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THE WHITE HOUSE

PRESS CONFERENCE
OF
WILLIAM E. SIMON
SECRETARY, DEPARTMENT OF TREASURY
AND
ALAN GREENSPAN
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

ROOM 450
OLD EXECUTIVE OFFICE BUILDING

10:30 A.M. EST

MR. WARREN: Good morning.

We thought it would be helpful if we asked Treasury Secretary Simon, who is Chairman of the Economic Policy Board, and Dr. Alan Greenspan, Chairman of the Council of Economic Advisers, to come out this morning and give you a general discussion of the economic situation as we see it and to take your questions.

This briefing, of course, is on the record, and I believe you have some information which has been provided to you already.

I will turn it over to Secretary Simon, who will give you some brief remarks and go straight to your questions.

Mr. Secretary.

SECRETARY SIMON: Thank you, Jerry.

I think sessions like this are extremely useful, and I would hope to have the opportunity with Alan to have more of them in the future.

I want to make my remarks necessarily as brief as possible this morning so I am not going to go into the many myths that there are on this very complex subject of the economy, but just basically hit a couple of them and then field your Qs and As, or field your Qs, hopefully, with As.

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As a number of polls show, the American people are, to put it mildly, very gloomy and apprehensive and indeed some people are frightened about our economy.

To a degree, I would say many of the fears are well-founded, reflecting as they do the severe inflation we have in our country and the recession that is going on simultaneously.

As serious as the problems are, however, the gloom seems to be much more widespread and much deeper than really is warranted by the current conditions. At least one cause of this deeper pessimism appears to be the number of myths, as I said a minute ago, about our economy having taken hold, and they really complicate our efforts to develop responsible and effective and credible policies here in this country.

I would like to talk just about two of these myths today. This is where you ladies and gentlemen, with a great responsibility that you have of informing the American people, can be of tremendous assistance. Understanding the reasons, there are many who believe that this first myth -- we don't know how we got here and we don't know how we are going to get out of it, either.

So, you have to start with an understanding for the reasons of our current inflation. Obviously, when we sat down to develop our set of economic policies, we had to first define the causes and then define the solutions to match these causes.

The reasons for our current inflation -- recession was the beginning, and we can, contrary to the myth, identify these causes of our present stagflation. We have had for many years in this country a love-hate relationship with inflation. We hate inflation and yet we love everything that causes it.

For more than a decade -- and let's talk about the fundamentals, first, because they are the most important -- for more than a decade we spent more than we could afford and more than we are willing to pay for, thinking that all of the social problems and other problems in this country were going to be solved by just throwing money at it.

As a result, we have created enormous explosions in Federal spending. Just two cases of that are our budget doubling from $134 billion in 1966 to $268 billion in 1974. Our budget was $100 billion in 1961, and this year is over $300 billion.

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When one measures it by the decade, looking at 1955 to 1965 where we had noninflationary growth in our economy, where Government spending increased at approximately 6 percent a year versus over 11 percent in the decade 1965 to 1974, when the Federal budget runs a deficit year after year, especially during the times of high economic activity, such as we experienced in the mid-sixties, it becomes a major source of financial and economic instability.

The huge deficits that we had in the sixties and the seventies added enormously to aggregate demand for goods and services, and they have been directly responsible for upward price pressures.

Heavy borrowing that forces the Treasury to do this in the marketplace has been an important contributing factor in the persistant rise in interest rates and all the strains that have developed in our financial markets, but worse still in what is finally eaten away at the American people.

It destroys the confidence of the American people in their Government and the Government's ability to run their economy properly. That isn't even to mention the off-budget items that have exploded really at the start of 1964, 1965, the asset states when we look at the budget deficit year that on a unified basis was $3.5 billion.

When one adds the off-budget items in that, having the same shortrun inflationary impact, it was over $20 billion. All of these factors are on the spending side.

But, of course, monetary policy is also the culprit. For a decade we have had far more monetary expansion and stimulus than is needed to sustain reasonable inflationary growth. Money supplies expanded at a rate of over 6 percent since 1966. That is versus 2.5 percent in the decade 1955 to 1965, using the same comparison.

So, there should be no surprise that prices have exploded the way they have. Of course, we have to recognize that a major part of money growth was to accommodate our Federal deficits. We have been unwilling, also, on another front to curtail or eliminate Government regulations and other policies that encroach upon the efficiency and growth of our free market.

Just a prime example is the regulation of natural gas at the wellhead, which causes many other shortages as well, not only natural gas, but fertilizer.

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Of course, we had some things that one might say were outside of our control in the unprecedented series of crop setbacks in 1972 and 1974. Bad weather is one of the few things you can't blame your Government for. (Laughter)

The explosion and quadrupling of oil prices in a year -- you have all heard me talk about that ad nauseum. What many people sometimes don't think about is that oil isn't just a commodity that you put in your automobile. Oil is a commodity that really makes most of the products we use today, whether from your toothbrush to your plastic cup to the steering wheel of the car to petrochemicals for fertilizers.

The impact goes beyond this one sector. The simultaneous boom that was going on in all of the industrialized nations in two years caused extraordinary international demand.

Finally, the wage and price controls and the distortions and scarcities that create it proved once again that controls don't work and they only make inflation and unemployment ultimately worse.

All of the experiences of all of the nations -- we can go back, as someone likes to use, the time of Diocletian when they were first started, but use the experience of all the industrialized nations in the 20th century with their income policies.

They have been a failure and I suggest that those people who suggest income policy or wage and price controls today are guilty not only of very bad memories but no knowledge of history and very little ability at economic analysis.

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So, all of these seven factors that I just talked about have combined to give us the worst peacetime inflation that we have ever had in our history, and that inflation has been a primary cause of the recession that we are having now. And all we have to do is look at two of the weakest sectors in our economy -- housing and consumer spending -- it was inflation that caused the tremendous fiscal instability that caused the severest slump in housing in our history. The same with consumer confidence, and frightening the American people is double-digit inflation and caused the largest drop in consumer spending.

Myth two, we don't know how to get out of here. Well, I think myth two is very difficult, very difficult to be believable because it requires patience. And I think, by nature -- and I include myself in this comment -- we are very impatient people, and we all demand instant answers to problems that face us. And we have been a country that has supplied the people with such a super abundance of everything that it is understandable that we all feel that way, but for a problem as severe as this one, that has built up over such a long period of time, we must realize that there are no quick solutions, no magic wands, no instant programs that can be put into place.

We have tried these instant programs before, wage and price controls being the last item, a spectacular one, you might say. So, therefore, we felt we had to design a program that dealt with all aspects, the imbalances in our economics, the recession, the double-digit inflation, deal with the fundamentals -- we understand this is going to take time -- the special factors that I spoke of that ordinarily when these special factors work through the economy once they receded the price level would recede to what you and I might consider to be a reasonable level.

Well, this time, it is not going to because of what I would call irresponsible Government policy for a prolonged period of time, and we are going to be left still with an unacceptable rate of inflation after these special factors have worked their way through the economy. So, facing these problems and recognizing that we are just dealing with inflation or just dealing with recession, our policies could be pretty straight forward.

We could put demand restraint programs in for the former, and we would begin to see results pretty quickly, or we could have an expansionary policy that deals with recession and the results would begin to show in a reasonable period of time. But we are dealing with the delicate problem of both recognizing always that there are going to be those that bear a disproportionate burden in our battle against inflation, if indeed, we are once again serious or for once serious about curing this problem, once and for all, and not just going to continue to deal with the symptoms of the problems as we have so many times in the past.

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So, what do we do about it? We try to moderate fiscal policy. We are not seeking to be Draconian in cutting the budget. We are trying to slow the momentous growth in Federal expenditures. Even at the $302 billion figure this year -- that is versus $268 billion last year -- it is a 13 percent increase in Federal spending.

But it is critical that we hold the line at 302, if we want to keep the future budget and the cumulative effect of all these future budgets in line. People will look at the $4.7 billion that we sent up to the Hill for deferrals and recessions. You know that isn't just 4.7 billion. That money for those programs we are asking, recessions and deferral, translates itself into a little over $7 billion next year, and on past experience, you can pick your own numbers as to what it would be year after year. But the minimum would be seven, so that is just a continuation of a cumulative effect of the way Government spends your money.

We recognize, too, that massive Federal spending now would not really cure the sluggishness in our economy. It is a blunt instrument that usually, or almost always, takes effect after the rebound has started, and really, that only just contributes to more inflation. And that is what we have experienced with the stop and go policies of the last 10 years, policies that are designed to cure the problem and yet, for political and other reasons, they give up halfway through.

Let us hope that we do not lose this opportunity because we are being given a magnificent opportunity, or extraordinary opportunity at this time.

Because of the excessive spending that we have had, the Fed has had to bear the brunt in our battle against inflation. With more moderation on the fiscal side, monetary policy could be more accommodating ordinarily. The goal is to have a moderate monetary policy supporting economic growth, but not creating the excessive stimulus.

We have to have the proper balance, in other words, between monetary and fiscal policy. On the "sacred cows," we have proposed legislation to eliminate some of these Government restricted practices, and deregulation of natural gas is one of them.

We have asked the Congress to set up a regulatory reform commission to study and propose the much needed reforms in this area. Food, that is a very simple policy and has made a dramatic shift during the last three years. It is called all out production for the first time. Before, we had Government setasides from subsidies.

All of these impediments to production have been removed, and given half a break in the weather, which we have not had half a break, we will once again be able to produce all we need at reasonable prices.

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Energy policy: you deal with the energy policy on two sides, obviously, supply and demand. And there are many today who say we have no energy policy. Well, there will be a big booklet turned out in January on the energy policy, and I will suggest that energy policy is no more of a mystery than economic policy is.

We are a country, as you have heard me say a thousand times, that has been blessed with a super abundance of natural resources. We have placed a great many impediments in the market place to the development of our energy resources in this country. They must be removed, not to mention the environmental constraints of the compatibility between the environment and our energy, a market that provides the freedom to invest, proper financial incentive.

We have at least 20 pieces of critical legislation that have been on the Hill for between one and three years. There is no way we can increase production in this country of our energy resources without the necessary legislation that goes from the deregulation of natural gas to surface mining to deep water ports and all of the other items that are up there dealing with the whole broad spectrum of energy.

On the conservation front, you know, when we designed the so-called volunteerism that comes under so great attack today, we need mandatory programs. When Government is designing mandatory actions to be legislated to be put upon our economy, one must measure the economic impact, and when we are in an economy that is sliding, a mandatory program immediately of energy conservation mandated and run by your Federal bureaucracy is going to have an economic impact and this must be weighed.

So, we said, "All right, we have a target of a million barrels a day by the end of 1975. How can we best accomplish that target?"

Well, we have the amendments to the Clean Air Act, the Federal mandates with the ability to switch public utilities from oil to coal. Now both items would give us a significant savings in energy. We never had mandatory conservation measures at the height of the embargo last year. When the embargo ended we were still testifying on that piece of legislation, and that started well before Christmas. We achieved a great deal during the embargo with voluntary measures. We wanted to see exactly how much could be saved through all of these methods before it became necessary to put in mandatory controls of some sort and I use as an example, when I am asked, the mandatory allocation program which mechanism is in place already and it could be started tomorrow the same way it was last February where you get 90 percent of the base period and you get 85 percent of another base period, but this again has an economic impact and must be weighted very carefully.

The trade bill, as the President said last night, is another essential part of our effort.

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And finally, given the special attention to casualties of our present stagflation, those who bear a disproportionate burden, we have programs that include expanded unemployment, tax relief for low income Americans, housing aid, increased tax incentives for industry which is so badly needed and which ultimately will provide more jobs in this country. In short, we know what the problems are and we believe we are on the right track to solving them.

It is going to require our patience and the wisdom and the courage to stick it out to the end and that is what our President is determined to do.

Now at this point, just briefly, I would like to turn it over to Alan Greenspan who is going to give a brief comment on where we are and where he believes we are going and then I will come and field your answers.

Alan.

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MR. GREENSPAN: Thank you, Bill.

I told the Secretary that my stomach is currently in a recession, and I hope I can stand up here. (Laughter)

It looks now as though the unemployment rate, which will be released on Friday, is likely to show an increase. We do not have the data, I might add, and will not get it until Thursday afternoon. As you probably know, I do get access to advance release information to alert the President, but the usual procedures that have gone on in the past have been changed.

I do not, at this point, have any indication of what that official number will be. However, we do have weekly data which are published on those unemployed under the various State insured unemployment programs, and there is no question that between mid-October and mid-November that there has been a very significant increase.

This largely reflects, I might add, a very high rate of layoffs, and I think it is important to recognize the distinction between the unemployment rate which is obviously quite important, but also I think it is important for us to focus as well on something which is not given terribly much analysis, and that is the implications of a layoff rate in our economy, because that has a much more potent impact on the 94 percent of our population, or labor force, which is employed, and their concerns are obviously very much impacted by that.

So, we are looking at the situation, as I see it now, in which we are unquestionably dipping. Production levels are moving downward. This is obviously dramatically underscored in themotor industry, where some cutbacks have been announced. They have been quite significant.

I think what we are seeing at the moment is an economy which is definitely moving downward and is likely to continue so into the early months of 1975. Nonetheless, we are also beginning to get an acceleration of the other side of our problem; namely, some evidence, although at this moment quite fragmentary, of weakening in the virulence of the inflation rate.

What we see is that there are a number of softenings of industial prices, not even incidentally in those data which are published by the Burea of Labor Statistics and Wholesale Price Index; that is, remember that a lot of the types of price data we see are so-called price list quotations and do not, in fact, fully capture the extent to which you get price discounts and the extent to which the actual price level is being affected.

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I don't know what the Wholesale Price Index is going to be. I don't have the data yet. Obviously, we do know that the big rise that was attributed to the marked increase in the last release in food prices is not going to be repeated in the next monthly release because agricultural prices showing very little change and a slight decline in the most recent month.

But nonetheless, I think all of the evidence which we have combined from various different sources is encouraging on the side, and I think, as I have mentioned previously, we do look for a gradual easing in the rate of inflation into the 6 to 7 percent annual rate area by the spring.

Now, it still appears that the bottoming patterns, the economic processes which we have been looking at for months, are still pretty much on schedule; that is, they speeded up a bit faster than I would have expected.

But the process itself is still fairly largely in place, and this suggests that we can look for some upturn in motor vehicle production after the first quarter of 1975, remembering that a good part of the weakness we are seeing now is a major retrenchment of over-extended investors is in this industry and a mere turning around of the inventory pattern as well as just even some modest improvement in sales, which we do expect, does give you significant increases in motor vehicle assemblies, which is what the production figure and employment are related to.

We also see the very early signs that home-building is in the process of bottoming out. It is premature to say it has bottomed out, but the advance indicators and the financial flows and the thrift institutions and a number of other secondary things suggest that we are coming into a shallow decline, and that should show some process.

Even though motor vehicles and home-building are not in total very substantial elements in the economy as a whole, they do, nonetheless, account for a very substantial part of the rate of change in economic activity, and they, of course, have, as the Secretary has indicated, contributed in large part to the weakness we are seeing now but they also, merely unwinding themselves in the other direction, are major factors to lend support to economic activity during the second half of 1975.

So, essentially the general pattern of our outlook has not changed. What has changed is the fact that the most short-term indicators are moving down faster than we had anticipated, but the general pattern does look, as far as we can see it, pretty much as we have envisaged it for the last several months.

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SECRETARY SIMON: Thank you, Alan. I will be delighted to respond to any questions you may have.

Q Mr. Secretary, your prepared paper here says that you still consider inflation the prime problem, and the other problem of recession as a secondary problem. Do you stand by that orally now?

SECRETARY SIMON: When we say the prime problem and secondary problem, this argument of semantics of inflation-recession that has been going on for the last month really misses the whole problem. Recession and inflation are parts of the same problem.

There are those who will say they are equal parts. Some say we must now shift from inflation and focus entirely on recession, which we happen to think would be a mistake because by definition that means very expansionary policies, which would only leave us a year or a year and a half from now in our judgment with even higher inflation and higher unemployment.

This society, which I think I also say somewhere in the paper, can't live with double-digit inflation that we are experiencing now. We have seen this go, with the crises at shorter intervals in the last ten years and starting from higher levels, each time judged by the inflation rate or interest rates, and so we must attack this problem first and formost, but understand that problem doesn't just stand alone.

As I said in my opening comments, we not only have inflation, we have recession and that is why our policies must be delicately balanced to handle both of those problems, there again taking care of those that bear the disproportionate burden of these policies.

Q Mr. Secretary, would you anticipate there would be any change in those policies to give greater emphasis to the danger of recession during the next couple of months?

SECRETARY SIMON: Let me tell you how we go about economic policy in this Government. We have an Executive Committee of the Economic Policy Board, which meets each morning after the senior staff meeting in the White House, for anywhere between half an hour and an hour.

That is done every single day, and there are a series of meetings in the day where all of us or part of us will be together discussing special actions that can be taken, and we meet at least once a week with the President.

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Each morning we review the economy, the changes, the new figures, whether it is the CPI, the WPI, the price weaknesses that Alan Greenspan spoke of a minute ago, the unemployment index, the changes that are occurring that mean we have to make, whether they are subtle shifts or otherwise shifts in emphasis in our policy.

But no one out there would expect us to be changing economic policy every day. The major thrust of our policy remains unchanged. We are fighting this hydra-headed monster called stagflation, coupled with the imbalances that I spoke of before, and we believe we have the policies that are designed to cure it.

Now, as the economy is in a sliding posture, as Alan said, we have to make sure that this sliding posture in exercising our flexibility doesn't exceed what our actual forecasts were and are and stay in the zone of where we believe they would go.

So, that is why we are constantly reviewing this. And whether or not there will be changes of emphasis and balance, I think at this point it is a little bit too early to tell, but we won't hesitate to make whatever changes are required to make sure that we don't go into a prolonged slump versus the one that we forecasted that we will come out of sometime in the summer of next year, hopefully, with the back of inflation having been broken.

Q Mr. Secretary, the President in a Newsweek interview coming out this week referred to a 6.5 percent unemployment rate as what he could call a very serious deterioration, if I remember the quotation correctly. At least from the tenor of his remarks in the interview, he suggested that might lead to fairly major changes in terms of the game plan that you people are working on.

SECRETARY SIMON: I must admit I didn't get that major change in emphasis from my conversations with him. Our forecasts show that unemployment is going to increase and increase right through the spring of next year, yes. That is why recognizing this we designed this expanded unemployment program as well as the public service program.

Q Are there any options, at least theoretical in your mind, such as tax relief, that sort of thing?

SECRETARY SIMON: Let me assure you that in designing the options and looking at whatever our worst case might be or the best case or something in between, and looking at the zones the economy might pass through over the months ahead, that we look at every single option and certainly a tax cut is an option.

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Q Mr. Secretary, do you assume that the auto industry won't reach a balance of new sales until the 1975 models are in the showroom, marketed next September? Is that the inference?

SECRETARY SIMON: I believe Alan was saying that we would begin to see the improvement after the inventory readjustment sometime toward the end of the first quarter -- is that correct -- of next year?

MR. GREENSPAN: Those are dealer inventory readjustments. I think what we are seeing now is a level of sales which is probably unsustainably low in the sense that a good part of it reflects the reaction to the advance purchases of 1974 models in July and August of this year in advance, attempting to beat the price increase on the 1975 models.

So, what you would expect in the very early sales patterns of the 1975 models you would be losing some of those sales which were bought in advance, and as a consequence, we view the current sales level, which is quite low, as below where it is likely to be in the early months of 1975 and for the spring, certainly.

Q Should the auto manufacturers cut their prices? Is that the answer to the problem?

MR. GREENSPAN: I think that the problem that is obviously a major issue on auto sales is the question of consumer uncertainty, and that is sort of a consequence of the economic malaise which the Secretary has been talking about. I think the best way to solve the auto industry's problem, as it is to solve most of the problems which we are encountering at the moment, is to cure that economic malaise.

SECRETARY SIMON: And the malaise is inflation, and that is what has frightened and confused the American people,not to talk about the confidence problem they have.

Q You think people are holding back waiting for the prices to go down?

SECRETARY SIMON: I always think that is a portion of it, except they did, as Alan indicated, purchase the 1974 models as a resistance to the higher priced 1975 models. It is obvious that at a price we are achieving some equilibrium in the market and unless the economy improves and they are able to see a change in consumer confidence in this country, and they are willing to purchase these cars, the only way people can sell any merchandise is to cut the price.

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Q Can I ask Mr. Greenspan what his current forecast is for peak unemployment, and when he thinks it will be reached?

MR. GREENSPAN: Phil, it looks now as though the peak is something over 7 percent. It is very difficult to forecast unemployment rate largely because it is a highly volatile statistic which is even difficult to forecast within a half a percentage point range even if you know everything else that is going on in the economy.

So far as the peak is concerned, I would suspect that we are looking at sometime around midyear. However, the peak in the layoff rate -- which as I indicated in my opening remarks is also a very critical factor -- may be very early in the year.

Q Just to follow up on that, practically every other economist has the peak someplace in the third quarter or fourth quarter.

MR. GREENSPAN: I would consider the third quarter midyear. I would, too, in a sense that if you have it at midyear, it is very likely that the third quarter would certainly be above the second quarter on average.

Q Mr. Secretary, in his briefing at the White House, Director of the Office of Management and Budget Roy Ash indicated that the deficit for this fiscal year could be $9.2 billion if everything goes right. Do you have any reason to think that it is not going to go right, that Congress will not act on all of the decisions that have been given to them? What is your estimate of the deficit?

SECRETARY SIMON: I think we have two problems. Roy is absolutely correct in that number, and that is making the major assumption that (a) no new spending programs are put into place that have a 1975 budget impact and, (b) that the Congress will act on the deferrals and recissions and we are making that assumption, yes, until otherwise occurs.

But let's make one differentiation, which I think is important when one talks about a deficit that is exacerbated due to a revenue decline, due to the recessionary tendencies in our country, which is what we are experiencing now.

The revenue estimates are declining -in the Treasury Department due to the slack in our business, and there is a great difference between budget deficits that are induced through revenue declines in a recessionary climate and budget deficits that we have due to just plain Federal spending and new programs.

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Q Mr. Secretary, in his Newsweek interview the President spoke about a 6.5 percent unemployment rate being indicative of a very serious deterioration. You spoke of the possibility of the economy going through, as you put it, various zones which might require consideration of a tax cut.

What zone do you have in mind for that to occur?

SECRETARY SIMON: When we were looking at all of these options, which we have been and are looking at, looking ahead in the months, we did not put any particular zone or any particular unemployment rate because it just isn't the unemployment rate alone.

There are many factors that we have to weigh before we shift emphasis in our policy. Certainly 6.5 percent is serious. There are many people who think 6 percent is indeed serious, and that is why again that the President proposed the expanded unemployment program.

Q Are you willing to support an expansion of the size of that unemployment program?

SECRETARY SIMON: I think as we continue to look at the economy, and the automobile sector, which again reflects consumer confidence, and trying to gauge what consumer confidence is in the months ahead is extremely difficult. That is what has caused in my judgment that major unemployment.

Certainly, we will consider anything, because as the President has said, he is going to make sure that we take care of the people who bear the disproportionate burden in our battle against inflation, and our President means that.

This strong feeling is shared by his economic advisers, because if we have a chance, this opportunity that I spoke of before, to once and for all lick the problem of inflation, our policies must be compassionate and humane and recognize that we have to take care of these things in our economy, because that is the only thing that is going to buy us the necessary time in this democracy to have our policies take hold.

Q Mr. Secretary, I wonder if you could elaborate a bit on your comment that a tax cut is an option? Is it an option that already has been discussed by the Economic Policy Board or an option that will be discussed soon or an option on some distant horizon?

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SECRETARY SIMON: I don't know about the third, an option on a distant horizon, but I can say it is an option that has not been discussed by the Economic Policy Board. The Treasury Department -- and this used to be a traditional answer in the Treasury Department when asked, "Are you working on X" -- I can tell you the Treasury Department is always working on tax policies and tax adjustments and incentives.

We are, as I said, constantly studying these things so we don't have to draw these plans up. If indeed they are required, we have them ready to present for discussion, but they haven't been discussed yet.

Q To follow up, the President in that Newsweek interview indicated that he expected in a short period, I think two weeks or so, to be receiving options from the Economic Policy Board. Do you expect that tax policy would be among them?

SECRETARY SIMON: I would say that that would be on the option paper, just as when people ask me the question about the gasoline tax, when we look at the revenue raising measure, I must admit that is always part of the option paper as well. Whether or not that particular item is selected by the President we can't speculate, but of course when we put something forward we don't just put our opinion of what is best to the President. We must present every option that we understand along with the pros and cons on each issue.

Q Mr. Secretary, under what conditions would you consider wage and price controls?

SECRETARY SIMON: I would consider wage and price controls under no conditions. As I said a little while ago, we need not go back. Just study the history and every country that has tried an incomes policy in this century, they don't work.

It creates distortions, inequities, scarcity, ultimately more inflation and higher unemployment. People always point to World War II as "Gee, it worked then." We had some patriotism then, and wage and price controls for a time disguises or masks the inflationary pressures in our economy, and few people go on to say from August 1945 to November 1946 wholesale prices went up about 33 percent.

That is sort of the same thing we are experiencing now, and they don't remember about the black market in gasoline, and when you went out to buy a bottle of scotch you had to buy three bottles of rum with it.

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That is what happens when you start to tamper with this great economy of ours. You are going to find those that are dishonest. The majority of the millions of people will abide by it, but we are much better to let this economic system that has provided the American people with the greatest standard of living in the history of the world, and we should be removing impediments instead of erecting them as your Government is so good at doing.

Q There has been recent speculation that you would like to get out of the Government quite soon. Would you, and will you, or are you a permanent fixture with the Ford Administration?

SECRETARY SIMON: I don't know anybody in Government who is a permanent fixture. I have made the statement I will stay as long as President Ford wants me to stay.

Q You say you are considering a series of options and a tax cut will be among them and will be presented to the President. In your judgment, is policy likely to be turned more stimulative in the next two or three months?

SECRETARY SIMON: When you say, "stimulative," that is like the discussion we had in the first pre-summit conference with the economists when we were discussing monetary policy. There is a big difference in monetary policy among many people.

While we recognize that we do have this recessionary problem and we can't be contractionary, we can't be excessively stimulating either or we are going to be back in the same soup and the same mess that we are in right now.

So, that is the degree. We don't believe that our fiscal policy, as one looks at it, a 13 percent increase in expenditures from last year to this year, $34 billion is fiscal restraint. What we are trying to do, as I said, is cut down on the explosion in Federal spending and your fiscal 1976 budget is going to be your key to watch and where we go on the expenditure side from this year going into next year.

Q Now that you are starting to talk about a possible tax cut --

SECRETARY SIMON: I talk about it in responses to a question. Do we look at options? You could ask me about that in the gasoline tax or anything else. Yes, there are just so many things that one can do.

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Q In any case, does this mean that you are starting to give up on the notion of a 5 percent surtax being passed by the Congress or beginning to feel that its chances for passage are less --

SECRETARY SIMON: When the President recommended the surtax to the Congress, contrary to some peoples' opinions and, indeed, what was printed, that it was a demand restraint measure, that was never mentioned.

The purpose of the 5 percent surtax was to pay for the programs, to begin to attempt to raise revenue as we are creating expenditures through the investment tax credit and the expanded unemployment programs. It is about time that we explained to the American people that they are going to have to pay for these programs through higher taxes if we wish to have this spending or pay for it through the cruelest tax of all, inflation. That was the reason.

Anybody who says it is a demand restraint program, when you look at the progressivity of this surtax -- which we did our best to explain, but I guess we failed. When we start a surtax, a tax on a tax, at $15,000 a year, for an average family of four at $20,000 pays $16 or maybe it was $42, if I remember correctly, it is highly progressive.

Q How much longer do you think the country can sustain or live with the coal strike?

SECRETARY SIMON: I guess we will know that a little bit later today. I am hopeful that the miners will vote to ratify the pact.

Q There is some question about that. What if they do not? How soon are we in an emergency?

SECRETARY SIMON: I would say, if they don't, we most certainly have to reassess the economic situation.

Q Mr. Secretary, would you reconcile some things for me?

We have had 15 percent price increases for two years running in food prices. Lower income families spend a relatively larger proportion of their income on food than do people with higher incomes. You have suggested that you want to be compassionate and help those people hurt by inflation and recession, and yet, the President this week has proposed increasing the cost of Food Stamps to low income families by more than $300 million in the next half year. How do you reconcile those items?

SECRETARY SIMON: We have many built-in stabilizers in our economy today. When one looks at the broad spectrum of income maintenance programs, Food Stamps is only one of them, and that has ballooned to $4 billion in this budget and will get up to somewhere close to $6 billion.

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You know, when you start talking about cutting the budget and analyze where the explosion has been over the last four years, the major portion of your budget, I think 65 percent has been in what we call transfer payments of which that is only one portion of it. We have to begin to exercise some moderation in this area.

We talk about the low income families. The worst thing of all for low income familes is a double-digit inflation rate, the regressivity of that by itself. There is no way to have the cake and eat it too.

If we intend to truly solve the problem of inflation, which in the final analysis will benefit the low income people better than the high income people, then we must do this and again take care wherever we can to smooth out this disproportionate burden. It is not going to be possible, John, in every single instance. But it is more unfair, I suggest, to allow inflation to continue at these levels and just do nothing about it.

Q Are you suggesting, sir, that the benefit to the poor in terms of a reduced rate of inflation due to a 300-plus million dollar cut in spending for Food Stamps or an increase in their payment for them, would be of greater benefit to them than receiving that payment or the absence --

SECRETARY SIMON: What you are suggesting -- and I don't have the numbers here -- you are suggesting that that entire $320 million that was cut from that particular program went to the poor. As I say, I don't have that here, but what I would --

Q Raising the price of Food Stamps to the poor -- it obviously comes from --

SECRETARY SIMON: Oh, you are suggesting that only the poor get Food Stamps. I think if you look at a list of people eligible for Food Stamps, you will find many people from college students on vacation to many others that benefit from this program.

I will get the specifics for you on that, John, because I am interested in that answer as well.

Q I would like to ask Mr. Greenspan a question. Maybe you could clear something up for me. You say the layoffs will peak early in the year, unemployment will peak sometime after midyear. Does that mean we will have, obviously then, fewer layoffs figured into the unemployment rate?

The unemployment rate is going to get considerably worse than if all the people laid off are back at work before that high point is reached.

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MR. GREENSPAN: I think the best way to explain it is to recognize that the layoff rate itself, the number of people laid off, is tied closely to the rate of change in the unemployment rate. So leaving aside for a moment the other aspects of unemployed, other than those who lose jobs, arithmetically the layoff rate tends to relate exactly to the rate of change in unemployment itself.

As a consequence, the layoff rate tends to be at its maximum when the unemployment rate is in the process of rising most quickly. So that if we get an unemployment rate, for example, which rises and then continues to rise but at a slower rate, the layoff rate will peak and come down and that is essentially what I had in mind.

Q Mr. Secretary, you had spoken about the lack of consumer confidence and the need to restore that. What in the figures or facts that have been given at this briefing this morning might serve to inspire consumer confidence?

SECRETARY SIMON: Well, we talk about consumer confidence. Let's talk for a minute about the American people's confidence and maybe my analysis of what has happened. By the Lou Harris poll, confidence is at the lowest level as far as the American people for their Government, for all of the institutions that you and I were brought up to respect, whether it is church, school, leaders, military, et cetera.

This decline in confidence has been coming over the last decade. We can trace it through Vietnam, through the student riots and the many problems that we have had leading up through the Watergate, which certainly was a major contributor in this.

The Government is going to have to work very hard and probably for a long time to restore the confidence in this particular institution. What we can do, our share, is to continue to be as open and honest as we can, to tell the exact facts and to ask your assistance in presenting these facts to the American people that we do know what we are doing.

We are not always right. I don't know anybody who is. But we know what got us into this mess, as I said, a little while ago, and we know how to get out of it. We know it is going to take time to get out of it, because there is no instant miracle to be put in place where everybody says we have beat inflation. It is going to be business as usual.

When you take a combination of all the factors, the economic factors that have gone wrong, some because of your Government's policies and some because of the outside factors, and combine it with the low level of confidence, the destruction of confidence on the part of the American people, you have quite a mix.

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We are going to have to and we intend to work terribly hard to turn this around. I am not optimistic we will be able to do that quickly.

Q Isn't it almost an ironclad fact that the unemployment rate, when it is announced for December, with the announcement of course coming in early January, will be above 6.5 percent?

SECRETARY SIMON: No, it is not an ironclad fact, Rich, that the unemployment rate will be over 6-1/2 percent. We talked about that this morning when Alan was presenting the new facts and figures that are coming out in the future.

Alan, why don't you step up and talk about the trickiness of the unemployment number and the flukes that occur, such as the 5.4 figure some months ago.

MR. GREENSPAN: Rich, one of the problems that we have with the monthly unemployment statistics is that it is, as you know, based on a sample of households and it is a very complex statistic with fairly substantial statistical variability and the seasonable adjustments factors themselves of ten give us some problems.

As a consequence, you find that forecasting the unemployment rate even when, as I indicated before, you know what is going on in the rest of the economy, is a very precarious occupation.

You may recall that most forecasters, early this year, were baffled by why the unemployment rate didn't rise faster than it did. You may also recall there was one month in which, as I recall it, insured unemployment, that the actual number of registered unemployed at the State Insurance Unemployment Offices showed no change but the published monthly unemployment rate went up .4.

I think that was in September, if I am correct. And that suggests some degree of humility in trying to anticipate this number. So, if you want to say it is an ironclad fact, I would agree with the Secretary, granted what we know about this number, it can't be.

Q Mr. Secretary, I am wondering why you consider this period of stagflation, recession-inflation, to be, as you put it, a magnificant opportunity? Why should the American people ragard it as a magnificant opportunity rather than some other phrasing?

SECRETARY SIMON: I am talking about the magnificent opportunity, when Alan spoke and a lot of things I said in my remarks, talked about the price pressures that we see receding now in our economy. And that in the past, in three experiences in the past ten years where we have exercised a degree of fiscal and monetary restraint we turned our policy toward more stimulous and it was done too soon on each occasion, as has been done in this democracy, and each

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time it left us with a higher rate of inflation, actual and base, higher levels of interest rates as a result of this and even higher unemployment.

Well, if we can see in the months ahead, that we are going to be able to crack this rate of inflation and begin to bring it down and not only crack the actual rate of inflation, but begin to work on the ingrained inflationary expectations that have been built into the American people through years of our excesses, then we will have won the battle, and that is why it takes a long time.

We are going through the most difficult period right now where we are hearing the siren songs from the other two camps, and those camps are very close together. One calls for wage and price controls and the other calls for more stimulus coupled with wage and price controls. And we consider either to be, without a doubt, the worst thing we could possibly do to once and for all in your Government begin to attack the cause of the problem rather than the symptoms or the results.

Q Mr. Greenspan, you suggested the other night that it was possible that early 1975 might be an appropriate time for a tax cut. How likely do you think it will be that these risk premiums will intersect at that stage?

MR. GREENSPAN: I think you are not quite quoting me exactly. I said if it should turn out that fiscal stimulus were a desirable tool -- I underline the word "if" -- then I would say, one, we would rule out using the Federal expenditure side, largely because for the reasons that it is very difficult to suppress the long-term growth, and it is essential that we do. So that if there is any need or desire or reason to use fiscal policy, we should look only at the revenue side.

Q How likely do you think it will turn out to be desirable?

MR. GREENSPAN: I would say, at this moment we see because of the decline in the economy, because of the shift from FIFO to LIFO of the number of corporations, a decline in revenues and we are getting the so-called automatic stablizers functioning, so the presumption that somehow fiscal policy is tight or restrictive, I think, is belied by the numbers and anyone's view of what tax policies should be at any point in the future should be looking, one, at what actually are the tactics at the time in the revenue structures; secondly, what are the financial implications at that point of financing additional budget deficits?

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So, I would suugest that the decisions that have to be made,or should be made, at any particular time are rarely, if ever, capable of being made in advance, and the facts shouldn't be, because the complexity of the problems that one confronts at any point in time always are far greater than one can ever anticipate and I think what you do is create a large structure of alternate types of programs, contingencies, most of which you will never even get close to using. But I think one should have them. As I indicated the other night, what I would emphasize, is to not use fiscal policy the way, sort of, it has classically been used. I think that would be a mistake.

Q You have spoken about the inflation rate being 6 or 7 percent by next spring. The Secretary has said we know how to get out of this economic problem we are in. When will the recessionary features change? When can an upturn be expected?

MR. GREENSPAN: Ervin, as I indicated earlier, it looks now still that the pattern is for the bottoming sometime in the early spring or late spring. It is very difficult to judge, but the forces of momentum still appear to give us a pattern of an upturn working its way through the summer months, through the second half of 1975 and into 1976.

Q Mr. Greenspan, your colleague, Arthur Okun, said the other day that he expected unemployment to reach a peak of about 8 percent next fall. How unlikely or likely do you think that is?

MR. GREENSPAN: I wouldn't know how to put a probability on it, largely because, as I indicated before, it is such an uncertain statistic, I think I would be giving you a misleading answer if I really put a specific number on it because I really couldn't.

Q You did put a specific number on it. You said it would be more than 7 percent.

MR. GREENSPAN: That is not the same statement as what is the probability.

THE PRESS: Thank you, gentlemen.

END (AT 11:34 A.M. EST)