-exempt mortgages. We know there are tax-exempt bonds existing today, but they have a limited use. We are saying, expand those areas so that we can provide more affordable mortgages to meet the demand that is out there.

You should push the Congress to enact a tax exemption on savings, which will provide more moneys to those S&L's that are directly related to the residential industry and provide residential mortgages for that kind of a market. Give an incentive to those people to save through their tax-exempt status.

Another area that probably hasn't been looked at - and it should be - in the State of New Jersey has to do with the funds that the state government deposits in various institutions. The State should research those areas and see where those funds should be deposited with the objective of providing residential mortgages. This is something that should be researched and probably hasn't been.

Housing should be given a priority. The reasons are obvious. Shelter is one of the three basic needs of our lives. After food and clothing, shelter is the third basic need. We should address it in that manner and give it a priority. But any legislation with regard to housing should apply to all areas where it is needed; in other words, it should be balanced to meet the needs state-wide. For example, if we set aside an area where casinos can be built, we should address ourselves to the housing needs generated as a result.

We should endeavor to meet the needs of the citizens of New Jersey, and shelter is one of those needs. We should attempt to create a favorable

climate so that we can meet the shelter needs of our people. And, as I said earlier, by creating that favorable climate, free enterprise will take hold and meet the needs of the people. This serves a two-fold purpose: First, it provides employment in the area where the residential construction is undertaken. I mentioned earlier it creates 1.6 jobs per dwelling unit per year and a ripple effect of 1.6 jobs per unit, giving a total of 3.2 jobs for each dwelling unit. So there would be an immediate increase in the number of jobs. Secondly, industry will follow where the available labor market remains. So once you have encouraged residential construction and the homes are there and the people are there, industry will follow, which in turn will help the economy of the State, because residential construction has a direct relationship to the economy of New Jersey.

That is all I have to say, gentlemen. Are there any questions?

ASSEMBLYMAN PATERO: I have one question. Where do you feel the construction trade is right now? We have heard testimony here today that the State of New Jersey isn't in a recession period yet.

MR. TUCCI: We are not in a recession? I would answer that by the figures that were put out by the Department of Labor and Industry. I would use those as verified figures. They came up with the figure of a 48 percent downturn in building permits issued in February, 1980 --- they are 48 percent down compared to February, 1979. It is obvious that because of the prime being increased in an effort by the federal government to curb inflation and the tightening of credit, I, myself, as a builder, paying 22 percent for money, would have to charge it to any project I might build, which makes more people unable to qualify. You have no alternative but to look at the bottom line and you start to see some build-up of inventory. So, there is no question we are affected by the high cost of money.

ASSEMBLYMAN PATERO: I feel you people are probably the hardest hit at the present time.

MR. TUCCI: We are the first to be hit and the last to be helped.

ASSEMBLYMAN PATERO: It really shocked me when I heard we are not at the peak of a recession right now, because, right now, they say we have a 6.8 percent unemployment rate. We will be going to 9 points in 1981. That is a loss of 70,000 jobs.

MR. TUCCI: We are definitely, without question, in a recession. As I stated earlier, the figures that come out are three months behind. You have to remember that these are February figures. When they come out with their March figures, you are probably going to be hovering a little higher than the 48 percent. We have surveyed our builders throughout the State of New Jersey and there is no question but that we are in a recession. There is no question but that buyers are being turned off. We have an unusual situation that exists today. The mortgage funds are coming down. You are starting to see them at 11 1/2 to 12 percent. But we have lost buyers' confidence. They read that we may be in a recession or we are not in a recession. They wonder, "Maybe I won't have a job tomorrow," or "Maybe I will have a job." This has not helped the picture any. So, we have to get back and restore the buyers' confidence by attempting to restore the economy. Even though we have a downturn in the cost of the money to the 12 percent rate, which at one time was considered very good, the people do not have enough confidence to buy.

ASSEMBLYMAN PATERO: I remember when we upped the 9 1/2 percent

ceiling to the 12 percent, the young couples were coming in and saying, "Look, we don't care about the interest. We want the money for our mortgage." They might have been able to count on the wife not getting pregnant, but they didn't expect to lose their job.

MR. TUCCI: The uncertainty that they have from reading the papers and looking at television bothers them. If a month ago or two months ago 12 or 13 percent money were available, I think there would have been more sales than we have today. Today the money is available at 11 1/2 or 12 percent, but the uncertainty of the economy is what is troubling people. They are in a "wait and see" status.

ASSEMBLYMAN PATERO: Thank you very much for coming.

ASSEMBLYMAN COWAN: What is the average cost of a one-family residential home in the State today? How much has it increased due to inflation?

MR. TUCCI: The average cost of a home is somewhere in the low sixty thousands in the State of New Jersey. The problem with that figure is in Northern New Jersey where I am from, you pay that much for the land. But the average cost over the State is in the low sixties.

How much has the high cost of money contributed to the inflated cost of the homes, the exact figure I don't know. But bear in mind that we had construction money at 10 to 12 percent. Within a 90-day period, it went from 10 to 12, to 20 to 22 percent. Now, that is the builder's cost during construction. When you consider the rippling effects it has on the material supplies to that project - the lumber people also were affected, as were the masonry people and the roofing people --- so each one added to the cost by the high cost of the money.

ASSEMBLYMAN COWAN: You have quoted the figure of a 48 percent downturn in permits issued. What was the cost of the average home last year?

MR. TUCCI: I would say they were in the high fifties.

ASSEMBLYMAN COWAN: Thank you.

ASSEMBLYMAN PATERO: Is Mr. Grey here? (No response.)

Mr. Ellis Vieser, Managing Director, New Jersey Alliance for Action.

E L L I S V I E S E R: My name is Ellis Vieser and I am the Managing Director of the New Jersey Alliance for Action. In case you don't know it, the Alliance for Action is a coalition of business, industry, labor and government professions. It has steadily increased in its membership to over 200 organizations, and it is still growing. The Alliance is unique as the catalyst and facilitator called upon by both government and the private sector to seek solutions to problems that neither can solve alone. The Alliance is committed to the creation of job opportunities, the reduction of unemployment, and the elimination of bureaucratic red tape that blocks progress in achieving these goals.

In response to this Committee's request for input from the Alliance, I shall try to respond briefly and to the point on each of the categorical questions submitted. I have three flyers here which explain some of the things we get involved in, in order to give you a better flavor of our activities.

The number one question which your staff person gave me to respond to regards our opinion of the effect of the last recession on New Jersey's economy. In looking back over our records yesterday afternoon with our Chairman, we found that the overall unemployment on our records - and that was when we were formed - showed that unemployment rose as high as 11%; but in the construction trades, unemployment in certain areas rose as high as 50% for about an 18 month period.

The turnaround in that session was painfully slow and we were just pulling out of that within the last couple of years. The federal and state unemployment plans helped, including the extended benefits and the adjustment assistance for foreign import competition. But, unfortunately, these programs left the State of New Jersey with a three-quarter of a billion dollar debt, still to be wrestled with.

The second question was, "What do we see as happening in the near future in terms of the impending recession"? First, there was, and is, too much negative talk. We, in responsible positions, must face up to our responsibilities and work toward a solution. We should not reflect on the problem, but we should work towards solving it. We must assist the housing and real estate industry at all costs. Their start-ups are way down, yet demand is high. And, we must solve the overly-restrictive zoning problems and the high interest mortgage rates.

Overly restrictive and duplicative regulations must be corrected and solved. We must all fine-tune ourselves to new jobs, new plants, and now locations -- not just give this lip service, but give it genuine attention.

The reception to new business and jobs must be warm, not only in personality but in all aspects of executing the necessary permits required, which must be done in an expeditious, business-like manner.

The current trend of our government here in New Jersey to direct everything toward the urban centers and to dictate where business should go is having a negative impact on business that is not even realized by government. New Jersey has the best geographic location in the world, and could be the soundest financially, with full employment. But, in order to achieve that, our total governmental system must be responsive. The message I am going to leave - and I am going to say it over and over again to you, gentlemen, and to this Committee - is that government must be responsive.

There must be a fresh attitude that compels us all to complete projects, put them on the line, get them built, and put people into permanent jobs where they can function. All of our systems are fragile and one is dependent on the other, like a deck of cards. The sewer systems, the housing starts, industrial starts, highways -- they are all like a deck of cards. We must keep the entire system functioning, and not slip into a no-build attitude or this recession that is impending will be deeper and longer than we expect. When we have approximately 35% of our buildable land under moratorium because of lack of sewerage facilities, we do not have to look far for cause and effect. When highway accessibility permits hold up hundreds of millions of dollars of industrial projects and office growth, we don't have to look far -- and I am talking about the past week, two days, two weeks, and I am talking about personally being in a room with these people. I have had a first-hand experience with this, day in and day out. Last evening, I compiled figures showing that there is over four billion dollars worth of construction that could move almost immediately if we could just lock up all the powers that be, on all sides, in a room and say, "solve it", as we do in our jury system, then they won't walk out without a decision.

I am available to elaborate on this total and the projects, but each has its own set of circumstances, and the final line is lack of decision-making, and governmental responsiveness.

Question number three was: "What government action, legislative and/or administrative, would speed recovery"? And, I am going to say on behalf of the Alliance that, number one, it should be responsiveness and less regulation, not new legislation. The laws are enacted by our government, but the regulations are put in and interpreted by the staff people -- and they do a good job with them, but they go overboard. They read the word and enact the word. I suggest - and unfortunately I am reflecting on the entire governmental body, I am not talking just to you two gentlemen here today - that some of you sit in on some of this permit processing and find out how decisions are being made, or not being made, or how the interpretations are being handed down. When things are changed, you would know what is going on.

Another recommendation we would have is, eliminate the target area as prerequisite for a EDA loan. I don't know how many people I have sent over there, where they could create jobs but they are just over the borderline, or they are someplace else in the state and they don't meet the requirement, and a lot of the people that they would employ are of the minority groups, or they are unemployable. They would travel a short distance, but they are just over the borderline, or something. I don't think that is the best type of regulation, nor one which works for the benefit of the state.

Another observation is, take a hard look at the force account work in your various departments and divisions. Force account work is work done with governmental staff - maintenance work - and an awful lot of it could be done under contractual arrangements, a lot faster, a lot cheaper, and with less investment in capital and equipment.

Finally, I say to you let us all work toward fewer regulations, and better, more clearly understood, less overlapping permits and responsibilities, and let's work towards governmental responsiveness. Thank you.

ASSEMBLYMAN PATERO: We definitely are going to look into the

over-regulation of industry. I think that has been a problem. Also, I think the legislation which we pass here in the Legislature is passed with good intent. We vote on a bill that we think it going to do the job, and by the time it is interpreted, it does something else which was never intended by the Legislature. I think you are correct in that manner. We will be looking into that area. So, unless Tom has any questions--

ASSEMBLYMAN COWAN: Ellis, this is the first time in all the years that I have known you, and have participated in some of your activities with the Alliance for Action, that I have had the ability to thank you publicly on one of our official records for the work you have done for the state through the Alliance for Action. Of course I do realize, because I know you, that you are the crux of the whole Alliance for Action.

There was one point you mentioned here which I thought was pertinent -- or more pertinent than others -- and that is that perhaps four billion dollars worth of work is being held up in this state presently. I wish that you would submit that to us - to the Commission - as you indicated you would if requested. I am sure the whole Commission would love to see it.

MR. VIESER: Okay.

ASSEMBLYMAN PATERO: That was one of the recommendations of Dr. Seneca, who spoke here -- that the monies that have been approved by the public - the bond approvals - should start being spent by the state.

ASSEMBLYMAN COWAN: I understood-- Oh, excuse me.

MR. VIESER: Let me give you an example of the four billion dollars. I will just give you one example, and that is Route 78. I don't know the exact dollar volume. Who knows what it is going to be when it is finally bid. When that project is built, there are commitments for office parks, industrial parks, along that right-of-way, where people have invested money and held that land for a long period of time. This involves hundreds and hundreds of millions of dollars, and this is the story everywhere in the state. This is why I caution against a no-growth atmosphere, because these are permanent jobs; these are clean jobs; these are easily accessible jobs, even from the City of Newark, where they can get on 78 and go out there. They are clean, good-paying jobs. That is why I said target areas should be eliminated. They do not fit into our system today. We have too fragile a system to be putting up with something like that. Thank you very much.

ASSEMBLYMAN PATERO: Thank you for coming before us today.

We have saved the best for last. We have Mr. Edward Grey. He is the Regional Director of Region #9, United Auto Workers. Mr. Grey. E D W A R D G R E Y: Mr. Chairman, I have been asked to come here and testify on the general state of the economy, and in particular the condition of the auto industry. I assume that information was correct.

ASSEMBLYMAN PATERO: Yes, that's right.

MR. GREY: I think I probably ought to begin by telling you that this week I have completed my 40th year of working for the United Auto Workers. I probably have worked for the international union longer than any other person will ever work for it, because the way the system operates they don't start as young now as they did when I began in Trenton, New Jersey, a long time ago. I was one of a group of several hundred very young kids who

were hired by a new company that opened a plant here in Trenton. They made parts for the auto industry. It was the L. A. Young Spring and Wire Corporation. The wages were low and the working conditions were bad, and in the course of events, we organized into a union and I became involved in union activity at a very early date, and have pursued those activities quite consistently since that time. I was the President of my local for a couple of years and then I went to work for the international union. During all that period, of course, I have been very much concerned with the way people are employed and the health of the industry and the health of the economy. There has never been any period when I have been so much concerned with what the future looks like as I am today. I think the future for the auto industry in this country is really very bleak. I think the prospects for the economy are also very bleak. I have been involved, as you have probably read, with the impending shutdown of the Ford Plant in Mahwah, New Jersey, now destined to occur as of June 20th. When that happens, the jobs of more than 5,000 people will go down the drain. What will happen to that plant in the future remains very much up in the air.

Also, it happened that in my lifetime I was part of the formation of that local union, representing employers of the company when the plant was first unionized. It was my assignment to go there and help set up the local union when Ford agreed to recognize the UAW way back in 1941. The plant was then located in Edgewater, New Jersey. It was smaller at that time. I think somewhere between 2,500 and 3,000 workers were employed, and I became acquainted with some of the people who were part of that early struggle, a long time ago. It followed that when the plant was moved to Mahwah, most of the work force moved from Edgewater to follow their jobs to Mahwah. They did that even though there was very little housing for them around Mahwah. The town itself welcomed the plant and the taxes that were paid to the community, but, unfortunately, they were not equally receptive to the idea of the workers living in the community. They had zoning restrictions that really made it impossible, or very nearly impossible, for many workers to locate there. As a consequence, the matter of housing and the problem of getting from where you lived to your job was a very difficult one for workers in Mahwah. Most of them, initially, traveled very long distances each way. In fact, we made a survey to find out how far they traveled, and we found that more than two-thirds of the workers traveled more than 30 miles each way to get to the plant, every day. In the summertime that was not quite so serious, but in the winter, when the weather was bad, it was very difficult.

However, in the course of time - in the 25 years that have occurred since - many of the workers have found housing in small towns and villages within a 30 mile radius of the plant, and they have settled there. Most of them have bought their own homes. That has turned out to be one element of this tragedy that is particularly painful, because now that the plant is closing, there are no other industries within the 30 mile radius of that plant that might employ the people who worked in the Mahwah-Ford Plant. So, it really ends up where they will not have the opportunity of finding similar employment in some other company. It also means that they will not be able to move to another community, under existing circumstances,

and find jobs there. It is very difficult to abandon your house, where you now live. With today's circumstances, they can't sell them. People can't get mortgage money. They can't dispose of their homes, and if they could move to another community, they can't get mortgage money to buy another home somewhere else. So, it is somewhat like the story I read about a young man who was employed by a large corporation who was offered a job in Houston. He then lived in Bergen County, New Jersey. He now lives in Bergen County, New Jersey. But, he was explaining that he just couldn't take advantage of this new job offer because there is no way that he can dispose of his home, and there is no way he can get a new home down in Houston. So, he thought he was going to have to turn down this new job on that account.

That, in a sense, is where the workers are in Mahwah right now. They are going to be unemployed, and they will be frozen in the community where they live, and they will sort of be confined to occupations such as cutting the grass in the summer and shoveling the snow in the winter, and sort of watch each other try and get by under these circumstances. That is going to be very hard on them for lots of reasons. They will be getting what we call TRA benefits, for the most part, for a period of about a year. Thereafter, they may be able to collect unemployment insurance and what we call sub-pay, which will also carry them, more or less, decently for a period of time. But, let me just tell you that that is not a substitute for a job.

We have had a lot of experience now - unfortunately, too much experience - with unemployment in the auto industry in the last few years, and we have learned that, as a result of that, workers who are unemployed have all kinds of problems, psychological problems, family problems, and other problems, that they do not have, to anything like the same degree, when they are at work. There is alcoholism, for example, and drug abuse. All of those problems multiply and magnify once they are unemployed. In our society, there is no good substitute for a job that requires something of you, and there have been lots of illustrations of that. We have people, for example, who are unable to bring themselves to take their vacations with pay sometimes because they want to go to the plant, they want to go to work. They have been so conditioned to reporting into the plant, that I have seen workers who couldn't collect their vacation pay unless they took time off, continue to go to the plant every day because they were so accustomed to doing that.

ASSEMBLYMAN PATERO: Excuse me a minute.

MR. GREY: Sure.

ASSEMBLYMAN PATERO: What percentage, would you say, of that work force in the Mahwah plant was 45 years of age, and older?

MR. GREY: Well, I would say probably half of them are in that category. The ones who are the worst off there are the ones who are between 45 and 55 years of age. The group that the company hired when they first moved that plant from Edgewater to Mahwah are largely in that category. Then they hired people who were 20 to 25 years of age, and that was 25 years ago. These people are now 45 years of age. They have 25 years of service with the company. If they were older, they could go out on early retirement. They could take their pensions and go. But, they have to be 55 years of

age in order to do that. So, they are 6, 8, or maybe 10 years short of that, and they can't really leave the company and go out on pension.

ASSEMBLYMAN PATERO: I know we have discrimination laws, but it is still hard for them to find a job.

MR. GREY: Oh, it is very hard.

ASSEMBLYMAN PATERO: Now, this fund that you supplement the unemployment with for the workers, it must be drying up.

MR. GREY: Well, that is one of the problems. It is not drying up, but in the course of time, as they layoffs continue, it almost certainly will be dried up. And, people who are now able to take TRA benefits for one year will be getting something like 70% of their pay for that year, and by the time that year is up, the sub-funds may have been wiped out, so they won't really have that alternative -- although, theoretically, they should have it.

Anyway, if this were a problem which was confined only to Mahwah, I wouldn't feel bad about it, but it isn't at all. It is very much greater than that. Mahwah is simply the nearest and most dramatic example of that.

ASSEMBLYMAN PATERO: Well, we all know that Chrysler is in trouble. We didn't know that Ford was in trouble. How bad must Chrysler be if this happened to Ford?

ASSEMBLYMAN PATERO: Chrysler is in the same trouble as Ford; it is just a different kind of a problem with Chrysler. But, all the other companies, including GM, are in the same basic situation, and that is that they are geared up for manufacturing a product for which the market has almost evaporated, and it has evaporated for some interesting reasons that could very well have been avoided. In my judgment, the U. S. government could play a more meaningful role in this. But, the dramatic increase in the price of gas has been an important factor. It has been causing people to switch from large cars to small cars.

I would say that even more important has been the so-called gas shortages, which were largely contrived by the oil companies in this country, aided and abetted, I would suggest, by the U. S. government. But, that has inspired such a sense of panic in people that they have been literally frightened into changing their way of life. I am sure you went through some of those gas lines, as I did.

I read a comment by a woman in New York City one day, it was reported in the New York Times. Her name was Charlotte "somebody". She said at that time - she was in a gas line and was interviewed by a newspaper reporter - "I will pay any price for gasoline. I must have gas for my car. I will pay \$5.00 a gallon, if I have to, in order to get it." Well, that was the reaction that people had because the American society has been geared to the automobile, particularly if people can't perform the basic tasks unless they have a car.

In New Jersey, for example, they tell me that 85% of the population here can't get to their jobs, they can't take their kids to see the doctor, they can't do any of the things that they have to in order to live, unless they have an automobile that they can use. Public transportation, such as it is, simply doesn't meet the needs of the population here.

I live in New York City, and I have for several years, and there

we allegedly have a public transit system. It exists, frequently, more in myth than it does in fact. But, there it is still much better than we find in other places in the country. And, that has happened, I would suggest, not because we couldn't develop a public transit system, but because for a long time the people in the country who were tied up with the automobile industry, and with the oil industry, and other related activities, didn't want it to happen. And, the lobbying in Congress was largely for more highways, and, of course, the advertising and emphasis in the auto industry and in the oil industry was for larger cars that consume more gasoline. And, that was the way we went. So, here we are now. All of a sudden, we have people who are frightened out of their wits, fearing that next week, or next month, or next year, they are not going to be able to function at all simply because they will have a car that requires more fuel, or more gasoline, than they can get for it. That is bringing about some changes that I admit will mean that we will never see an auto industry in this country as we have seen it in the past. Chrysler is changing its methods of manufacture so as to eliminate large cars entirely. Ford will do almost that. And, GM will follow suit, more or less. I think that GM will probably have a slightly greater mix of large cars than either Ford or Chrysler, but that is the direction we're heading in.

So now, all of a sudden, the plants that manufactured medium sized and large sized cars will either be eliminated, or will operate in a greatly reduced fashion. So, if that takes place, it will really mean that there are not going to be jobs for most of the people who have been in the industry up until now. Along with this, I might add too, is going to be a great onslaught of automation -- new automated processes, the like of which we have seen coming for a long time -- being introduced in a greatly hurried up manner, and a lot of the jobs that existed there, will not be there the day after tomorrow. That has some very profound implications for the whole economy. They tell me that for every worker that is employed in the auto industry directly, several - anywhere from three to six people - are employed in jobs outside the industry that are related to the industry, and that ranges from sellings cars, to operating service stations, to providing parts, to all kinds of things. And, those jobs are also to be eliminated in much the same way.

ASSEMBLYMAN PATERO: I guess your answer will be yes to all my questions. I assume if you were working on a Mustang would need less people on the production line, than if you were working on an LTD.

MR. GREY: Smaller cars require fewer people, yes.

ASSEMBLYMAN PATERO: About how many less people, roughly?

MR. GREY: Well, that is in the process of changing all the time because let's say that to build a Pinto would require two-thirds, or half, the number of man hours as would be required for an LTD.

ASSEMBLYMAN PATERO: You would produce more then?

MR. GREY: Yes. But, along with this we have billions of dollars that are currently being invested in automating the industry, in a way that Japan is already doing. I saw some figures the other day about the number of workers that were required to turn them out -- I think it is 1,600 cars a day in a Japanese auto plant. It was automated to the extent that it required, as I recall, only 169 workers in order to do that.

ASSEMBLYMAN PATERO: To turn out 1,600?

MR. GREY: That is a fraction of what would be required here. I don't think that is going to come on us next year. I don't think it will be impacted on that quickly or that greatly, but it is a part of the problem and we are going to have to live with it as we go along.

If this happens, and at the same time the steel industry is in a state of stagnation, and the home building industry is likewise dried up - and, right now, at least according to the last figures I saw that reported on the industry in April, we have had fewer housing starts than we have had in the last 25 years in this country - it really means that three of the basic industries in the country are just in dreadful trouble, and if that happens, I think the country is in dreadful trouble. It is in worse trouble than anytime that I have known of since I have been around in the United Auto Workers.

So, I really think there is cause for great concern. If something isn't done to stimulate the economy and change what is happening, I think we can look forward to a very bad time of it.

I was up in Allentown the other day. We have, as you probably know, a contract with Mack Truck Company, covering all of their plants. The corporate headquarters are in Allentown, so I was visiting there with some of the top officials of the corporation, talking about some of the problems that we have, and they were telling me they were going to lay off some 700 workers. I said, "Well, I don't really understand that, because we have had your chief competitor on strike now for six months." We have had a long strike at International Harvester, which, happily, has been settled since. But, since they build the same truck, I just assumed that Mack Truck would be working seven days a week, around the clock. So, why is it they were going to have to lay off workers? They said, "Well, it is the cost of money." I said, "Well, how does that impact on you"? And, they said, "Well, we run our financing department, but we have to charge the going rate, and that really means that we price a lot of people out of the truck market." So, I said, "Well, what is the going rate"? They said, "It is 23% now." Now, that really means that over a five year period, that more than doubles the cost of a Mack Truck, and the cost of a Mack Truck, depending on what equipment is on it, is similar to the cost of a substantial home. It is an awful lot of money. Not only have they laid off those 700 workers, they have laid off several hundred additional workers since that time, so the truck industry is also, obviously, in very bad shape.

Those are really dim prospects, but I think they are the real prospects that we have to face, and I am terribly concerned with the fact that we are not doing anything to make it possible for people to build homes, or to buy cars, or to do other things.

Doug Frazier met with the leaders of the auto industry in Washington about a week or so ago, with President Carter, and they were all talking about some of the internal problems that they were having in the industry, about the impact of auto imports - especially from Japan - and they got around, finally, to talking about the freeze on credit, which has been instituted by the Federal Reserve system, and what that has meant to the sale of cars.

It really has just shut off the sale of cars, almost the same as the lack of mortgage money has shut off the housing industry.

I was talking to the President of the Amalgamated Bank in New York, about two weeks ago, and he told me that his was the only bank in New York that was still making auto loans and personal loans, that others had shut off credit for that purpose. Well, that means that people don't buy cars under those circumstances. If the dealers can't sell them, pretty soon the companies can't ship them, and so the workers can't make them. So, that is where we are at. I wish I had a more optimistic report to make to you, but--

ASSEMBLYMAN PATERO: You know it was interesting today. The question was raised concerning the Governor getting another automobile manufacturer in that area, and so forth. And, it was stated that the Governor has the right to question whether the state can do this, or if it is in the interest of the state, and all that. But, say Volkswagon was interested in buying that plant, I don't think Ford will sell because that is a competitor.

MR. GREY: Well, I don't know either what Ford would do about that, because we have been discussing that with Ford and with some of the other people from government who have been concerned with that, including Governor Byrne, and including Niel Goldshmidt, who was up at Mahwah about two weeks ago. The company really won't say, and hasn't said yet, whether they are prepared to sell the plant, whether they will put a price on it, whether they will have it appraised, or whether they will make it available for sale. They talk in circles about that, as they frequently do about lots of other things.

Goldshmidt expresses the idea that maybe we should make buses - manufacture buses - there. That plant once manufactured buses. I don't know whether you knew that or not, but they did. So, that is logical; the plant is a fairly modern plant, it is in good condition. They made buses before, and they can make buses again. We need lots of buses in the country. But, we can't get the company to talk seriously about that - about selling it. And, insofar as I know, we haven't gotten a bus company yet to indicate an interest in operating that plant.

ASSEMBLYMAN PATERO: Unless Ford goes into the bus business.

MR. GREY: Yes, but for some reason Ford has stayed out of that business for a long, long time. The only major auto company who has ever been in that business has been General Motors. The other domestic, American company that is entering it seriously is Grumman. Of course there are a lot of European companies who build buses and one of them might possibly want to come over and take the plant over and use it for that purpose. But, that remains just in the talking stage now. Meanwhile, June 20th comes closer and closer.

I didn't quite finish my story about Frazier and the presidents of the auto companies when they were talking about shutting off credit. President Carter said to some of those people who were present at the time, "Well, why haven't you told me about this"? Now, apparently he didn't know the impact of the policies Volker was pursuing on employment in the auto industry. That is very hard to conceive, but those were the remarks he made at the time. I guess after he gets out of the rose garden a little more often,

why he will become better aware of what is happening in the country.

ASSEMBLYMAN PATERO: I think the banks are starting to realize, and they are lowering the interest rates themselves.

MR. GREY: They are, but they still have a prime rate of 16%, and that prime rate of 16% means that for most people you pay more than that for a mortgage. There were some figures in one of the papers - maybe it was the New York Times - showing how much you paid for a mortgage over 30 years if you were financing a \$55 thousand mortgage. As I recall, it came out to \$283 thousand for a \$55 thousand mortgage. That is just more money than most people can cough up. They are not earning enough to make the monthly payments that were required under those circumstances.

So, I think when you are talking about a 16% prime rate, it isn't much more meaningful than if you talk about a 20% prime rate, because people can't afford that either. They have to get interest down to where it is 8% or 9%, as it has been for a long time, and where it should be now.

ASSEMBLYMAN PATERO: Let's hope we can do that.

MR. GREY: Okay. Well, we should all work at that.

ASSEMBLYMAN PATERO: Ed, as I have said, I don't think there is too much the state can do besides maybe giving some tax relief and so forth, but a lot of this depends on federal legislation.

MR. GREY: I regret to say that that seems to be true. If it is possible for the state to do more, we would probably find it easier to work out some of these problems. Anyway, it has been nice to come down and talk to you.

ASSEMBLYMAN PATERO: Thank you for coming.

MR. GREY: The next time, I hope it will be under happier circumstances.

ASSEMBLYMAN PATERO: Let's hope, Ed.

MR. GREY: Thank you.

ASSEMBLYMAN PATERO: Thank you very much.

MR. GREY: Good luck.

ASSEMBLYMAN PATERO: That is the last of our listed speakers. I would like to thank the members for being here. We will have another meeting shortly. I will let you all know when it is to be. That concludes this hearing. Thank you very much.

(hearing concluded)



