The original documents are located in Box 4, folder "Conference on Inflation (1974) - Economists' Conference (2)" of the Ron Nessen Papers at the Gerald R. Ford Presidential Library.

MR. GOLDFINGER: Thank yöu, Alan.

There are loads of comments I could make in terms of sharing some views that have been expressed and sharply disagreeing with others.

However, in these brief remarks, it seems to me that remedies should be based on a diagnosis of the illness.

At this time, I will emphasize the views that we in the AFL-CIO have of some of the major factors that have contributed to the problem, to a degree the nature of the problem.

The stepped-up rise of prices was set off in the second half of 1972 because from early 1971 on we had a much lower rate of inflation and then the thing began to shoot off. This was touched off by the Russian grain deal in July 1972. The price rise began to accelerate and has continued to accelerate.

This accelerated inflation was aggravated by the devaluations of the dollar and the vast export sales of agricultural products, food materials, and other goods in short domestic supply such as steel scrap, copper scrap, even waste paper and fertilizer.

It was aggravated further by the hectic speculation and profiteering in the essentially unregulated commodity exchanges.

Now the energy emergency in the autumn and winter of last year and early this year, with the extraordinary rise in the prices of oil and petroleum products added still further to the problem and aggravated the problem but did not cause it.

The reason thus far has been essentially a response of restrictive monetary policy with very sharply rising interest rates. The prime rate is up about 100 per cent from early 1973, up about 37 per cent from the first half of March. Now, these monetary policies and high interest rates could not possibly curb this rising tide of inflation based essentially largely on the factors that I described before. But they hit home-building first and hardest, beginning in early 1973, and drove residential construction into a condition of a depression at present.

These were a major factor in throwing the economy into today's continuing recession.

I want to emphasize here that, in our view, we are and have been in an inflationary recession. The inflation began to accelerate, as I said, in the second half of 1972. The recession started toward the end of 1973. Now the tight monetary and fiscal policy with high interest rates

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furthermore generated more inflation by directly raising costs and prices since interest rates are a cost and price measure. Furthermore, by creating slump conditions in the economy they are suppressing the rise of productivity and thereby adding to pressures on unit costs and prices.

Moreover, the continuation of these policies in their essential form now poses the threat of a deepening recession, the threat of widespread business failure and certainly the immediate threat and reality of high unemployment.

Now, as we look at it, here are some of the essential facts of great importance:

Inflation with its very marked effects on the prices of food and fuel which have been spreading through the system through prices of industrial goods, utilities and services, has had a particularly devastating effect on most retired people and on low and middle-income families with children, with the result that there has been an undermining of living standards and a decline in not only the purchasing power but also in real consumption.

The buying power of the average worker's weekly take-home pay has dropped to about the level of 1965 which was nine long years ago. In the month of July, that buying power was down 5.3 per cent from the year before, and it was down seven per cent from the peak which had been reached in October 1972.

The number of unemployed rose more than 750,000 between October 1973 and July 1974.

In terms of the kind of discussion around the table here of a further increase to a level of about six per cent some time in the relatively near future that would mean an additional 700,000, 750,000 unemployed aside from the hidden unemployment that has resulted and is resulting from the discouragement of many workers and the lower participation rates.

In recent months, the retail sales, after accounting for higher prices, has been four or five per cent or so below the same levels of last year.

We have a housing shortage developing while both housing starts and building permits have been falling sharply. Something like three-quarter of the American families now are priced out of the housing market.

Moreover, in terms of the immediate situation and the short-run outlook, confronted by the high interest rates, many cities and counties are postponing bond issues and delaying their investments in public facilities and services.

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In addition, public utilities, as has been mentioned here, are cutting back plant expansion programs, in good part because of the interest rate pressure, in addition to the pressures of fuel costs.

Now, these actions by local governments and by the public utilities mean cuts in heavy construction, reduced orders for machinery. They threaten reductions in inventories and they mean fewer jobs and increasing unemployment.

So that, the monetary policies with these high interest rates, in my opinion, and in the opinion of the AFL-CIO, have brought the American economy to the edge of disaster.

Now, among the remedies that we would suggest, and I would toss off very briefly:

First, the monetary policy, I think, has to be changed considerably. We not only need an easing which has been indicated around the table by some people but what is needed, of equal importance, is to allocate a significant portion of available bank credit at reasonable interest rates for priority purposes such as housing, community facilities, the expansion of public utility plants, and the regular operations of business, while at the same time to curb the flow of credit for such activities as gambling casinos, land speculation, commodity market speculation, and loans to foreign borrowers and for foreign subsidiaries of American companies.

Another thing that is needed is for the administration to move as rapidly as possible to implement the new housing legislation which the President signed, I think, about a week ago and to move in and to begin to stop this continuing sharp decline in residential construction and to lift the whole state of housing which not only is of economic importance but of social importance, as well.

Another thing that we think is needed is a complete revamping of the tax structure. To get at the budget problem through budget cuts and particularly the kind of cuts in areas such as health, education,housing, community facilities and mass transit, poses real dangers for the future of American society. Rather than to do that, the emphasis obviously should be on cutting fat but, in addition, a major emphasis should be on the elimination of at least major loopholes in the tax structure, in the Federal tax structure, and the adoption of an excess profits tax to get at the excessively high profits of some of the corporations and industries.

In addition, it is our opinion that the proposals for further tax cuts for business which have been suggested or hinted at around the table by some people should be rejected summarily.

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We also think that there should be export controls established on export sales of agricultural products and other goods which are in short supply. We think that the Government should rebuild the stockpile reserves of agricultural products and raw materials which have been depleted.

In our opinion, it is essential that we get substantial appropriations of funds for a large-scale public service employment program in a work-oriented culture such as ours. A paycheck even on a public service employment program is of far greater importance to the family and to the individual than a welfare check or any other kind of income maintenance program that may be suggested.

Furthermore, along the lines that George Shultz indicated, the unemployment insurance system should be substantially improved through adequate Federal standards and, in addition, I would say that a program of Federal grants to states and local governments is needed to accelerate short-term public works construction and repairs of public facilities and to replace the kind of weakness that is appearing, not only in terms of employment, but also in the investment area.

MR. GREENSPAN: Thanks very much, Nat.

Kenneth Galbraith of Harvard.

MR. GALBRAITH: Mr. Chairman, I will also respect your request to be brief because I believe you wanted to avoid repetition as much as possible in the summary.

I do regard the problem of inflation as a present and urgent problem, a view that I share with Professor Friedman.

Also, I would like to urge that, apart from the fact that the President has asked attention to that that we be aware of the temptation to go on from our concern with inflation to the much more pleasant task of treating recession.

Most of us around this table have spent our lives worrying about unemployment and depression. We are on familiar territory there. The things that one does against recessionand depression are all pleasant, indeed lovely, cutting taxes, no controls, increasing expenditures, and there is a beguiling tendency, I think, to find wrong and disorder in the society which allows us to prescribe the most pleasant remedy.

We have had discussion here this morning and this afternoon of a great variety of causes of inflation. I would suggest that we can reconcile that discussion by assuming that they are all important, to an unknown extent. Indeed, inflation is caused in part by the pressure of business investment and inventory investment, associated expansion of borrowing and money supply. But it is caused by general excessive demand, including demand in the upper spending brackets as so well indicated by our colleague from Armstrong.

Wages do shove up prices and, as less often said, Nat, prices do pull up wages. There is a spiral there which, unfortunately, we cannot ignore. There is the possibility, as Alan Greenspan said this morning, that a very large volume of expendable assets that overhang a market at any given time can become loose and spent, that something of this sort has already taken place as regards business spending, and that we have had the particular bottleneck problems associated with fuel shortages and food shortages.

We should assume that they are all important and we should doubt that any economist here at the table knows quite what importance to assign to it all.

This being the case, then I would suggest that it is elementary common sense that we attack all of those causes, that we not assume that inflation can be brought to an end by dealing with any one of them, that we remind ourselves also this is not an ideological question but the remedies are about the same for liberals and conservatives, would be about the same for Bolsheviks and the devoted supporters of Dean Rand, if there are any such present.

The choice here is much less a matter of political preference than we like to imagine. It leads me to suggest that the remedies indeed are, first, that, for the moment we have no choice but to keep money tight. As long as we have a runaway inflation, I would think it is most unwise that we ease bank-lending; that we, second, use the maximum of fiscal restraint and it seems to me that Mr. Ash has given us a most persuasive indication of how that must be done. He has left us with no alternative but an increase in taxes. It should be at the $15,000 to $20,000 level.

The spending is now pressing on the market where we have expenditures by the rich competing with the spending by the poor. As well, I would also urge an increase in the corporate income tax. I am not quite as radical as my colleague, Professor Houthakker, in suggesting that this become progressive.

I would like to urge also a wide range of excise taxes designed in relation also to the bottleneck problem.

It wouldn't surprise anybody to know that I believe that in this kind of economy there is no alternative to wage controls, not across the board, but where the power already exists to fix prices, where the private power exists to fix prices, and for wages the public power to do so must be asserted.

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Otherwise, we have a spiral which is of such power that it can only be arrested by a volume of unemployment that is socially unacceptable, I venture to think even to those who are less concerned about unemployment than I would like to think that I am.

Furthermore, we must have a concentrated, energetic attack on the bottleneck areas.

Reverting to my one-time interest in agriculture, I would emphasize particularly the strongest measures to increase fertilizer supply but this is something which I won't press further.

If all of these things are done with energy, then one hopes also that one will have two further possibilities:

First, the belief by people and corporations that dollars are worth holding and one has the possibility, which I would certainly urge, of then taking the steps at the earliest possible moment to ease money supply, ease Federal Reserve policy which, I agree with my colleagues here, is the most unsatisfactory and, in some ways, the most dangerous of the instruments to use to fight inflation.

The reason that economists enjoy discussing monetary policy is that we don't know the results. Therefore, it is a fascinating thing to talk about. We do know there are dangers in this. This should be the first thing from which we escape.

Then I would also, with Professor Heller, hope that the next action be taken to relieve the pressures of inflation in the lower-income brackets. I differ with him in thinking that any tax reduction is possible as long as one has inflation as serious as now.

That leads finally to the matter of sedatives and social contracts with Professor Friedman. I would enthusiastically urge their use on employment, temporary additions to unemployment compensation, the extension of the time of unemployment compensation, the use of public service employment on the grounds that we should not load the costs of this policy unduly or in any avoidable measure on those who are least able to carry it.

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MR. GREENSPAN: Thank you.

Richard Cooper.

MR. COOPER: Several people have already observed that the inflation that we have been talking about is not limited to the United States. It is a worldwide phenomenon. It is even more than that I think. It is a link problem to an extraordinary degree, even the relatively self-contained U. S. economy has been subject to external influences during the last year. As has already been mentioned in connection with inflation, one can identify three important ones. We had currency devaluations, two devaluations, followed by depreciation, all of which pulled up the prices in dollar terms not only of our import goods but also of many of our export goods including those sold in the domestic markets because markets are linked.

Secondly, the world drought leading in turn to a world grain shortage. That did not arise in the U. S. but as the ultimate supplier to the world it affected prices in the U. S.

Thirdly, most recently the increase in oil prices.

All these three factors together account for more than half of the increase in consumer prices during the last two or three years. I regard these explanations by the way as complimentary to and not in competition with the monetarists' explanations for inflation. I think one needs to explain why it is that money supplies grow under present circumstances. That is a more technical issue. The major point it seems to me is that what we have observed in the recent couple of years has not been wage inflation. It has been inflation which has risen from other sources and in particular two of the sources are especially troublesome. The devaluation has worsened the terms of trade of the U. S. with respect to the rest of the world.

What that means is that for any given level of our output our real income has gone down. It is that an unfortunate feature of the worsening in terms of the trade is that there is nothing that we can do internally to restore the real income arising from the loss of real income arising from that source.

I think the real danger that the country faces at the present time is that the inflation that we have observed, which has not arisen primarily from wage increases, will try to be recouped by labor through higher wage increases and what started out to be a change in real relative prices including a worsening in terms of trade will be built into the wage structure as higher wages and then set off a wage-price spiral.

It seems to me therefore, that the most important thing the Government can do at the present time is to head off that possibility. It has already begun. Wage settlements were surprisingly moderate throughout 1973, even into early 1974. In the last six months they have begun to accelerate. I speak in the absence of further action that they will accelerate even further.

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I think there is still a possibility in this country, which unhappily does not exist in some of the other major economies of the world, of heading off a wage push inflation. I will come back in a moment to how I think we might do that. If we don't, I think we have five or six years of grief ahead of us while that works its way through the system and there is nothing we can do about it.

Before coming back to possible solutions I would like to mention another aspect of the global dimensions of this problem because I feel it bears importantly on how we see our own circumstances.

It is worth keeping in mind that all the major economies are going through the same kind of agonizing process that we are going through now. They have inflation, in most cases more rapid even than U. S. inflation, yet they are faced with weakening demand. I think there is a serious possibility that each of several large nations acting alone to deal with its own domestic problem, other things being equal, an assumption regarding the rest of the world, will drive the world into serious depression.

I don't mean by that like the 1930's, but but more than the post-war mild depressions that Eckstein referred to earlier.

Germany is maintaining very tight reins. Japan is still growing postively but very slow by its own standards. Germany and its ally both face major problems which they are gearing up their determination to deal with. If the Communists come into the Government in Italy they are likely to have a more restrictive policy than they have had.

I think therefore that while each country in each forecasting counts, I suspect the forecast we heard this morning calls for relatively modest changes in the trade surplus of the country, in fact there could be a substantial deterioration for this country if other economies turn softer than they are.

Financial markets abroad are already in bad shape. We heard from Walter Hoadley about the gloom that pervades Europe now. This is an especially bad time for financial markets to be in bad shape because we need them for recycling oil funds, a point to which I will also revert. For these reasons, I am somewhat more pessimistic on the outlook than the forecasts that we heard this morning. But I am also somewhat more hopeful than many other speakers about possible solutions.

Let me make a specific proposal and the rationale for it. I don't know what there was in the lunch, but I detect since lunch the consensus that seemed to be emerging this morning has broken down sharply. While Ken Galbraith urges a tax increase, I urge a tax reduction promptly on the order of magnitude of $10 billion to $15 billion.

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I am interested in tax reduction not merely or even mainly for the stimulus to aggregate demand that that would provoke, although I think that is an important part of it, but I see it as an important, indeed possibly a necessary, part of a social contract to be struck between government, business and labor in heading off the beginnings or the furtherance of wage generated inflation for the next several years.

Indeed the summit that President Ford has called for later this month is perhaps an ideal kind of forum for trying to strike or for publicizing the striking of such a social contract. In particular, I would concentrate the tax cut on middle to low-income employees, explicitly on the understanding that labor would moderate its wage demands and that business would cooperate in wage settlements with a view of cutting wage settlements back from something like 10 percent to 11 percent to something like 6 percent to 7 percent.

Six to 7 percent wage settlements are not non-inflationary but the difference between 7 percent and 11 percent is still substantial and will make a substantial differenct in the amount of inflation we have in this country in the next several years. A tax reduction of about $14 billion would provide for low and middle-income, would fill that 4 percent gap. The argument would be for increasing your real wages through an increase in disposable income through the tax reduction in exchange for an understanding that you won't ask for it over the bargaining table.

Now would this be inflationary, this tax reduction, is a natural question. I would argue that is not inflationary, that indeed by looking at the budgets that we saw this morning, at least we saw the expenditure side of the budget, we are not looking at the whole picture. What I would like to do, and I think it is appropriate for our purposes of macro-economic management, is to consolidate the budgets of the U. S., Saudi Arabia and the Persian Gulf States and Kuwait.

These countries impose a tax, if you like, an excise tax, through their price increase on all consumers of oil They have no way to spend more than a small fraction of the proceeds of that tax. They are going to rechannel them into the financial market. It is very much as though the U. S. Government had its increased taxes and used the proceeds to retire the public debt.

If one does consolidate these budgets we are at the present time not in a moderately easy or neutral fiscal position. The rational for tax reduction, if you like, is to move back toward fiscal neutrality from what is, I think, a tight fiscal position now. The wherewithal for the financing of the resultant budget deficit is precisely the proceeds of the oil tax. It is the funds which the Arab countries must invest in the financial market mainly from now on I think mainly in U. S. Treasury Bills. I see here the makings of a bargain which I think far from being inflationary, if it can be made to work, would head off a lot of inflation in the future.

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Let me close by making one further reference to the question of oil revenues now, not in connection with the U. S. but in connection with the rest of the world.

Most of these funds are going to be coming into dollars. They are very substantial. Estimates vary, but all the estimates are large, anywhere from $40 billion to $70 billion per year. Most of these funds are going to be coming into dollars as the jitteriness of European financial markets increases they will come to the United States for safe haven.

Yet it is very important that other countries have access to these funds in order to sustain their level of economic activity and more importantly or more likely their foreign trade position. I fear that if some kind of provision is not made for recycling, some positive act on the part of government and or central banks to facilitate the recycling of oil funds, we may find other countries one by one feeling driven to the imposition of controls over trade and payments which not only will deliberalize the world economy as it were and undo some of our U. S. efforts over the last 25 years, but more immediately to our task at hand, have a negative feedback on our own balance of trade position and would lead, I think, to a substantial increase in the trade deficit.

That in itself is anti-inflationary, but I worry about the political response to a trade deficit that grows from what is likely to be, $5 billion or $6 billion, with our oil payments to $15 billion to $25 billion. Labor is running protectionist. That would give them them the ideal handle for doing that and protectionist moves are inflationary.

MR. GREENSPAN: Thank you, Rick.

Nancy Teeters, Library of Congress.

MS. TEETERS: As I look at the economic outlook in employment, the consensus around the table, we do face this unhappy prospect of rising unemployment and continuing inflation. Our perception as to which is the most important will vary as time passes and economic events unfold. However, I don't think we should lose sight of the possibility of rising unemployment as being a major problem in the U. S. Consequently I think it is very important that we have policies which will caution the effects of the unemployment in individual families.

The institution of public service employment has been suggested by many people. We would like, of course, to maintain the maximum flexibility that we can in our macro-economic policy and that is extremely difficult to do. Most Federal programs are initiated only after long and serious consideration by both the Executive and Legislative Branches of the Government. Perceptions differ as to what needs to be met immediately and what is deferrable. As a practical matter it will be difficult to reduce Federal expenditures. In the short run any attempts to balance the Federal budget at the level of recession induced receipts may well become self defeating.

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I am sure that there will be expenditure reductions proposed. I would like to urge that these expenditure reductions take the form of deferals rather than rescissions. If our economic outlook turns out to be wrong we can more quickly turn it around and increase our expenditure outlays.

The escalation of the fuel and agricultural prices has set off rather severe inflation but I think more importantly it has transferred more income into the agricultrual sector and petroleum sector at the expense of everyone else. The distribution of loss in real income is one of the major problems we are going to have to solve in the next six months.

I think it is extraordinarily important that people feel they are being treated equally in taking the loss of income rather than have large corporations and unions recoup and not everybody else.

The need to do this is extraordinarily difficult to do. I am not quite sure how we go about accomplishing it. Perhaps the best combination is some sort of tax cut for low income offset by an increase in taxes on the upper incomes. However, I think we should continue to monitor that particular problem very closely.

I would also like to join with the people who have said that they feel that there are large numbers of areas of the economy where the level of competition is being restricted. I happen to like Hank Houthakker's suggestion that we put them together and put them through at one time and to eliminate them so that there is not a constant fighting about who is getting hurt at this particular point.

I would like to say this. If we do prove to be wrong in our economic outlook I think that we should be prepared to move relatively quickly to correct it and take whatever steps we can to offset the adverse effects not only in the U. S. but abroad.

One final point I would like to make. The food and fuel problem, as has been pointed out repeatedly, is not one which is confined to the U. S. I think it would help to have a worldwide conference on these and also to have some international agreement as to the allocation of scarce supplies. I would be very disappointed to see recurring in the fall and winter of this year the disappearance of our grain stocks without even knowing what was happening. I am not in any way advocating export controls. I am simply saying that we should have some idea of the worldwide size of demand and how we can best allocate among the various nations that have demands on that output.

MR. GREENSPAN: Thank you.

It has been suggested that we take a seven minute stretch. I hardily concur. Let us keep it short if we possibly can.

(Brief recess.)

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MR. GREENSPAN: Ladies and gentlemen, can we please get started again.

Despite the fact that we are going to be here all day, our schedule is a bit tight.

Our next speaker is Arnold Weber of Carnegie-Mellon.

MR. WEBER: Thank you, Mr. Chairman.

As you have gone down the table, most of the succulent fruit has already been picked. I offered to sell my three minutes to Milt Friedman. He refused on the ground that I could not promise delivery, which seems to be an endemic problem in the economy today. However, I will try to identify four fruit, one orange, one apple and two lemons, which in part reflects my own thinking in reaction to some of the prior comments.

First, it seems to me that this occasion has been the site of an uncharacteristic display of modesty on the part of the economic profession. It is clear that they are better than they say and it is clear they know how to do two things. One is how to move prices up and, two, how to move prices down. This discussion has indicated that that is not really the problem. The problem is in dealing with the side effects or consequences of restraining inflation.

It is clear that we have three sets of priorities with which we have to deal. One is the price level, the second is growth and the third is the level of unemployment. Really, then, the problem becomes one of establishing values and priorities and it truly becomes a problem in political economy. So, the questions that we have to treat are in bringing down the price level, how long is it going to take, what is the tolerable level of unemployment in both the political sense and in the sense of resource allocation, and what does it mean to growth?

It seems to me that we have not given a great deal of attention to growth. I would underscore Marina Whitman's comment about the strains the flat growth rate puts on income distribution and beyond that, the social tension that it engenders.

I think it is important to remind ourselves that we are now completing the one decade in which one of the major thrusts of public policy has been to open up opportunity to people of all backgrounds and races. We have just about done this in the institutional sense. Now we have to put our money where our mouths have been. So, one of the consequences of a flat economic growth will clearly be to exacerbate social tentions, particularly as it relates to the racial problem.

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I think we should have a public service employment program in place providing 500,000 jobs or thereabout, and the cost of that will probably be $3 billion and obviously this would have fiscally distressing effects. One place to get it is from general revenue sharing which is $6.2 billion.

The States and local governments are going to get it anyway. Their budgets are in surplus in aggregate. Otto Eckstein indicated that the capital demands are diminishing because of population changes. It seems to me that this is the place where you can get it which would violate the letter of revenue sharing but not the spirit in the sense that revenue sharing funds would not be identified with categorical programs, education and transportation, but would be associated with a functional objective and that is employment.

The first lemon is what is happening on the wage side. We have had indications from several oblique angles around the table that we are now on sort of the back side of the inflation. That is, monetary mischief and other human follies have done their job and how we have wages at inordinate levels and far beyond productivity and pushing up unit labor costs. Well, I suppose that is right as an empirical fact.

I will just mention two things. One, this is exactly the same sort of exposition that contributed to the imposition of controls in 1971 where you will recall it was largely from the business community, a concern over a 19 percent rise in construction wages, 15 percent in the steel industry, that said in order to quash inflation we have to do something about wages. The product of that was the imposition of controls so I would caution particularly some of our business colleagues who, I think, have most obstrusively stated that analysis, that as a matter of policy and as a matter of equity that sort of implication, it seems to me, is mischievous.

Now, the second aspect about wages is that we really have a fighting chance to do something about it. If you look at the bargaining calendar most of this bargaining round is completed. What we have left, and it is not inconsiderable but it tends to be less central, is coal, railroads and oil. In 1975 there is a relative hiatus. It is a light bargaining year. In '76 the heavy hitters come to the plate again. You know, the same fellows, trucking, electrical equipment, rubber, automobile, that we most recently heard from.

In looking back to the recent past it is interesting to note that wage increases were moderate into '73 and the early part of '74 because there is a lag in formation of expectations in wage strategy by unions. Once then caught on that inflation was here to stay, at least in the immediate future, they adjusted their sights accordingly. Now they are up on that plateau and unless we have real progress in the numbers in bringing down inflation, by about this time next year when, you know, the union leaders are starting to gather and talk about what they are going to ask for in '76, it will be very difficult to slow down the rate of wage increases regardless of any putative curve relationship.

Those of you who would like to see some side evidence look at Canada where their structure of bargaining is somewhat different. In the United States we have had escalator clauses on top of 6 percent. In Canada they now have escalator clauses on top of 10 and 12 percent. So, the point to be made is that in establishing the goals and timetables, if you are concerned about wage effects there will be a corridor next year and how adroitly we exploit that will depend upon other measures and the power that we put into that.

Now, the last point I would like to make, and it is another lemon, is about productivity. Productivity is the all-purpose virtue; when we can't think of anything else we say let us increase productivity. I was in Government and it was always full of fellows riding around in limousines asking other fellows to work harder. Having been in both places, I would prefer to be in the limousine.

We know that productivity increases in the long run are a function of improvements in the quality of the labor force, technological change, and capital investment. In the short run it tends to reflect output effects. Many of these things we cannot control directly.

Now here we say let us do something about productivity. To the extent that you have identifiable barriers to productivity, they reflect the efforts primarily of unions to protect against unemployment and the insecurity associated with it. Yet, there are some voices that would propose that at a time when unemployment is rising we will ask them to link arms and disappear into the economic sunset with us.

It seems to me that that is infeasible and misdirected and that the major task will have to be carried forward with monetary and fiscal policy within a framework of reasonably identifiable priorities and with due regard for the major casualties of the process of adjustment.

Thank you.

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MR. GREENSPAN: Thank you, Arnold.

Prefessor Stein of Charlottesville.

MR. STEIN: Mr. Chairman, I believe that I am the 27th economist to speak or the 28th if you include the President. It seems to me that the most efficient use of my time might be to ask for a moment of silence in respect for the fallen veterans of the war against inflation.

I suppose nobody would join me in that observation so I will use my time to make a few comments.

Many things that strike me as needing to be said are that there has been justifiable emphasis here on the fact that the problem of inflation has a great many causes and that there are a great many solutions which need to be incorporated in dealing with it. But I think it would be unfortunate if we give the people in television land out there the idea that there are 10 or 12 things that can be done about inflation and you can pick any eight of them and they will be okay because there are some that will be absolutely essential -- if you don't do them nothing else will work.

I think that is what needs to be said about demand restraint as being the sine qua non about the thing. Other things being done will be helpful. They will ease the process, but they will not succeed if there isn't restraint on demand. implemented or carried out by fiscal or monetary policy. I think that is probably generally agreed around here. I think that is an important lesson.

Of course it is true that in implementing demand restraint, moderation is required. The old time religion does not call for self-immolation and justifiable emphasis has been placed here on the fact that we now confront a real danger of overdoing restraint.

I would recognize that and I would think that if what we have been having in the last three months is because of monetary policy that it is probably too tight. But we have to remember that at numerous points in the last 10 years we have made this judgment. We seem to have always made it wrong about what was too tight and it ought to induce a certain caution in us in saying now things are too tight and we have got to loosen up.

Of course, there are a number of causes of inflation other than excess demand. Reference has been made here to frost and droughts and oil embargoes and so on. These are all real factors in the world. But the fact seems to be that in a world which is where the general conditions are inflationary, all the random events are not inflationary. That is our experience. Nothing ever happens of a non-inflationary or anti-inflationary character or if we get a good crop somehow its effects are like droughts of water in the desert sand, because they are swamped by other things. We have a basic condition which translates all random events into inflation.

It is a basic condition that I think needs to be dealt with and it is a condition of inflationary atmosphere and expectations and conditions generated by long periods of excess demand growth.

With respect to the budget, I think the important thing about the Fiscal '75 Budget is that it should be a step towards slowing down the rate of growth of the budget in the future. That will involve in the beginning some reduction in the Fiscal '75 Budget because if you don't produce Fiscal "75 reduction you will find that Fiscal '76 is already beyond your control.

My suggestion is that the thing you should be looking for in Fiscal '75 are those expenditures which affect the longer run trend of the budget.

I must say that I am uncomfortable at hearing the revival talk about budget balancing as a goal again. I have expressed that inside as well as out. It seems to be unwise to tie our expenditure policy to the quite unpredictable and uncontrolable variations of the revenue side of the budget. But that is a long, old story.

What I do feel about many of the recommendations that we offer to the Government is that they are like suggestions to a cripple to throw away your crutches and walk. That is, we are lecturing the Government about doing things which certainly are no surprise to the Government and which I think by and large, I would like to do but we have to deal with the problem of why Government has not done these things. Why has Government felt that it was not able to do them or actually was not able to do them? What are the conditions in the environment that kept Government from following the rather obvious elementary textbook policies that really constitute the sum of the wisdom that we have to offer to the Government?

Now, it may be that the Government has been too timid and the Government, as Professor Friedman has suggested, has not been sufficiently courageous to do the things that were necessary to do because it misunderstood the sentiment of the public and the willingness of the public to stand for the consequences of a truly anti-inflationary policy with consequences measured in unemployment, high interest rates and rejection of certain Federal expenditure programs and so on.

If that is the correct view, then it is a terribly important thing for the Government to learn. But even on a fairly generous interpretation of what the public would stand for, I think it is important to try to expand public understanding and acceptance of anti-inflationary policy and its consequences. That seems to me is the rationalization or reason for having a summit and especially for having a summit that is open because it is an opportunity for the Government to learn what the public wants to tolerate and for everybody to try to influence the public understanding and acceptance of an anti-inflationary policy.

We may be in a situation -- I am not sure of it, but it is interesting. We talk so much about the influence of psychology and confidence and what the people will and will not accept. We do not really have any experts on any of those subjects here or around in the advisory process. I don't know if there are experts on such subjects.

It seems to me that we are in danger of being in a situation in which people generally do not accept the kind of system which will yield anti-inflationary results; that you can envision a system in which fiscal and monetary policy is bound by certain rules. Given those rules excessive increases of wages and prices will be disciplined by decreases in employment and loss of output and this will restrain the excess of increases and it will have obviously certain painful effects. That that is a system which, if accepted and tolerated, will restrain inflation.

It seems to me that there is only one alternative to that as a way of restraining inflation and that is the control system; that is a system of comprehensive price and wage controls which it seems to me could not be limited to the large companies or unions. It could not be temporary. There is no reason to think they could be temporary and which I don't think could operate by moral suasion.

In the end I think that if we want a noninflationary situation we are going to have to choose between those two systems and it seems to be obvious which is the preferable.

It is in this connection, it seems to me, there is a real basis for pushing the Moore-Houthakker program because if we are going to tell people that they should accept living by rules of the market then, of course, we must have a legitimate market and do everything we can to make it a true competitive market.

I think it is that political justification which is as important in the Moore-Houthakker kind of program as would any contribution we could directly make to productivity or efficiency or whatnot.

I would like to conclude with one word on the unemployment problem or the problem of cushioning unemployment which results from anti-inflationary policy. The public service employment business is very seductive. It seems to have a virtue that you provide people with employment opportunities which are sufficiently attractive to keep them off the unemployment rolls and to keep them from undercutting the political basis for the anti-inflationary policy but not sufficiently attractive to keep from slowing down the rate of wage increase.

I don't think that the jobs you can offer can do both of those things. It seems to me that if you offer a $5,000 job or $6,000 job in public service employment you will find that you have hired a lot of people at $5,000 or $6,000 for an attractive job and that the unemployed $15,000 or $20,000 worker will remain unemployed. The fact is, of course, that those unemployed $15,000 or $20,000 workers could become employed if they were willing to work for $5,000 or $10,000. They would build a lot of houses and they would produce a lot of automobiles.

I think the public service thing will founder on the question of what is the appropriate wage rate for the -- which is the same kind of issue which caused so much trouble in the WPA nearly 40 years ago. I think in that sense the unemployment insurance alternative is much better because the compensation is related to the normal or expected wage rate of the unemployed worker.

Thank you.

MR. GREENSPAN: Thanks, Herb.

Harold Carter.

MR. CARTER: I thought perhaps the original thing would be to offer a three-minute silent prayer for better crops. The outlook for 1974 crops becomes less rosy with time. It is something like our econometric forcasting models. Spring optimism for planting was dampened first in May and June and almost burned out in July. Now they seem to be threatened with frost. If One wants to look for the good news, I think we would say the bad weather is not a world-wide phenonenon as we experienced in 1972.

Similarly, as Kermit Gordon has pointed out, there are many other situations that have changed from the situation in '72 and certainly an effective demand is not nearly as strong or following a record-crop year and many other factors here are different. In addition we are now operating pretty close to capacity in terms of crop useage; something we weren't doing in 1972. Where does this leave us in terms of the global picture? According to the best estimates that we have now, which are certainly subject to revision, we are going to be down probably

2 to 3 percent in world grain production.

This is in contrast with not too long ago, a few months ago, when we were counting on something of the same magnitude on the plus side compared with the past year. So, instead of going into the crop year with a small stock build-up it is more likely that we are going to go into a slight stock decline, again looking at it on a global basis.

Again, I should indicate that enough is still not in. We still have not harvested that corn crop yet.

I think I will omit the discussion of individual commodities in the outlook. The picture is somewhat mixed, again in contrast to the '72 year.

The one of most concern, of course, is our feed grains which on a world basis, it looks like we are going to be down 3 to 4 percent largely due to our own situation in the United States where we are going to be down 15 percent from the past year.

Another contrast to what we had seen last year or the year before, the world beef situation has changed considerably. We now are in a situation where prices are down in producing and importing countries from previous levels. Of course, our feed-grain prices remain high. We have situations now where we have stockpiling of surplus beef. Supposedly there is somethin like 125,000 tons of cold storage in the common market countries.

The world inventory of livestock is up. In the U.S. the numbers are something like 6 percent increase over the previous year and a similar situation in other countries, although I should say on cattle are extremely poor. Statistics are not terribly reliable but on the best information we have the numbers are up -- so this is in contrast.

To get to the real payoff in terms of food prices, the relief that has been anticipated from the big corn crop that we were predicting in the spring has now pretty well disappeared. The extent of the relief, I believe, was probably overstated in any case. We have increases that are coming about in food prices this year more in terms of the margin, in terms of the spread between the farm and the retail level, much of the increase related to energy price increases that are now being cranked into the processing, the transportation and similar sorts of costs.

I think the disconcerting part about this is that these increases in the processing and transportation are not the types of costs that are going to be reversed; that they are built into the cost structure. The only thing we can say is perhaps as the energy cost increases at least they will be repeated in terms of next year. But we have yet to see some of those costs show up or at least the full extent of these costs to show up. In terms of numbers and price increases, I think we will be indeed fortunate if we can come out with something as good as last year. I say that, of course, in quotes. The increases in food prices in '73 were something of maybe 16 to 17 percent and I think we are going to be pushing those figures for '74 over '73.

What can we do or what can Government do? There is little Government can do in terms of getting better crops unless we have some pipeline to the weatherman, the forces that create the weather. This is certainly an important factor in what we have seen here.

We can, as a Government, allow producers and processors to respond to food consumption needs. I think that by and large this type of program has been followed in the last two years. As I mentioned, we now have most all acreage that had previously been held out of production, in production and in terms of agriculture, operating close to full capacity.

I am told by authority that we probably have another 25 million acres that could come into production probably over the next 10 years. So, there is some slack and there is in some countries a certain slack and the costs involved in developing this can become available.

I think something else that we can do, and it has been mentioend a couple of times today, is help agriculture to assess in advance some of the needs of critical raw materials and possible bottle-necks. Fertilizer has been mentioned. There are others that we need to consider in terms of looking at the production potential to be able to come close to what the potential happens to be.

Another point has been mentioned, and I will just second the motion or third the motion, and that is reexamine institutional and legal requirements of producing and processing and transporting. Professor Moore, Houthakker and many others have discussed this point in more detail.

I think thirdly we can avoid dramatic or shortcut solutions like introducing export controls that may offer little short-run gain. I really feel that way will but certainly cause bigger long-run losses.

We have to keep in mind that U.S. agriculture is really geared to world markets. A fourth to a third of our agriculture is really geared to trade. I think it would be a bad precedent for us to take a head-in-the-sand approach in terms of viewing global problems and look at this point inwardly because I think it would signal to other countries what our stance would likely be in the times ahead. So, I would oppose that.

Lastly, I would like to agree with those who have mentioned the inequities that develop from increased food prices. This certainly is the case of lower income groups bearing the greatest share of the higher food prices. I think that we need to consider programs and aleviate this. Food stamps are but one program but at least this offers some help to this particular group.

Thank you.

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MR. GREENSPAN: Walter Levy?

I don't know how to associate you, Walter, except that Walter is the best-known international petroleum expert.

MR. LEVY: Thank you for the advertisement.

Mr. Chairman, the President stated in his introduction that he is looking for answers that may lead to possible actions to restore economic stability.

I will shortly deal with two aspects in this all-pervasive field of energy.

One is Project Independence, and the second one is the need for international cooperation to ease world-wide repercussions over high oil prices.

In dealing with these two aspects, I repeat the answer which the President gave, himself, during his first press conference.

Let me first deal with Project Independence or what I feel would be a much better name, Project Self-Reliance.

Project Independence has two major aspects to it, conservation and development of added and new sources of energy supply. Conservation is perhaps as important, if not more, than the development of added supplies because this second one is a time-consuming effort which will not become really effective, perhaps, for five, six or seven years.

As far as conservation is concerned, we must have a tax policy that would encourage energy savings in terms of energy saving equipment as well as in terms of energy use. The guiding force, of course, for the presently low level of increase or declining demand was the higher price level. Obviously, the price for energy from now on must be in line with what the economists will call the long-run supply price.

At the same time, in the field of conservation we should follow a policy of letting the conspicuous consumer pay for his conspicuous consumption. That would involve not only perhaps that low performance motor car which car is a high cost to the consumer in terms of purchase of the car, which was referred to before, as well as perhaps the over-all increase in gasoline costs, but it would also mean that the public utilities would no longer encourage high consumption by lowering rates in an accelerated fashion, the more you consume the less you pay per unit.

There are many, many aspects to it, and I don't need to waste your time to go into further detail.

As far as support for energy development is concerned, there must be Government policies which will support basic and public interest research in the period of existing and new energy developments. There should be a crude oil price which would be in line with what is basically a low-run supply price for energy and according to whatever one can judge would be valid as of this time it would appear that a price for oil in the level of seven dollars, $7.50 to eight dollars, $8.50, would be an effective long-run supply price.

I do not believe that a $12 or $13 U. S. fuel price is necessary to encourage, under present circumstances, drilling efforts and/or even efforts to develop oil from shale or coal tars, and, secondly, I believe it is time that we get rid of this artificial system of one price for old oil and a completely free price for new oil. I think it would make a great deal of sense to have one price for oil, the long-run supply price as can be determined now is between seven-fifty to eight-fifty, with a tax system that would take care of windfall profits but would exempt the company from paying tax if it makes investments in further development of energy resources.

The gas price also should be competitive with the controlled fuel price at the point of consumption, which would mean that on a reasonable level one would have to determine what it would be at the field.

I might incidentally mention that we apparently still burn more than half of our natural gas production and oil which would appear to be, under present circumstances, perhaps wasteful.

Now, I said the price should be controlled, and I know that the general tenor here is free prices, but I wonder whether my colleagues would agree to free prices if it would mean that a domestic price for oil would have to follow a cartel-determined price abroad which at the moment is about $10 to $11 a barrel? In many countries, it is a 15-cent per barrel production cost, including depreciation, and I was wondering whether my colleagues in industry would agree that the price should be decontrolled and completely free if by any chance a foreign cartel brings the price down to a dollar a barrel.

So, I believe that a persuasive case can be made for one price for domestic oil, a long-run supply, it will not stay the same all the time, but not a price which depends on the decision of the Sheik of Kuwait,up or down.

Now, the Project Self-Reliance will be a major factor in terms of supply in the 1980's. However, the United States and even more so practically every country of the world would remain dependent on substantial imports of oil.

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Let me now come to the second rather miserable problem we face as of this time, and that is the problem of the extraordinary cost of oil, foreign oil imports, and the balance of trade deficit that is presently incurred by every country of the world except perhaps five or six oil producing countries.

According to best estimates, for the next year, beginning July 1, the trade deficit will amount to between $50 billion and $75 billion. This deficit is the same figure, of course, as the accumulation of liquid assets in the hands of four or five or six oil producing countries.

To put $60 billion to $75 billion into its true perspective, let me just state that this is three-quarters of net book value ~~66~~ the total foreign investment of the United States --- foreign investments accumulated over 50 years, and owned by hundreds of companies, not by three or four governments. It is far in excess of the total net foreign assets of the United States, public and private.

And, to give you one final comparison, within one year the liquid foreign reserves, gold and foreign exchange, in a handful of oil producing countries, some of them little sheikdoms with 60,000 inhabitants, these liquid foreign assets will amount to more than the liquid foreign assets of all the other countries of the world combined.

This is the picture as we face it now.

Now, the investment of these oil surplus assets and also the trade of the oil producing countries as it will develop over time, trade, services, and sale of military equipment, will be concentrated in a handful of countries, five or six. That means that the oil trade deficit of the rest of the world will, in fact, be channeled into five or six countries, perhaps only two or three, because these are the same countries, as was stated before,the liquid assets, by necessity, will largely be held. If that should happen, the United States will be the primary country, of course, where assets will be held and where we hope trade will be developed.

It would mean that if you want to avoid a large increase in the dollar value, and a decline in our overall exports as a result of it, inflationary pressures of all kinds, and if we want to avoid the bankruptcy of the other oil importing countries whose oil trade deficit we have, so to speak, taken in, it would mean that we have to come along and supply all the other oil importing countries with massive funds. I hate to call them credits. I am prepared to call them soft loans, and they will certainly, in many instances, turn out to be grants.

What it would really mean is that we accept commitments in Treasury bonds through sale of our assets

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through exports, that we accept to exchange our economic wealth in return for fundamental debt obligations, say of India, Italy, to call countries by name, but this kind of situation will become endemic.

The difficult part of this problem is that the amounts are massive. It is not a one-year proposition but a proposition where the deficits will continue for a substantial number of years and increase because in five or eight years the interest burden on the debt, certainly at present interest rates, each year's interest burden will add a one-year oil import deficit to it. So, you get two years deficit for one.

It is also terribly important that whatever efforts importing countries would make, conservation and also development of domestic resources, so as to reduce their oil imports, would not lead to any reduction in the foreign bill because certainly, according to present policies of oil producing countries, they would cut their supply when imports go down so as to maintain their price level, and it is quite logical to expect that when oil production should go down as a result of the development of resources in oil importing countries they would protect their total revenue.

So, the unit price is more likely to go up rather than down.

In these circumstances, gentlemen, I believe, even if we like inflation, we will have a bear by the tail. It is therefore essential, ...

Now, I like the idea of Mr. Cooper to just incorporate Saudi Arabia in our budget but this, to me, looks like a statistical exercise. I don't know what real meaning it would have except that it allows us to reduce our taxation on an intellectual basis. But it is essential that we cooperate with the relevant importing countries, especially Germany, but probably also the UK, France and Japan, on an assessment of this financial strength.

Are we too much concerned, or is it real? And, there is every indication, unfortunately, that it is real. And then that we get together with the producing countries, especially Iran and Saudi Arabia, for the purpose not to combine our budgets but to establish in this dire predicament a new world oil financing organization to which the strong oil importing countries would make some contribution of cost, but the major contribution would have to come from the producing countries who, having insisted on this extraordinary cartel price, have been unwilling to cut it back, cannot have their price and have us finance it.

This proposal of this get-together, not quite the way I suggested it, but anyhow a get-together, was in effect

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suggested by the Shah at a very early time. I don't think he had quite in mind that his countribution might be as high to that financing as I believe it would have to be.

I believe that the United States and Germany and two or three other industrialized countries cannot safely accept and politically handle the role of the main depository of surplus oil funds and be at the same time the main beneficiary of increased trade with oil producing countries. It just would not result either in an economy at home which could be sustained nor in a recycling of $20 billion a year in the United States and Germany which would be politically and economically feasible.

If nothing else should work, and this is something one has always to keep at the back of one's mind, it is perhaps necessary that we, together with the major industrialized countries, those countries wiere the world banking centers are located, would try to limit the inflow of surplus oil funds to a level that would just be in line with their trade deficit. Now, this, I believe, is the only way out.

The producing countries may well decide under those circumstances to cut their production but if they should do so I believe the danger to the whole world system, including their own, would be too obvious that it need not be stated.

Thank you very much.

MR. GREENSPAN: Andy Brimmer, sort of halfway between here and there.

MR. BRIMMER: Thank you very much, Mr. Chairman.

Since I am halfway between here and there, I should say that my comments must necessarily be somewhat circumspect in one sense, especially when I respond to some of the earlier suggestions that the time has come for easing monetary policy.

I assume I am about at the end of the line. I would also assume that I will not have an opportunity to come back today. That being the case, Mr. Chairman, I would like to say, on the central theme that emerged from the discussion that the economy is still poised on a narrow edge between severe inflation and a sizeable recession, I agree that the problem of unemployment is important, but it is still number two, and the main problem is inflation, which is number one, although the gap between the two may be getting more and more narrower.

I think it would be most unwise for this country to look down the road to end inflation in the next year or two. It has been too long in coming, almost four decades now. Consequently, I think it would also be unwise for the country to adopt a policy designed to restrict real growth at or below the rate of increase in population so that real per capita income in this country would fall. I think that is a policy that is unwise and unproudctive, and as a minimum, we ought to try to avoid.

At the same time, I don't think we ought to design policies on the assumption that we have months to plan and further months for implementation. I can accept the conclusion that it would be unwise for the Government to launch major steps before the conclusion of these series of conferences or even before the turn of the year, but they are all the things that are in the pipeline, which I think ought to be done soon and which will be helpful.

After all, we already have some 51 cities in this country where the rate of unemployment is already six percent or higher. That number of areas is back to where it was at the high point in 1970. Now, I think it would be appopriate to proceed with a fiscal policy which would make it possible to find resources which I think would be necessary if we are to get a public service employment program of a size that counts here. Mr. Chairman, I think the bills that are already in the pipeline ought to be looked at again. I think it would be unwise to trigger such a program, for example, at a seven percent national unemployment rate. I have seen some suggestions of that. I think that would be unwise.

Moreover, based on the experience we had in 1971-1972 with the previous public service employment, I think it would be unwise to leave to States and local governments the decision to use whatever funds that are made available without Federal standards.

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The record shows that some of the wrong people got the jobs at the wrong time. Since this is a cushioning program and not a generalized subsidy program, I think the Government ought to look again at the question of guidelines and standards.

I would like to say that, if the budget in fact is cut by $10 billion, some work I have done and some other work I have seen suggests that the impact on the employment rate five or six quarters out would be sizeable, and the impact on the rate of inflation over the same period would be very modest. There would be some effect, but it would not be particularly startling.

Moreover, the largest effect would have to come in purchases rather than in transfers. I suggest that the Office of Management and Budget might want to take a good hard look at some of the expected pay out from that program and then go back and get a trade-off.

Mr. Chairman, I would like to say a couple words about the earlier suggestion that the time has come to relax monetary policy. I should say that since I wasn't even aboard, I deliberately absented myself from the last two meetings of the Federal Marketing Committee, so I would not be in a position exposed to the direct comments on those activities, but at a modest distance, I would say that a generalized easing of monetary policy at this juncture or in the very near future would be unwise.

I do not think we ought to encourage the public to think that such an approach would be constructive and would make a sizeable contribution toward the moderation of the expected rise in unemployment and the moderation of inflation, since we have to pursue both objectives simultaneously.

We ought to recall that, not too many years ago, the Summer of 1968, the Federal Reserve did precisely that when the income surcharge was passed in the summer of that year the Federal Reserve hastened to ease monetary restraint substantially. I think it was a mistake. I don't think it ought to be repeated.

Instead, I think, while I believe I see in the evidence some modest taking of the edge off restraint -- the action yesterday I read in that way, although it may not have been explicitly intended as such, I see it as a modest taking of the edge off -- it contributes $400 million or so to reserves. That will be helpful. Instead, I think it would be appropriate for the Federal Reserve -- and I have said this to my colleagues for a number of years now, which is no surprise to them -- to exercise a much greater degree of influence on credit flows.

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I personally have advocated for some time some marginal reserve proposal. That is a long-run policy. In the short-run, there is, on the books today, has been on the books since December 1969, a statute which would permit the President to delegate to the Federal Reserve Board or to the Treasury or to whomsoever he chooses, authority to influence, to set guidelines, however you want to describe it, the allocation of credit and high priority items.

If we are to be in this campaign to restrain the economy for some time and to conduct monetary policy with a view toward making a contribution in the campaign against inflation, I think there ought to be greater attention to this question of selectivity of credit rather than simply overall aggregated credit. I would hope the Board would have strong views in the opposite direction and might want to look at this again.

Thank you very much.

MR. GREENSPAN: Thank you, Andy.

Congressman Patman.

CONGRESSMAN PATMAN: Thank you, Mr. Chairman, I shall be very brief.

I have a statement here. If I just use excerpts from the statement, will you put the whole statement in? It is only two pages?

MR. GREENSPAN: Certainly.

CONGRESSMAN PATMAN: Thank you, sir.

I consider that the following steps should be undertaken to combat the nation's current economic problems. First, an immediate strengthening of the Antitrust Division of the Justice Department should be implements, of course.

Second, the establishment of a Task Force on Competition. This should be accomplished by legislation to provide subpoena powers, and a Task Force shoudl be empowered to investigate all aspects of the relationship of banking and business corporations within the United States.

Three, the establishment of a direct loan program for housing.

Fourth, consideration of tax incentives for savings to help finance low and moderate income housing and to prevent the large financial institutions from destroying the thrift institutions through the orders of the Federal Reserve if they are successful in getting them.

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Fifth, the immediate implementation of Public Law 91-951 by the President. The implementation should be accompanied by a directive to the Federal Reserve System to use a statute to allocate credit to areas of greatest need and away from inflationary activity.

Sixth, the immediate removal of economic advisers at all levels who have participated in policies which have led to the current problem.

MR. SHULTZ: Should the Congressman also be removed?

CONGRESSMAN PATMAN: The people will take care of that.

Seventh, the establishment of a public advisory administration designed to provide jobs in a volume sufficient to keep the nation's unemployment rate below five percent.

Eighth, the establishment of a program to supervise monetary policy to prevent the mistakes which have contributed to much of the current inflation. If the President is to be assigned the prime role in establishing a new economic policy, he must maintain and strengthen his power to supervise monetary policy. We should have one regulatory agency, not three or more, just one. The decisions of the Federal Reserve Board must be more open to the public and not conducted in secrecy if rational economic decisions are to be possible.

Nine, a review of all Federal credit programs with a particular emphasis on determining the validity and effectiveness of guaranteeing loans through private financial institutions. At the present time, the Federal Government is using its number one credit rating to guarantee the highest interest rates in the history of the United States, and this is doing nothing to provide incentives for reductions in such rates.

Tax reform, number 10, with the primary emphasis on providing relief for low and moderate income families who have borne the brunt of the inflation.

Eleven, utilization of the new Council on Wage and Price Stability and the Commission on Productivity to conduct an intensive survey to determine ways in which productivity could be increased and capital better utilized nation-wide.

Twelve, reexamination of exports and import policies to determine how much activity may be utilized to hold down prices and make better use of United States resources.

Next, may I add in conclusion, Mr. Chairman, that I am thoroughly convinced over a period of years and for many decades that high interest rates cause high prices and oftentimes the prices of the goods on the shelves are raised when interest rates are raised.

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High prices cause inflation. It is just as unwise to try to stop inflation by raising interest rates even higher as it would be unwise to try to put out a fire that is destroying your home by using gasoline instead of water. So, if you want to balance the budget for many decades to come, the Federal Reserve has $80 billion of mostly United States Government Securities that they are paying on from five to $6 billion a year now -- that is the extra the taxpayers are paying; they don't even know they are paying for that. That is $5 or $6 billion a year when those bonds have been paid for once. Mr. William McChesney Martin admitted that to me on the witness stand before the Banking and Currency Committee.

Having been paid for once, they should be cancelled. If they are not cancelled, when the different bonds become due, the Treasury will have to pay for those bonds with the interest. That will cost our Government $160 billion instead of $80 billion, having been paid for once, and they will pay for them again.

Therefore, if you really want to balance the budget for a couple of decades to come, just ask the President of the United States to have those bonds destroyed, cancelled, since they have been paid for people should not be required to pay for them twice. That would reduce the National Debt immediately $80 billion. It would be the most wholesome thing I think that could be done.

Thank you, sir.

MR. GREENSPAN: Thank you, Mr. Chairman.

REPRESENTATIVE CONABLE: Mr. Chairman, I would like to ask what our plans are for the rest of the afternoon. I am sure there are members of Congress who would like to respond in one way or another. Yet, it seems a shame to spoil the opportunity for some interchange at this point now that the initial statements have been made.

We are planning to have another meeting of this group, I understand, on the 23rd. It would seem to me at that point that perhaps some time could be set aside early in the proceeding for some rejoinder by the members of Congress after some deliberation.

I don't know how much time we have left this afternoon, but I would hate to see the time wasted by our failing to use the opportunities to tap the talents in this room further.

MR. GREENSPAN: Let me say quickly, Mr. Conable, that the President is due in momentarily. We are, of course, expecting to meet on the 23rd. Let me take a minute out to explain what I think we should be doing then.

Today, we have basically gone through individuals and everyone has had one or more chances to discuss his particular views. Hopefully, at the end of this meeting the Ad Hoc Committee which has been set up as a group of us will determine which of the issues would probably require considerably more work, thought and attention. At that point we will reschedule the meeting for September 23 with an agenda based on what has been missing today and at that point, what will be on the agenda are not people but issues and it will be opened up on that question, and I restrain myself, I would like to get involved in that if I may and I hope I can, and that will be basically what the 23rd meeting is about.

Clearly, there will be time at that point for members of Congress to join this question. I see no reason why that cannot be done if you are willing, sir, to leave until then.

REPRESENTATIVE CONABLE: I think it would be better.

MR. GREENSPAN: For the next few minutes, until the President comes in, merely to open up the forum, I recalled we had two and a half hours with a sort of dummy variable but I didn't realize that dummy variable was minus two and a half hours. Would anyone like to make some general comments prior to the President's coming on board? Is everyone too tired to talk?

SENATOR DOMINICK: Mr. Chairman, could I ask Mr. Levy a question?

I did not get your figure. I was intrigued with the statement that you made. Was the $65 billion or $70 billion for this country alone or for the world?

MR. LEVY: The oil importing countries as a group.

SENATOR DOMINICK: The oil importing countries as a group?

MR. LEVY: The oil importing countries probably $25 billion.

MR. SHULTZ: May I ask Mr. Ash if the budget figures we saw, particularly on defense, include the impact of the cut that came about in the Congressional consideration of the budget?

MR. ASH: The budget figures shown for defense were those in the budget. The actions being taken now in the Congress will have the effect, depending on whether the House or Senate version is finally adopted, of reducing outlays, not budget authority, reducing outlays someplace between $1.4 billion and $2 billion from those that are in the budget.

So, when we talk about going down from $305.4 billion to less than $300 billion, therein lies a portion of the answer. Certainly not all of it. As I indicated, over and above the actions now being taken we clearly wouldn't want to recommend or support any further reductions in the defense budget than those that are now being contemplated by the Congress.

MS. PACE: We have been reading in the paper that the figure this year is more likely to be $311 billion or $312 billion. I think that creates some confusion.

MR. ASH: I should make a point that I didn't feel I had enough time to make earlier and that is in order to achieve the objective of getting below $300 billion, one must be sure he starts from $305.4 billion. Congressional actions going on even now could increase the $305.4 billion not up to $311 billion because it depends on how you count them, because there are all kinds of variations in what is going on, but certainly could increase the number to one above the $305.4 billion starting number.

So, in order to start from the starting place, first the Congress should not increase the President's budget. Second, affirmative action of the Congress is required even to achieve the $305.4 billion. That is, included in the budget were certain reductions which can only be made by legislation which has been proposed within the budget.

Thirdly, as the President submitted, or will be submitting very shortly, deferrals and rescissions. Under the new Congressional Budget Act, the Congress must concur with those because those deferrals and rescissions were also contemplated within the budget. So, it is important that the Congress take a number of actions merely to start from $305.4 billion.

I could have elaborated on it but I am glad you brought it up because that is a big problem all by itself.

MR. FRIEDMAN: I want to propose a rule for the next meeting that nobody be permitted to use the words "tight" and "easy" for monetary policy unless he specifies what criteria he is using and what numerical value he attaches to that criteria. I believe all the discussion here about tight and easy money has been very difficult to interpret because of a failure to ---

(The President enters.)

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MR. GREENSPAN: Mr. President, we have had a rather long and elaborate discussion while you were away. At our luncheon meeting our ad hoc bipartisan group of economists unanimously elected Arthur Okun to summarize the areas of agreement and disagreement for you and a number of others will be filling in major areas that we have identified and I have this list here for you.

THE PRESIDENT: Are we at that point now?

MR. GREENSPAN: We are at that point, Mr. President.

THE PRESIDENT: Thank you very much for a long and I hope fruitful and beneficial day. I have heard nothing but good reports of what has happened and transpired. I am very pleased with the information that has come to me. So, without any further ado I think we will call on Arthur to give a summary.

We appreciate your willingness to stick your neck out with such a brain trust here. Would you mind proceeding on this occasion.

MR. OKUN: I am overwhelmed by this assignment. It is obviously an impossible job, but I don't think too much can be expected so I will plunge in.

I found, and all I can tell you is what I heard from my colleagues, I found a surprising area of agreement on the assessment of the outlook as I think George Shultz put it the forecasts were so close together you could put your hat over all of them. There really is not a wide disagreement. Qualitativel the range is from an outlook for a flat to a slightly falling real GNP for the next three quarters or so, followed by some modest recovery late in 1975.

All of those points, of rising unemployment, all of them point to some modest improvement on inflation, at least to the upper end of the single digit range. We will lose a digit but not very much more in the opinion of most people here on the basis of the present outlook. In assessing what ought to be done in writing a prescription I think the most wide spread advice volunteered by this group was in the area of monetary policy. At least half the group, as I counted them, expressed the opinion that we have reached or at least are rapidly approaching the time for a distinct change toward reduced stringency in monetary policy. Many people who made that statement explicitly said they were not talking about easy money, they were not talking about a relaxed monetary policy, they were talking about a reduction of restraint.

I should note there were three explicit dissent on easy money that I counted and I think you will hear from some of the dissenters subsequently. I must say that the breadth of the agreement on the timeliness of some shift away from extreme stringency was striking to me. A few of my colleagues mentioned the need for some kind of mechanical system to allocate credit or to insure that credit was being allocated to more socially productive uses quite apart from any change that might be made in general monetary policy.

A number of people commented on the other major tool of Federal economic policy, namely the Federal budget. I think the stress in discussing expenditures was on discipline, on real system and on long-term control. I heard no one put great emphasis on any particular number, on any particular target for Federal expenditures as such for the near term.

I think the feeling was that within the range of discussions of the possible amounts of Federal spending that we will have, the lower the figure the slightly better news on inflation and slightly worse news on unemployment, but not qualitatively a great difference there. I think the emphasis was on removing the area of Federal spending as a major source of instability and worry over the return of an inflationary environment and an excessive downward pressure on the economy.

One of the speakers did propose a sizable increase in taxes. Three or four people thought that we should be considering tax reduction for reasons I will speak of in a moment.

There was a concern expressed about the credibility of some budgetary proposals, a warning against the use of accounting innovations and ingenuity, or less kindly, gimmicks to achieve any particular target.

There was some concern expressed about the efficiency of very quick cuts in the budget in achieving the objective of the Federal program.

A few people mentioned that they feared it might be counter productive to make commitments to budget balance in the face of a deteriorating and uncertain prospect for Federal revenues that may emerge in a weakening economy. Again and again I heard the theme of a multidimensional approach, of going beyond fiscal and monetary policy to attack inflation on as many fronts as possible, to try to balance the economy as well as possible.

One approach might be called the administering of some pain killer. A great many people mentioned the need for legislation to improve our unemployment system and other aspects of our income maintance system. Several favored and strongly supported the extension and creation of public service employment programs and a few expressed slightly skeptical views on how much if anything that could do.

A second category of proposals can be classified as perhaps structural or micro-economic reform to improveing the pricing and cost performance of the economy. A whole set of these on which there was very widespread agreement among many people was an effort to reverse any number of ways in which the Federal Government now unwittingly raises costs and prices in its pursuit of other objectives. A number of examples were cited, transportation regulations, in the field of the import quotas and marketing orders on dairy products. Professor Houthakker has complied a list of 45 sacred coups in Federal legislation which he thinks should be appropriately slaughtered to improve our price and cost performance.

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Another area of a structural reform was the emphasis on the supply side of the economy, improving the environment for investment, for producing such key items as fertilizer.

There were quite a few people who addressed themselves to a possibility of a drive for greater productivity, some promoting it, others demoting it.

A few mentioned anti-trust as a useful tool which could be applied more vigrously in areas where prices don't respond to manifest market forces that would seem to point to price reductions rather than increases.

In this whole area of structural reforms I had heard lots of common sense, lots of enthusiasm. I think this is an area where our September 23rd meeting could produce more concrete proposals if we work on it and produce some papers, in the meantime perhaps be able to speak more specifically about what we think could be done in those areas.

Throughout the discussion there was a recurrent theme stressing the need for international coordination and cooperation, the United States role in the world, for our interest in abetting the recycling of the petroleum dollar and promoting liberal rather than protectionist trade and capital movement.

In the area of price and wage actions or price and wage pensions, several people talked about a major aspect of the problem being that of concern about the battle over income shares between business, labor and other producing groups in the economy. We are faced with a very understandable effort on the part of American workers to catch up from a position where they have been taking home a declining real income for each hour of work during the past 18 months, but the opportunities for them to catch up with larger wage increases are sharply limited. Those large wage increases if they emerge are bound to mean further price increases.

The question is how can labor be given any kind of assurance and incentive to moderate its demands through the wage route in an effort to produce some real income gains without inflationary wage settlements.

Three or four people stress this as a possibility where tax cuts might be applicable, where tax cuts aimed at the lower or middle income group might enhance the chances of wage moderation by assuring the worker that he would get that kind of gain in his take home pay. Related to that, of course, is the whole question of Government direct action to curb wage and price increases. That is an area where quite honestly this group is very far apart. There are lots of views.

There were a few explicit recommendations for mandatory price and wage controls in the area of business and labor power, in areas where there is a feeling that the market does not necessarily work automatically. No one that I heard was really talking about any kind of across-the-board control.

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Three or four people inferred that the monitoring process that is envisioned by the council on wage and price stability goes too far in Government intervention in the wage-price process, particularly that it could worsen behavior of both labor and management by increasing fear of control.

In between were three or four people I heard urging simply a greater power and perhaps a beefed up program for the council on wage and price stability extending to subpoena power and power to suspend pending investigation of wage and price increases. These people expressed particular optimism that this, if you will, jawboning effort on wages and prices could work effecitively, could have some moderation of the present environment because we do have a weak economy where demand pressures are not pushing up prices, and wages and one or two emphasized that it has a much better outlook now because of the restoration of the moral authority in the presidency, and that is some..hing I think I can speak for all of us in expressing our gratitude for as citizens as well as economists.

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THE PRESIDENT: Thank you very much, Arthur.

After listening to that, I wish I had been here. I will get the opportunity to see the transcripts and I will read the comments made in the discussion.

Next, we are going to have the benefit of Kenneth Galbraith's observations and comments based on what he heard or what he thought he heard.

MR. GALBRAITH: Thank you very much, Mr. President.

I think I share with everyone the feeling that Arthur Okun has done an admirable job of summarizing, perhaps however exaggerating slightly the area of agreement.

I think, Mr. President, the question here that divides us is perhaps the question of how profligate one is in response to your instructions. There is a choice here between action in the short run and action in the long run, action immediately on inflation and action which, in the expression of many of my colleagues, involves requests to be patient.

I wonder whether we should not also be reminded of a famous observation of J. M. Keynes that in the long run we are all dead. This may not be true of all people but perhaps it has more poignancy for people who are running for election or re-election.

I would like to urge, and here, I think, I have the support of Bob Nathan and one or two others, the danger of unduly gradual action. I think there is a multiple of causes of inflation and they should be attacked now on a multiple front and in the long run even though you avow more than I do the sanctity of the market we will be better served by that action.

Specifically, I would not at the present time ease monetary policy. It seems to me with inflation running away as it is one cannot ask that. I would increase taxes. I admire Mr. Ash's optimism but he is not going to cut back any expenditures as a practical matter and, to the extent that he does cut them back, the effect is going to be very slow. This is not to deny the great effort which he is making, which, I am sure, is very great, or to discourage him entirely, but it is optimism which will not be justified by the facts.

I would certainly urge that you, yourself, in asking for the revival of the Cost of Living Council as it is now otherwise named conceded, in effect, the need for wage and price controls without endorsement, and they had better be enforced.

I, with some others here, am not terribly concerned about the damage you do in fixing prices that are already fixed, or even wages that are already established outside of

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the market on which we were once reared.

Finally, I would urge what I think everybody here urges, a very energetic attack on the bottleneck areas, going back to my earlier interest in agriculture, particularly on the fertilizer problem. This is in many ways decisive. I would urge that this be done with the energy which then assures people in the near short run and insures business firms that dollars are worth holding so that we do not have the added inflationary pressure from people wanting to spend, thinking that the dollar is something that they had better ged rid of.

If this is done in a context where we are willing to pay people a compassionate level of income when they lose their jobs and provide public service employment to the extent that this is a possibility, I have no doubt that inflation can be brought to a reasonable level, three or four per cent, within a year or two, also, without great suffering.

Let us not be beguiled by the fear of recession and have that fear keep us from attacking inflation which is, after all, the source of a great deal of suffering at the present time.

If the energy is brought to bear, including the energy which admits there is a need for some squeeze on profits, some questions on higher incomes, my suggestion for raising taxes would be for people above $15,000 to $20,000 so you don't upset the wage structure.

If the controls are firm, accepting again some squeeze on margins, then I think we can work our way out of this in a relatively short time.

I have only one further comment.

Mr. Grayson and I are the gray-haired veterans of controls around this table. Mr. Grayson disagrees with me peacably on the desirability of controls.

I would like to add what I am sure is a self-serving comment to Mr. Grayson. The difference is that I administered controls when they worked. (Laughter)

THE PRESIDENT: Thank you very much, Mr. Galbraith.

Under the schedule which has been handed me, we go from Harvard to Chicago and call on Milton Friedman.

MR. FRIEDMAN: Unaccustomed as I am to agreeing with Ken Galbraith, I agree with him on one point: We should not be beguiled on the danger of recession.

The United States economy is fundamentally strong but that strength is currently being eroded by the disease of inflation. If that disease is not checked it will take a heavy toll including, in my opinion, the very likely destruction of our personal, political and economic freedoms. Any cure would have to be painful indeed to be worse than letting that disease rage unchecked.

There is one, and only one, way to cure the disease, to slow down the rate of increase of total dollar spending, and only the Federal Government can effect that cure. It can do so by reducing its own spending and by slowing monetary growth which will reduce private spending. Wage and price controls are no part of the cure. On the contrary, as the past three years dramatically illustrate, they are part of the disease and one of the most damaging parts.

I therefore heartily applaud your determination to cut Government spending. That will not only contribute to curing inflation but it is desirable in its own right. The American citizen is not getting his money's worth for the roughly 40 per cent of his income that is being spent for him by Government, Federal, State and local.

I heartily applaud, also, the expressed determination of the Federal Reserve to slow monetary growth and even more the appearance of actual slowing of monetary growth.

However, despite the cries of anguish about this table and elsewhere about tight money, the slowing has so far lasted two or three months so we cannot yet be sure the Fed has really departed from the ever more inflationary path it has been following for the past decade.

A more subtle problem than how to cure inflation is how to devise sedatives that will ease the debilitating effect of the disease and the painful side effects of the cure. The disease produces widespread inequity and distorts the use of our resources. The cure inevitably involves a temporary period of low growth and relatively heavy unemployment in the process of transition from a high level of inflation to a low level.

These harmful effects cannot be eliminated but they can be greatly eased by appropriate Government policy. First, it is important to apply the cure gradually provided the gradualism does not mean inaction. Second, much of the harm from inflation and much of the pain of withdrawal comes from unanticipated changes in the cost of and return from doing business. These can be greatly reduced by the widespread use of escalator clauses.

The Government can help by inflation proofing its taxes and its borrowings and by encouraging thrift institutions to inflation proof their loans hereafter. The personal and porate income tax can be inflation proofed by automatic cost-of-living adjustments and personal exemptions, low income allowance, bracket limits, the base for capital gain and the base for calculating depreciation. No other single step that the Federal Government could take would, in my opinion, do so much simultaneously to reduce the damage done by inflation to promote an equitable sharing of the burden which we all agree is an important element and to encourage both saving by individuals and productive investment by business.

In addition, the Government should end the unconscionable bucket shop operation under which almost every purchaser of long-term Government securities over the past several decades has been taken to the cleaners. The Treasury should do its borrowing, except for very short-term borrowing, in a form that offers a return adjusted for inflation. That would provide the ordinary citizen of this country with some way to hold his modest assets that would promise him a real return.

Thrift institutions are faced with catastrophe. The political reality is that they will have to be bailed out. The right way to bail them out, I may say as a hard liner, with political considerations, if they were not there I would not bail them out. I would say, let the profit and loss system operate. But there are better and worse ways to bail them out if you need to do so and I believe you will have to do so. The right way to bail them out is to subsidize part of the excess of market interest payments to depositors over contractual interest payments on condition that all new lending be in an inflation adjusted form. That will assure that the subsidy is self-limiting and that you simultaneously improve the financial structure.

My third main sedative is to assure that the burden of inflation and the painful side effects of the cure do not rest on our most disadvantaged citizens. It is urgent that we improve our arrangement for welfare and for assisting the long-term unemployed.

Unlike many of the people at this table, I believe that the much-touted public employment program has nothing whatsoever to contribute to this objective. If they are non-inflationary, they simply substitute Government employment for private employment without altering the total level of unemployment. These sedatives will ease the transition but they will not enable us to get off scotfree. We will still suffer harm from the lingering disease. We shall still have the painful side effects of the cure.

More important, and this is a fundamental challenge that I believe faces you and the members of the Congress, they are not a substitute for the political courage and will that it will take to tell the public this hard truth and to persuade the public that the sooner we bite the bullet and take the cure, the better.

Thank you very much.

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THE PRESIDENT: Thank you very much, Milton.

We now go back to the East Coast and I would like to ask Paul Samuelson of MIT to give us his summary.

MR. SAMUELSON: Mr. President, my middle western credentials are excellent.

(Laughter.)

We have had a very good summary, I think, by Arthur Okun and you pretty much have learned that when you have 30 economists together that about 20 of them take a middle ground eclectic position and that about 10 of them spread toward one fold or the other.

Dr. Okun has concentrated upon the amount of agreement. I think that is proper. Let me say since I belong to the 20 eclectics, first I think it is important that the Nation know that a broad spectrum of opinion is being solicited for views. There is a naive notion which I think ought to be corrected that just because the previous administration was busy in other directions some easy cures for inflation were not done and you just need a smarter bunch of people. We are now getting proof that that is not the case.

In fact, speaking for about 20 out of 30, the emphasis was that we don't have a super,number one problem of inflation. We have a problem of stagflation. It is a two-sided problem and it has an eclectic approach. If I may say so in concluding, there have been times when the Head of State comes in and the people can speak of many miracles and perhaps in a measure, miracles can be done; perhaps at the bottom of the Great Depression in this country, perhaps in Germany at the end of World War II when the pricing system had broken down.

But, most of the time when new heads of state come in there are always people who urge on many, do something, act, be positive. Of course, do something; of course, act; and, of course, be positive. But there are a lot of things you can do that are harmful.

I think of Winston Churchill, a man of blood, sweat and tears, describing World War I where 500,000 English soldiers were lost for 15 yards at Passiondale. Then the question was, "General Robinson, why did you do it?" He said, "I had to do something." Well, that sort of a thing is not going to give courage to the stock-market.

I think what we can do, what I can do as a professional economist, is to point out the trade-offs and the complicated dimensions of the problem. We are in good shape compared with historical problems. Nevertheless, the message which so many of us have come to on the basis of studying the evidence is that this two-digit, low two-digit inflation has been built up over a period of more than a dozen years. The attempt to end it now, to be overly dramatic, to say this is the last chance for the system as we have known it is not only going to be disappointing but I think will be counter-productive. You are simply going to press toohard and then the backlash is going to go in the other direction. There is hope that we can do better. I mean, by the way, not the public relations hope. I mean reasoned hope based on the evidence that the normal state of affairs is not two-digit inflation for the U.S. and not something worse.

Now, most of the people are very frightened on that and will have to be shown. But I don't think that we are going to get down in the next year or the next couple of years to 3-percent price inflation, no matter if we bite every bullet that is in sight. I think that this meeting has been a good meeting in airing the different dimensions of the problem. I am encouraged by today.

THE PRESIDENT: Thank you very much, Paul. I couldn't agree more that we have to act and we have to act predicated on some response and I think sound recommendations which I hope will come as we study the recommendations that have been made here. From what I have heard there is a minimum difficulty in the main, in the areas of where we are, where we can go and how we ought to go there.

Just like in the political arena, I think the main spectrum, Democrats and Republicans, is within a reasonable latitude from one end to the other. Some in both parties do fall into the far ends of the political spectrum. The American people fall in the middle and they want us to take those actions, I believe, that are within that center of the overall spectrum.

Now, we go back to the Middle West with Paul McCracken of my Alma Mater. Paul?

MR. MCCRACKEN: Well, Mr. President, I think Paul Samuelson sounded the note which is probably the most important, namely that while this is, of course, a very difficult problem and we must recognize the problem, that none-the-less we can see on the basis of the hard evidence the possibility of turning this rising trend in the rate of inflation around and starting it back down.

I suspect the single-most important thing is not to produce promptly a stable price level but to produce progress intthat direction instead of seeming to have a situation that is deteriorating.

Since the summaries have been excellent, I would have only just a couple of specific comments to make. One of these is that in setting up the Council on Wages and Prices, it might be wise to charge them specifically with the responsibility in their work, their analytical work and pronouncements, with monitoring the impact on the cost-price level of Government programs as well as pricing decisions and wage decisions in the private sector. That might be one way to get at Professor Houthakker's list of 45 which I take it is the lined successor to Senator McCarthy's list.

(Laughter.)

The final point that I would like to emphasize here is really an extension of Art Okun's comment about the emphasis that has been placed here on the international dimensions. To an extraordinary extent the U.S. economy, as Professor Cooper, I believe, mentioned, has found itself linked to the world economy generally for a variety of reasons -- the oil problem, the impact of devaluation and so forth.

It is important to have consultation and coordination on trade policy as a shaping-up of the new international monetary and financial system. One dimension of this which I would want to emphasize is that it is critically important to actively further consultation and coordination in the management of domestic economic policy in the key currencies of the world. Otherwise, there is going to be a tendency for each government to run for cover and try to balance out its own situation and produce cumulative deterioration.

THE PRESIDENT: Thank you very much, Paul.

It seems to me that for a Wolverine to recognize a Gopher is something that I am not accustomed to, but I will on this occasion recognize Walter Heller for his observations and comments from the University of Michigan.

MR. HELLER: Mr. Chairman, if you will accept my recommendations I will let you take home a Little Brown Jug.

(Laughter.)

MR. MCCRACKEN: I might point out we already have it.

(Laughter.)

MR. PRESIDENT: Paul, I was about to say that but you can get away with it. I can't.

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MR. HELLER: Let me say, it is refreshing to be in a White House that once again is open to a little laughter, a little dissent and willing to face the unvarnished, and at the moment, rather dismal ecoaomic facts of life.

You heard before you left this morning that we are not facing a particularly happy situation for the next year. I don't mean happy just in terms of the recession we are in. I mean in terms of the trade-off between the recession and the inflation.

It seems to me, the forecasts around the table suggest a recession that will pull us down to maybe 6-1/2 percent unemployment. It is at least a 50/50 chance that the Gross National Product next year, when the second annual Summit Conference meets, will be below what it is today if present policies persist.

Meanwhile, inflation people are talking about dropping to nine, eight, seven percent at best. That is a tough trade-off. It does not strike me as an awfully good bargain. Yet, it is not really surprising because why should a policy that focuses on slinging total business, consumer and Government demand be very effective in subduing inflation that is chiefly propelled by food shortages, by oil cartels, by supply bottlenecks and by dollar devaluation and one that is now turning into a self-propelling price-wage spiral?

I think, to bring that kind of inflation to its knees, as you suggested this morning, by tough monetary and fiscal measures alone -- and I am not saying it will be the policy, but if you were to pursue the policy of just the old-time religion, suppressing effective demand, I think, in bringing inflation to its knees, we will put the economy flat on its back. I think this, essentially, just to hang this up, is not enough.

We cannot let inflation fill the whole field of our vision. We can't practice one-dimensional economics, and that has been emphasized by many of the participants today.

My major plea is to broaden our context, broaden our perspective on the inflation problem in several respects. First, recognizing this chilling fact that the price explosions of 1973 and 1974 are now being transformed into a new price-wage spiral. We have to build an effective circuit breaker in the spiral. That requires not a strait jacket of direct control, but, I think, it implies more clout on the part of the Council of Wage and Price Stability.

To give it the clout it needs, I would go along with the suggestion made that it have powers of subpoena. I go along with Arthur Burns suggestion that it have powers of suspension. You know, the case of really certified outlay in the case of where they really flout the public interest, I think you need the club in the closet, a rollback power.

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Now that may go against your free market grain, Mr. President, but it really shouldn't because monitoring would be focused on those powerful unions and those powerful units that wield excessive market power; in other words, in those areas of the economy where competition is a very poor policeman. This would be coupled with antitrust policy. The Government process would be a stand-in for the forces of competition. It would not be intervention in other words in a free market that is really functioning competitively. That is an attempt perhaps to sell it to you but I also think it is good economics.

Let me go on to just a couple of other points. I do think we ought to put the price-wage restraint panel into a broader context. It can't be just legislative. It has to be won partly by Presidential persuasion, partly by broadening the context of the policy of wage'price moderation. You can't expect labor to accept a five percent drop in real earning power without going to the bargaining table to get it back. What can the Government offer?

It seems to me it has to offer more belt-tightening than just a $5 billion cutback in Government expenditures. It has to offer more than just that belt-tightening. It seems to me we have to be really free-wheeling in our thinking here.

On the tax front several people have suggested putting cuts either in the lower income brackets or cuts in the payroll tax, especially for the working poor. They should be relieved of the payroll tax entirely, if that could be laid so to speak on the national bargaining table between labor and business.

There are some other thoughts on that I hope you will look into further in our conference on the 23rd.

Then, I think another respect in which we ought to broaden the perspective is to realize the energy, the harm in the anti-inflation policy and other types of policies. For example, take energy. Balancing the energy budget is as important as balancing the Federal budget. Perhaps you can work the two into one basket. That is, perhaps trying to cut down on energy consumption partly by graduated taxes on automobiles, although that is a terrible thing to say to a man from Michigan, or on automobile horsepower, a tax on energy use, and tax relief for the group hardest hit by inflation and tax relief and expenditure programs that will help those who are the victems of inflation.

You have heard a lot about supply management and so forth. I won't repeat that. I will just wind up by saying that a truly balanced attack on inflation should start with a program of moderate monetary and budgetary restraint and should couple with that, measures that would regress the griefances of sky-rocketing food and fuel prices. I urge you to consider as part of the integral part of a compassionate anti-inflation program not only more generous unemployment compensation, food stamps, housing allowance, but relief from payroll taxes for the working poor and an increase in personal income tax exemption of low income workers.

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I am not suggesting any cut in revenues. I am suggesting that be picked up from other sources, including budget cuts, including tax reform. I think that distributing the benefits and burdens of economic policy more fairly will facilitate a more sustained battle against inflation. If we just declare total war against inflation without taking care of the resulting casualties, we are going to invite a public backlash. This is a plea not to be soft on inflation but to strike a sensible balance between benefits and cost in anti-inflation program, thereby staying within the bounds of political and economic tolerance, thereby enabling you to win the war against inflation not only in economic terms but in human terms.

Just a final note. I realize, Mr. President, that if you follow the foregoing counsel it will enhance the prospect of your election in 1976 but in the belief that partisanship stops at the inflation door, that is a risk I will have to take.

(Laughter.)

THE PRESIDENT: Thank you very kindly, Walter.

I think to finalize it I would like to call on an old and dear friend of mine, a person who came to the Federal Government five plus years ago, served with outstanding success and, I think, respect in a number of posts and positions. I speak here of George Shultz who was Secretary of Labor and head of that very popular organization in the Federal Government, the Bureau of the Budget. He served as counselor, I think, with no portfolio but helped run in the broadest sense, the Federal Government as Secretary of the Treasury. I think his departure was a great loss to the country as well as to the White House.

George, would you wrap it up and give us the benefit of your observations and comments.

MR. SHULTZ: First, Mr. President, thank you for your most generous remarks. It is so characteristic of you and I think we are all affected by your sense of confidence in individuals, and one can't help but feel now that I have the perspective out there in the country, the sense that you trust the country and I am sure that feeling is reciprocated.

I think there is a very general view here, as has been summarized. Obviously, we have an extremely difficult problem and with whatever modifications of discipline and stringency anyone recommends, still the course that needs to be travelled is a fairly long one and the word is discipline for the budget and for monetary policy, exercised, of course, in a reasonably way. I don't think that sustained discipline can be exercised unless people do feel that they understand the problem and that the people giving leadership have taken the trouble to understand it and exposed themselves to a variety of views.

In that sense, I must say I think this meeting is a start and those that you propose are very good. I would confess to you that I came here this morning with some skepticism about what might happen in a room this full of people, with television cameras and so on. As far as I can see, people have said the same sorts of things they say in private and for most of them in public too.

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On the whole, I think it has been a very constructive day. I believe that a series of these will help to educate people, not only people generally who are watching but the people who participate in the process.

So, it seems to me, with all of the difficulties we have, we are going to get through these problems, and I believe that you have initiated a process that is a good one.

Having said that, let me make one comment of a critical sort about some of the things that have been said.

I am distressed to see the wage and price control head stick up again. I thought we had learned our lesson that it really didn't work out very well. But, at least a fair number of people here seem to want to return us down that road. I think it is a mistake. I think the more talk that comes from Washington about guidelines and controls, the more people in the private business sector raise their prices and, in cases where they anticipate a tight labor market, raise their wages and salaries. So, I think it can be quite counter-productive.

I would suggest that you follow Paul McCracken's suggestion and have the Committee on Wage and Prices focus some of its attention on monitoring Government and before taking the advice of economists on what to do to labor and management, I think we might consider forming a small labor-management committee of 10 or 12 people and listen to what they have to say about their problems and see what advice they have to offer before we start telling people how much wages they should ask for and how much price they should be charging.

In general, Mr. President, it seems to me that this process that you have organized has all of the earmarks of something that can be very successful in doing the main job, namely, letting everybody see the difficulty of the problem, letting everybody see the variety of possible things there are to do about it and to see that whatever course we take is going to be a difficult one but if we do have the patience to stick with a disciplined policy we can work our way out of this problem.

THE PRESIDENT: Thank you very much, George.

Let me reiterate my appreciation for all of you being here.

I must confess that when I first heard of the resolution that was proposed in the Senate, I was somewhat apprehensive about an undertaking of this kind. But in the first few hours of this Administration, I reanalyzed the suggestion in relationship to the economic problems that have been well displayed here. And it seemed to me, as I tried to say in the opening statement, this isn't a problem that only a President can solve. It is not a problem that only the Congress can solve and it certainly is not a problem that any one element in our society can solve.

So, in response to the recommendation of a bipartisan effort in the Senate, I determined that it should be undertaken, that it should be in the open so the American people could see firsthand the consensus as well as the divergencies. And this was the first group and I shared the apprehension that some have expressed, that men of high academic standing and great intellect couldn't sit in a gathering such as this and give a top flight presentation of the problem and some responsible suggestion.

But I think you gentlemen and ladies have set a very high example for those meetings that shall follow. And I happen to believe that with this outstanding gathering, and the things that have been done, those that will follow will likewise be of the same caliber and high quality.

So, I thank you not only for what you have contributed, but the performance that I think has been superb.

And with those words, I think we probably ought to conclude the afternoon session and the day's labors and retire for a bit of relaxation and a reception and I cordially invite you all to come to the dining room for such a purpose.

Thank you very, very much.

(Whereupon, at 5:32 p.m., the conference concluded.)

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