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THE WHITE HOUSE

PRESS CONFERENCE
OF
ALAN GREENSPAN, CHAIRMAN
COUNCIL OF ECONOMIC ADVISERS

THE BRIEFING ROOM

AT 10:49 A.M.

MR. GREENSPAN: Gentlemen, I don't think there is anything very much to summarize. Most of you were there, and I am scarcely about to try to give you a summary which cannot conceivably be right.

So, I will just open up for questions and hopefully I can answer whatever you ask me.

Q Could you summarize the meeting for us? (Laughter)

That is a serious question.

MR. GREENSPAN: Let me tell you what to do. Rather than summarizing it in concrete issue forms, let me summarize it with respect to what we intended and what we achieved, leaving the content question out.

It was our purpose to attempt to develop a two-day meeting with a representative group of economists which would enable us to put on the record essentially for Congress, the American people and the President, a spectrum of views on the very serious problems which we confront.

Now, taking that as the purpose of the meeting, I would say that we came in pretty much on schedule so far. Now, remember, we do have another meeting on the 23rd and, while I hope we will be able to say the same thing at the end of that meeting, obviously, I am not about to make that sort of forecast.

Q Mr. Chairman, as I understand it, the purpose of reducing Federal spending and raising interest rates is to dampen demand on the economy. Well, if there is slack in the economy, what is the purpose of pursuing this policy?

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MR. GREENSPAN: Well, first, I wouldn't quite put the policy in that form. I would say the policy essentially is to suppress inflationary pressures. Now, the purpose of reducing Federal expenditures is perhaps -- just to slightly over-simplify it -- is to reduce the burden on the capital, that is the national capital markets, and hence avoid the process which we have seen progressively in recent years of very heavy financing, not only of Federal Government securities, direct securities, so-called direct Treasury issues, but also very significant amounts of off-budget financing which has essentially elbowed out of the capital markets many private borrowers.

These, in turn, have felt it necessary to go to the banks and the pressure on the banks which reflects itself in the money markets and hence directly interfacing with the Federal Reserve system, has caused very great pressure both on interest rates and, two, on a growth in the money supply which has been in excess of the rate of increase in production.

And so, as a consequence, what we have seen is essentially a financial process which has aggravated our inflationary system.

Now, I am not saying that is the sole cause of inflation and the issues I raise here are, at least in the profession, debatable. But I think that the case that we have is a strong one and I am fairly well convinced at this stage that if we were to do one thing and one thing only, that is cutting the growth in Federal expenditures, reducing the pressures on the financial markets, this would enable the Federal Reserve to not necessarily ease up in this so-called monetary aggregate, but what would occur is that the Federal Reserve would find that under a certain posture it might take, it would, if they did not have very heavy pressures from the financial capital markets, find that interest rates would slip out from under them, so to speak.

And so it is our view -- and I think one which I am pretty certain will work if we can engineer it -- that if we can bring down this process, suppress it, we will finally get at the roots of the inflationary pressures.

Now, higher interest rates are not a policy. There is no attempt to increase interest rates to do anything. That is an unfortunate by-product of other things that must be done, and at this particular point the only way to get interest rates down -- and that would be the best sign I could imagine at this stage -- would be to essentially remove the pressure from commercial banks, and that can only be done by very significantly altering the pressure which direct and indirect Treasury borrowing has done.

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Q Mr. Greenspan, you said that the purpose of these meetings is to put on the record for the Congress, the American people and the President, a cross-section of views. What actually is accomplished by that?

MR. GREENSPAN: Well, I think several things. First of all, it is important to get the best judgments, or to get a judgment of who thinks what about what, people who have been studying the issue as professionals.

You get from this type of meeting not necessarily great degrees of agreement. We will get some and I think everyone, including myself, may be surprised in many areas where there is significant agreements.

But there really is another purpose in the whole process itself. It starts a dialogue not only in the profession itself, but pretty much throughout the country to have everyone focusing on these issues, and what it does, it elicits all various pieces of information which are the essential ingredients of understanding the theoretical structure of what we are looking at.

Economics may be the profession which is looking at this problem but it is so vast and so complex that you need inputs from virtually every sector of society, and one of the purposes of the summit, you know these various so-called pre-summit meetings -- I understand that is hard to describe how you define these particular things -- but the various purpose of this is to largely try to put into one place on the record at one time a cross-section of all of these particular views.

Q May I follow up on that question? Since these views are largely known and since you have said that you feel that action at this time would not be appropriate or of profit --

MR. GREENSPAN: I don't recall making that statement.

Q You said that action for action's sake is to be avoided.

MR. GREENSPAN: Is inappropriate, surely, certainly. That is not the same statement as saying I would not recommend action. I mean to say that before you do anything, try to be certain that you know what you are doing.

Q With that premise as you have stated it, is one of the purposes of these meetings then simply to buy time to enable the present policies to work and ward off criticism that nothing further is being done while creating the atmosphere that something is being done in the sense of meetings being held?

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MR. GREENSPAN: That is not my understanding or purpose.

Q Were you surprised, Mr. Greenspan, by the lack of apparent support yesterday; first, for a so-called "quicky" cut in Federal expenditures during the current fiscal year, and second, for shooting for a technically balanced budget in fiscal year 1976 in the face of a slackening economy where Government income can't be estimated with precision?

MR. GREENSMAN: I think certainly the question of shooting for a balanced budget as a statistical goal is a very elusive one, because one never knows what revenues are going to be. To shoot at a specific expenditure ceiling or level is a very important one.

I think that the issue of the impact of Federal expenditures on employment and unemployment and the issues which were discussed yesterday will be one of the issue elements that we will put on the agenda for the September 23 meeting which will be discussing precisely this question.

Q Didn't you sense a feeling that the trade-off between a cut in Federal expenditures and unemployment was such as really not to be worth the bargain, that if you really wanted an effective fiscal policy with immediate impact, the avenue, the appropriate avenue, would be some sort of tax increase?

MR. GREENSPAN: I would say that that is an issue of significant professional disputes and it will occur on the 23rd.

Q Mr. Greenspan, what do you think would be the result or results of a moderate easing of monetary policy at this time?

MR. GREENSPAN: It depends on what the word "moderate" means.

Let me take it from, say moderate plus, depending on how the definition goes. It serves no useful purpose to significantly ease monetary policy because at the moment, if that were done in the current context and the tremendous pressure in the capital markets, you would get a short-term sense of well-being, sort of an easing of very critical pressures, and there would be a hiatus which would make everything appear to have improved very considerably for a period of time -- three, six, nine or twelve months -- I wouldn't know.

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However, almost certainly the increased money supply growth which would attend such an easing would put us back in a situation that we currently find ourselves and perhaps even worse.

Now that is not the same statement as saying that one doesn't ease at all and, having just come on board and not having been involved in any discussions with the people at the Fed -- like I do not know what is in fact going on -- so I am in sort of the same boat you are, or as I was back several weeks ago.

I am aware, however, that the Fed is not insensitive to all events that are going on. I think that goes without saying. And they have a great responsibility. I mean it would be very easy for them to react to very strong obvious short-term pressures to ease up very quickly. But the people, or many of the people who are arguing for that, I don't think have the responsibility that the Fed has.

At this point I would be hesitant to comment on this specific sort of thing because, first of all, my knowledge is not there and I suspect where my knowledge is basically there, then I could not talk anyway.

Q One of the things, or two things, that were mentioned, but were not really gone into in any depth yesterday, one was the impact of -- for want of a better phrase -- renegade large corporations in a free-market economy who operate in effect like robber barons against the national interest.

I am sorry to use those emotive terms, but the point was raised that some of the things they do -- for instance, the auto price hike -- are counter productive to national goals.

Now what is your position on this, and will the Administration take a position on this?

MR. GREENSPAN: First of all, remember that in order -- stripping out the emotive words and talking basically about the relationship between production trends and prices -- I mean the specific question was how is it conceivable that you would have a situation in which the demand would be weak as it is in the automobile industry as it was until very recently, and nonetheless you get a price hike of the sort that we have seen.

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Now, remember, there is a theory underlying that particular cause of this relationship and that implicit in everybody's view of these various type of events is a conception of the way the system should function.

And to say that the system is functioning incorrectly or that competition isn't working, presupposes a concept of what the relationships should be in this industry. My view is that the system functions rather well. I don't want to specifically comment on the particular industry issue because I am not involved in that and I, frankly, haven't given it terribly much thought.

However, that will be discussed in the abstract, you know, the whole question, in the September 23 meeting.

Q Would you in principal favor giving more teeth to the regulatory agencies and in particular enforcing the current antitrust laws that are in the book?

MR. GREENSPAN: Well, first of all, I don't have anything to do with that and I don't think the Economic Council would or should.

Q Do you have any opinion on it?

MR. GREENSPAN: I have a personal opinion, but that is a private personal opinion which would have, in my view, no effect and shouldn't have any effect on Federal policy. As a consequence, what I have said on that issue, which I have said in the Senate Banking Committee hearings, are my personal beliefs. But I also indicated there that I consider that wholly outside the realm of my particular job here.

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Q Mr. Greenspan, the Chrysler Corporation is saying that their automobiles will increase $400 to $500 a model next year. Is that an acceptable increase as far as you are concerned?

MR. GREENSPAN: That is obviously the same question that has just been asked. I have no intention of getting involved in that and I am trying to not get involved and hope I succeed.

Q Mr. Chairman, coming back to the monetary policy question, your response was couched in relation to a moderate ease in monetary policy, but I think the sense of the suggestions yesterday didn't go that far. People talked of a slight or modest backing away from the most restrictive policy. Would you address yourself to the question in that form? Would you be sympathetic to that kind of suggestion?

MR. GREENSPAN: I don't think it is appropriate for the Chairman of the Council of Economic Advisers to get involved on an issue which is essentially an issue of the Federal Reserve. Why don't you ask them?

Q Mr. Greenspan, isn't it a function of the Council of Economic Advisers to concern itself with such fundamental things as price increases in the auto industry? How do you see your role as different from your predecessor who didn't hesitate to comment on questions of that sort?

MR. GREENSPAN: My view, as I stated previously, is the Council of Economic Advisers should be advisers on matters of research and basic economics. Now, what that will entail, as far as I am concerned, is to put before the President all of the various opinions and options stated by the profession. In other words, I consider it my job to make available to the President not only the views of the Council of Economic Advisers, but also as best I can, what others are saying and in fact, as part of that, we intend to have -- it is as yet undecided whether it will be formal or informal -- a group of outside professional economists meeting with us periodically on specific professional issues and assist us in developing the types of inputs that we will present as the Council into the President.

Now, what I am getting at here is that we do not -- we are trying to, in a sense, depoliticize the Council, which means essentially that while we will present all views and give the various types of analyses, we will avoid getting involved in issues such as this.

Q To follow that, then, who is the Ford Administration's chief economic spokesman as of this moment?

MR. GREENSPAN: At the moment, it is the President of the United States. I cannot answer that because I don't know the answer.

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Q Mr. Greenspan --

MR. GREENSPAN: I am not.

Q -- you have just given us an argument in favor of a tight budget and then have declined to discuss such direct intervention methods as an anti-trust enforcement and direct pressure on the auto industry, et cetera. Should we draw the conclusion from that that your advice is that the budget is the way to handle the present problem without direct intervention?

MR. GREENSPAN: Let me put it this way: There are a number of economists and advisers around whose input will go in as well as perhaps unprecedentedly significant amounts of external input.

My personal view, and I think it is stronger than that, my professional view is that in the longer term, what we have to do is cut the rate of growth in Federal spending. Now, I base it on -- and perhaps we may be making some presentations along this line at a later date -- I base this view on an analysis of what inflationary patterns have been for the last 50 years, really, and in an attempt to determine actually what has caused the excessive growth in monetary expansion, in excess of the rate of growth in output and, hence, what has caused the price inflation.

Now, I am not saying that if you solve the budget problem, that everything else will go away. I don't believe that. However, I do say that if you don't solve the budget problem, everything else is treating symptoms.

Q Sir, can I ask you this: Given the increasing shortage of raw materials and commodities, which again is a theme that was only very briefly touched on, but seemed to many to be an underlying theme of inflation, what is your general approach to the concept of growth in the private sector, per se, where you have diminishing raw materials which in turn fuel inflation as production increases?

MR. GREENSPAN: Well, first, let's define what we mean by shortage of raw materials. There is a shortage but the shortage is actually in processing capacity. We, for example, don't have a shortage of iron ore or iron-bearing materials, but we do have a shortage of processing facilities. We don't have a shortage of bauxite or alumna-bearing clays, but we do have a shortage at this point of production facilities. And you can go down the line, otherwise, the same in paper and paper availability.

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There are reasons why we have capital short positions in the United States, and that really gets to the more fundamental question, not of material shortage but capacity expansion.

So, it is not raw materials in the sense that we usually mean them, but it is inadequate facilities to produce the quantities of finished materials that are required to meet the aggregate of demand of the American economy.

Q Are you able to say, sir, what President Ford got out of this meeting yesterday? Were there any one or two recommendations that he mentioned to you?

MR. GREENSPAN: I have not spoken to the President since the meeting ended, so I don't know.

Q Mr. Greenspan, do you agree with Mr. Friedman that the thrift institutions will have to be bailed out and, if so, what form would you prefer?

MR. GREENSPAN: That they have a definite problem, I think, is unquestioned. So long as you have short-term money market rates significantly above the income yields of the asset side of the savings and loan and thrift institution generally, portfolios, then clearly there is a latent problem which could be considerable if interest rates continued higher.

The obvious, in fact, the only really long-term stable solution is to bring short-term money market rates down.

I trust that Professor Friedman's forecast is wrong, but I don't know, we are all forecasting essentially, we are really all forecasting short-term interest rates, and that is a very rough number to forecast. One of the reasons I would very much like to see major progress as soon as possible on the Federal budget, as I think I indicated yesterday, there is a large psychological element in the money market. There is an inflation premium in the interest rates and, as a consequence of that, if you introduce some very credible -- and I underline the word "credible" -- curtailments in the growth of Federal expenditures and hence, on potential easing on direct and indirect, that is, guaranteed credit programs and so forth, I think that we might find that the interest rates, the nominal interest rates fall, and that, of course, would be the simple, best long-term solution to the problem that the thrift institutions have at the moment.

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Q Mr. Greenspan, what is your opinion on the call for an international conference on inflation? Do you expect the President to go along with that and call one following the domestic summit?

MR. GREENSPAN: I really can't answer that. All I can indicate to you is to repeat what the President said yesterday, that he was obviously aware of the United States relation to the rest of the world on this issue and will act accordingly.

Q Will it be your task, Mr. Greenspan, to compile the recommendations that come out of this summit for the President, to put them on paper and who will translate them after that?

MR. GREENSPAN: That has not been decided as yet.

Q Do you foresee a tax increase or a tax decrease?

MR. GREENSPAN: At the moment, I foresee neither.

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Q Mr. Greenspan, there seemed to be general agreement among almost all the economists yesterday that what some call the "sacred cows" in Government regulations and policies that subsidize certain industries or help agricultural prices, should be eliminated. I wondered if you agreed with that and if that is something the Administration could be taking action on relatively soon?

MR. GREENSPAN: As a professional economist, of course.

As to the second part of your question, I would defer because I don't know the answer to it.

Q Mr. Greenspan, would you comment perhaps on Mr. Levy's presentation yesterday and specifically his warning regarding the shortages that some countries may find in their ability to pay for oil?

MR. GREENSPAN: There is no question at the moment that the high price of oil is generating very considerable payment requirements on the part of the major oil importing countries. These can very easily be maintained in the short run, because there are, obviously, adequate resources.

But he is raising a very important problem, namely, that the level at which prices now are in the world oil markets does generate a very heavy burden, and the way to look at that is not so much the flows of monies from, say, the oil importing countries to the oil exporting, but you also have to look at the so-called balance sheet effects within the oil importing countries.

What is happening -- and I fear that we have seen this in several countries already -- is a worsening in the external liability position and, if you project very long into the future -- and I just don't know how long, you know, several years or more -- at these types of flows without significant reinvestment of the funds, not, incidentally in direct debt instruments, because that just merely shifts the debtor from one place to another -- then you do have a problem.

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And I think there is a potentially serious one here, and I think it requires considerable effort to avoid this going on in the same form for an extended period of time.

Q Mr. Greenspan, for the fellow who can't read a balance sheet and doesn't know about the Fed, how long can he anticipate that he will have to put up with the high prices in such luxuries as food, clothing, and shelter?

MR. GREENSPAN: You are talking about the consumer in the United States?

Q I am talking about the retired person, a fellow who lives on a fixed income in the United States. How long will he have to put up with this, or will he find one morning between now and the summit that the banks are closed?

MR. GREENSPAN: I think that he might, but it will be a Sunday. (Laughter)

Q Mr. Greenspan, it is a serious question.

MR. GREENSPAN: We know several things about what is happening. First, agricultural prices on the farm level until very recently -- I guess it was early June through maybe about three or four weeks ago -- rose enough to lead one to believe that we will have some turn-around in a short acceleration of food prices for the next several months.

I don't know how much we can project the most recent decline -- and there has been a surprising decline in farm prices recently. If that continues, then this little retail food price will be a blip.

But what we are trying to forecast is essentially the status of the crop and that really is very rough. And, as you well know, it depends very substantially on the harvests and what the growing season is from here until we get the stuff out of the ground.

On things like clothing, we do know that there was some fairly strong increases coming partly from all the cotton crops and big increases in synthetic fibers. There was a fairly substantial increase in the price of synthetic fabrics coming from the textile mills earlier this year.

I think it slowed down very measurably since, as I recall, and that is going to work its way into a apparel prices and I would not be surprised to see apparel prices somewhat higher as a reflection of that. But again, that may be another filler.

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Q Did you say higher?

MR. GREENSPAN: Yes, somewhat higher.

Now, when you are dealing with things like this, you are doing price forecasting. I think we should all be terribly aware this is one of the most difficult things to do and, even though economists get up in front of you and spout exact forecasts and tell you all about it, we are on the margin of guessing, maybe a little better than guessing, and maybe we know a little bit more than the average person, but I want to emphasize that the profession of price forecasting is an extremely primitive one and I think that hopefully, our profession has gained a good deal of humility on this subject of late.

Q About a year ago you wrote in The New York Times that much to your distress, the Government was becoming involved in and responsible for everything down to the price of popcorn and what the economy really needed was a strong dose of "do nothingism". I wonder a year later, in general, is that your prevailing philosophy?

MR. GREENSPAN: Let us remember what was going on a year ago. A year ago, in fact, the Government was involved in everything down to the level of popcorn. Since then, not only popcorn has come out from under price restraint, but virtually every other aspect of the economy. So, as you may recall, that article was essentially my view, which I still hold, on the inefficacy of wage and price controls as an anti-inflationary device.

Q Could you see any circumstances in the economy, sir, any circumstances whereby you would change your position on the need for wage and price controls?

MR. GREENSPAN: You are trying to indicate to me -- first of all, let me just go back a minute. I am looking at an economy which is basically something which I view from day to day, month by month, year by year, and I have a general conception which does change, obviously, as new evidence comes in.

Now, if you are going to say to me, under any conceivable occasion, will I change a view which is based on facts and realities, will I never change it? It is an odd sort of question. I mean, if you want to be exactly right, the answer is, of course not. If you literally ask me to construct some incredible, bizarre set of affairs, sure I could. But if you are asking me is that likely to happen, no.

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Q You were talking a bit earlier about de-politicizing the Council of Economic Advisers, which seemed to imply a lower public profile for the Council. In that connection, I would like to ask you if you plan to continue the monthly press briefings that your predecessor, Dr. Stein, used to hold?

MR. GREENSPAN: Yes, we will, but I will try to restrict them to non-political issues and questions of what is going on in the economy, and to whatever extent other issues are involved, I will try to confront myself with them.

Q Mr. Greenspan, your predecessor used to answer a monthly question that was put to him in very simple and succinct terms. I wonder if you could do the same? What is the outlook for the housewife in this country?

Q In what way?

MR. GREENSPAN: Yes, in what way?

Q Concerning the inflation.

MR. GREENSPAN: I appreciate the amendment. (Laughter)

I think that we have got continuing concern about the outlook and I think, in sort of extending on my remarks from yesterday, inflation is just not about to go away quickly. I think we would be naive if we believed that. It has taken a very long time in coming. It is going to require a great deal of work to discuss it and so long as we have got the type of inflation that we have, I think that the average housewife is concerned and I think she should be.

You know, if you sit there and if you know that you have to meet your monthly rental or utility bills or what have you, and prices are stable, you can pretty much plan what that is going to be six months, nine months out and you can really plan your family finances, which means you can plan your family.

One of the great casualties of inflation has been the gross increase in uncertainty and in many instances, fear that this just sheer instability in the price level and the incapability of having some reasonable assurance of what prices are six months, nine months out, I think the loss of that assurance is a very fundamental loss for the American housewife.

We look, as economists, at statistics and we worry about money supply and the like, but the real casualty here is the American people and I think this is all the more reason why it is absolutely essential that inflation be brought under control and be brought under control as soon as is practicable.

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Q Dr. Greenspan, yesterday a number of suggestions were made of things that the Government might do to prevent the current high prices and inflationary expectations from becoming fully reflected in new wage contracts and hence, setting off a new wage-price spiral. Do you think there is anything the Government can or should do in that direction?

MR. GREENSPAN: This is the type of issue which is under discussion and thought at the moment.

Q Dr. Greenspan, what will raising the unemployment rate do to instill confidence in the American public?

MR. GREENSPAN: First of all, one doesn't raise the unemployment rate.

Q Well, let it go up?

MR. GREENSPAN: Well, there is a different way of putting this thing. What you are required to do insofar as policy is concerned is to put into position realistic elements which will diffuse the inflation. Now, at this particular moment, I don't think there is any policy which can significantly lower the unemployment rate and hold it there. Right now, the reason we have got a turgid economy, the reason we are likely to get some further increase in unemployment is the elements of inflation psychology which are building in and have been building in for the last six, nine, or twelve months, into the business decision-making process, creates a level of real demand which is below capacity, so to speak.

I know of no way, and I know of no one who seriously suggests that we can boost this radically -- I mean, we can change the situation in any radical way in the short-run.

So, in the first instance, yes, I can conceive, if you ask me, of all sorts of policies which would prevent the unemployment rate from going up, I submit to you that the consequences of those policies, you would find so distasteful and be so distressful to the American people that if I am still sitting here a year from now, next the question would be, what are you going to do about "X", which is the consequence of the policies that were implemented the year previously.

I think it is a very serious problem. I think that the only way to really restore equilibrium to our economy is to think in terms not of trying to get one statistic up or one statistic down, but focus on the best way we can restore the economy to a viable, stable, non-inflationary growth path, which has essentially been the heritage of this economy.

THE PRESS: Thank you.

END (AT 11:37 A.M. EDT)