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THE WHITE HOUSE

PRESS CONFERENCE
OF
ALAN GREENSPAN
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS,
WILLIAM J. FELLNER
COUNCIL OF ECONOMIC ADVISERS
AND
GARY SEEVERS
COUNCIL OF ECONOMIC ADVISERS

ROOM 450
OLD EXECUTIVE OFFICE BUILDING

9:30 A.M. EST

MR. KELLY: Good morning, ladies and gentlemen. Thank you for joining us at our economic briefing this morning. The briefing is embargoed totally until 12 noon. You received copies yesterday and hopefully, outside the door before you came in this morning, of the economic report.

Dr. Greenspan will conduct the briefing, assisted by Council members William Fellner and Gary Seevers.

Dr. Greenspan.

MR. GREENSPAN: Good morning, ladies and gentlemen.

I thought, in view of the fact you would probably want to spend as much time on question and answers, we would try to very briefly review some of what is in the chapters in the economic report and then go as quickly as possible to specific questions.

I would like first to call on Dr. Fellner to begin by discussing the contents of several of the chapters and then Dr. Seevers will take several more.

I won't discuss chapter one. I assume everyone has gotten to that and I assume that will be the brunt of most of the questions and I won't take your time on that.

Willie?

MR. FELLNER: Thank you, Alan.

Good morning ladies and gentlemen. I suppose I should be reporting quite briefly on the content of three chapters here and I have all of five minutes for that. I had better look at my watch.

MORE

The titles of these chapters are not intended to make me a candidate for aopularity contest, I guess, because they are Inflation, Unemployment, and the Present State of the World Economy.

Now, I will summarize this as it is rather long and at least, shall we say, covered with some intensity -- these topics.

The Inflation chapter gives a background of the inflationary developments over the past decade. It discusses the question of what has made it so very difficult for governments to resist the temptation to engage in inflationary policies and this is not just one party in this country, and not just this country, but the world as a whole.

Obviously, it has been very difficult to resist those temptations and this is because the short-run payoff on the inflationary policies, the political payoff, has been very high in our country, and then after a while, it is necessary to stop an inflationary movement. And that is what has happened.

This is surveyed in the chapter and also the problem of why, when you then have to shift to monetary and fiscal policies, the unfavorable effect of that shift on output and employment shows before the desired price deceleration effect would show. There is also a discussion of how inflation has distorted the tax structure, both for individuals and for corporations and why this justifies the argument for tax reductions in the present recession and why, nevertheless, the size of the deficits problem needs to be watched even though perhaps not for the same reasons why the non-economists believe this is important, but there are reasons why it is important to do so.

Now, the Unemployment chapter is concerned with the meaning of the unemployment measures which we have, how they are arrived at and that is discussed with some thoroughness there, and then the question of the duration of unemployment is discussed, international comparisons in this connection are made, and presented in as much detail as is available and, of course, international comparisons do run into some difficulties, but that question is discussed.

The unemployment differential between various groups in the country are discussed and data are presented on that. The relationship of the unemployment problem to the poverty problem is discussed which is not quite as close as one would believe before looking at the data, because a large part of the poverty problem does not technically express itself in what we consider unemployment, what is defined to be unemployment, but then the relationship between those two concepts also may change during the business cycle.

MORE

The new programs for extending the duration and the coverage of unemployment insurance are discussed in the same chapter and the public service employment projects, too.

Finally, the International chapter on which I should report in the same brief style somewhat reminicent of Western Union cables. There is a discussion there of trends in the international economy during 1974, a discussion of the significance of the oil problem for these developments and quite a bit of attention is paid to that aspect of the developments, which indeed, has proved very important in 1974.

Then, the development of American trade during the year and also of financial transactions during the year is surveyed and it is very good, and I hope an informative appendix is added on the Euro-dollar market.

I think we would all be very glad to answer questions. This is what I would like to say in the five minute introduction. I hope it was not too long on these three chapters.

Thank you.

MR. SEEVERS: You are right on target, Dr. Fellner. Exactly five minutes.

I will report briefly on only two chapters -- Chapter 5 on the Cost of Government Regulations. I think there are three distinctive features about that chapter. One, it is the briefest chapter in the report, only 13 pages. Two, its cause was greatly aided by an ABC news special on the ICC and CAB that appeared last Saturday evening, so that our efforts to carry our message to the public are already underway. I don't think we were preempted. I think that kind of news special is very supportive and carries the same kind of message we carry in the report.

The third distinctive feature is that the arguments for de-regulating the economy, less regulation, is really a bipartisan subject and economic reports of the Council of Economic Advisers, going back many years, over a decade, have periodically made the case for less regulation of the economy.

Unfortunately, I think the trend has been toward more and more regulation, particularly as we have added regulations to achieve safety environment, health objectives and such things.

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In the chapter, we discuss possible rationales for regulation and the problems that regulation generates. Let me just cite one example of the kind of problems that regulation can cause. In a basically competitive market structure like the domestic airlines, the regulation of the price of the fare simply leads to, or it simply causes competition to take other forms of what we call in the chapter "non price competition," such as excess capacity, extra flights, fringe benefits on flights, and so forth.

Now, all of these have a value, we are not saying that they don't have a value. But in effect, what happens is that by setting a single fare the costs rise to meet whatever that fare is and with some allowance for a profit, and the process leads to one fare in one level of quality with some variations being provided to the traveling public. Whereas, if there were less regulation, I think we would see a variety of fares being offered and a variety of qualities of service going along with the various fares that are charged.

So, in effect, the regulation limits the variety of services available to the public.

The chapter also discusses several other forms of regulation -- trucking, railroads, financial institutions, natural gas, one case of environmental regulation and I think, in the end, it gives a vary good summary of what I consider to be a fairly ambititous program on the part of the President and the Administration to achieve substantial elements of regulatory reform.

Chapter six on Food and Agriculture is a longer chapter. It starts out by reporting on 1974 and the events during 1974.

Again, we had a very unusual year in the food and agricultural sector and the chapter discusses the anomoly that we had the largest crop shortfall in nearly 40 years, a much larger shortfall in world grain production -- something on the order of five percent versus only about 1-1/2 percent back in 1972 in that famous year.

And at the same time that we had that problem, there was an excess supply of red meet in the world and by the end of the year, almost all the major importing countries were either restricting through quotas the importation of meat or they had flat-out embargoes on meat imports.

What the second major section of the chapter talks about is really an analysis of long-run changes in the food and agricultural sector and I think it is very interesting, but I won't try to summarize it or go into any detail here.

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The policy issue is the third section of the chapter and we talk about the need for expanding food production in the developing countries and ways to do that.

Basically, it involves a larger, stronger commitment to sound policies in the developing countries, themselves, as well as the right kind of support among the richer countries.

Secondly, we talk about the instability problem and the ways of resolving that. I think the interesting conclusion, our conclusion, is that the whole issue of grain reserves is only necessary because we don't have a smoothly functioning international agricultural economy in terms of open and free markets and that really is what we ought to be trying to achieve. And the grain reserves only become necessary because of failure in achieving liberalized agricultural trade.

We talk about food assitance, both domestic and foreign, and I think the point we have to make there is that these programs were developed when there was a premium on getting rid of surplus supplies of agricultural commodities and now that we have quite a different situation, it seems to me and seems to us that these programs should be looked at in this new light to determine whether the old premise continues to make sense.

And finally, I think we throw out a warning that it would be undesirable to have the Government respond to the problems we have had in the last couple or three years, the problems of tight supplies, sharp price rises, and price instability. If we respond to that by the Government raising its farm price support substantially, which is a very popular theme these days in Washington, that kind of response, we are concerned, would lead us back to all of the old problems we had in the agricultural economy which were acreage controls, large Government payments to farmers, the need for export subsidies to make our exports competitive in world markets and the need for import restrictions to keep imports from flowing in in response to the high price supports we have domestically.

So, that is my summary. I think I went a little over my five minutes, Alan, but I will turn it back to you.

MR. GREENSPAN: Thank you, Gary.

As I indicated before, it is pointless to go through some stuff you have read. I think we can best use our time by immediately opening it up to questions and address the questions to any of the three of us and we will play them back and forth as best we can.

Q Alan, you say on page 19 that the most pressing concern of policy is both to halt the decline in production so that growth can resume. And yet, leter, specifically on pages 26 and 27, you paint a picture of a very weak recovery by the end of the year. For example, it will still be at the level of poutput in the fourth quarter, about the same

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as the year earlier. Aren't you in these phrases and elsewhere in the report, making the best case for an increased tax cut?

MR. GREENSPAN: Let me short-circuit your question. Bart is raising the question, considering the nature of the weakness in the forecast that we constructed, aren't we making a case for a greater tax cut than we are recommending; is that right, Bart?

Q Yes.

MR. GREENSPAN: I think the question we have to confront is, how do we essentially maintain a very difficult balance between, one, halting the decline in economic conditions and remember the decline has not as yet halted.

Secondly, turn it around, but turn it around in a way in which we do not in the process sow the seeds for the reacceleration of inflationary pressures and the type of distortions and economic activity which we are so familiar with over the last few years leading to a further and perhaps even more severe increase in inflation in the years 1976-77-78.

It is an extremely difficult path to try to find one's best way through. All I will suggest to you is that our forecast implies considerable weakness in the first quarter of this year, some stabilization in the spring months after, as I said, a fairly sharp decline and then a recovery which takes on, I think, reasonably good proportions in the second half of this year and carrying into the early months of 1976.

Now, I think what we must be aware of is, one, the extent of the size of the financing problem which is involved in not only the very substantial budget deficit that we are showing, but also, if you will look in the budget document, you will find that we do have still considerable off-budget items and a variety of other things. So, the amount of financing which the Treasury will have to embark upon over the period immediately ahead is in fact a good deal larger than the actual deficit itself implies so that if you are talking about an increase in stimulus, either on the expenditure side or on increasibg the tax cut, we are working against a margin of financial problems which I think we must keep clearly in mind.

Now, it is our view that the budget deficit, as now estimated, is capable of being financed in 1975 without a significant problem in the financial markets. It is a tight fit and we are not absolutely certain.

I would be actually suggesting to you more than I really know if I said to you it was going to be easy. It is not going to be easy and the reason is, obviously, that despite the fact we have a significant decline in real volume, the rate of inflation is still quite high and it means that the nominal growth, that is the dollar growth in the GNP, is still such as to suggest far more than normal

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financing requirements from the private sector than one would expect if you were looking solely at previous, past recessions in which inflation was not a consideration.

So, what we have confronting us is one, a very large amount of financing coming from the Treasury; two, a less than usual decline in private financing because of the continuation of the inflation and the potential danger if we go terribly much beyond this on the issue of Federal financing, which would occur either by an increase in expenditures or by a further cut in taxes.

We are raising the risks of inducing a re-ignition of inflationary forces at a later date.

Now, I don't want to mislead you. I don't want to say that we have got a simple computer model where we press buttons, put the numbers in and get exact answers. We don't have it, nobody has it. One must make judgments about the sizes of the risks involved in these various types of financing problems and what one is reasonably sure of is that as we move to larger and larger pressures on the financial markets, that dangers of reigniting inflationary pressures increase.

And I think that our policies as they were constructed, tried to make the best judgments we could as to what was in effect the optimum path of the degree of stimulus in the particular context which we had.

Q To be specific about these alternatives and the possible risks, if one wanted to get unemployment down to six percent in 1976, how much additional tax cut would be required and what would be actual impact of this be on the CPI in the process?

Q Question.

MR. GREENSPAN: The question was, what type of tax cut would be required to get the unemployment rate down to six percent by 1976 and what would be the impact on the CPI in the process.

First of all, that question is in a very basic sense not answerable for the following reasons. We assume, in usually making governmental policy, that there is some simple technique by which one can calculate what the effect of various policies are with some degree of accuracy.

Now, it is certainly true that we can stimulate precisely that sort of activity in an econometric model and we will get answers that will be printed out to the last decimal place and we can tell you what those printouts show.

But I think we must recognize that the thing that we have sort of learned, in a certain sense, I sense some discouragement to those who have to do business forecasting, is that the private sector itself is so huge and so complex and does so many things which are difficult to capture in econometric models that we cannot say with any degree of surety what type of tax cut would in effect do that or if in fact we could succeed in doing that.

All we can indicate to you is if we had a very substantial increase in fiscal stimulus, which the models would indicate would be required to achieve that particular goal -- and I assume you mean an average of six percent for the year -- I think that we are way over the line of where one can prudently say that the risks of significant acceleration in inflation are not there.

Q Also on page 27, you say that the uncertainties at the present time, your projections are subject to an even wider margin than usual and you link this by saying during the last several months we have witnessed a progressive scaling down of outward projections and a scaling upward of unemployment projections.

Aren't you in effect saying your projections for '75 are probably milder than the reality, that things may be even worse than you are saying?

MR. GREENSPAN: No, not necessarily because at any particular time when we make a forecast, what we try to embody in it is not only what we see at the moment, but also the very type of momentum which you are suggesting. In other words, embodied in anybody's evaluation of the outlook is also the process which we are discussing, the progressive deterioration that has been going on.

So it is not that we take a static view of what it is as of this moment, but try to encompass in any particular outlook precisely the type of questions you are raising. It may turn out our numbers are too pessimistic. In other words, it could be that what we are looking at is, in the process of the next month or so, the worst of all the bad news. It could very well be the thing can turn around on us a lot faster than we expect and we certainly hope that will be the case.

Remember that with all our sophisticated techniques, and they are very extensive, the extent of the current decline was not projected as recently as several months ago so it is quite possible that we might find that a good deal of the pessimism that we are looking at now -- and it is quite extensive -- might turn quite rapidly. I needn't point out that the stock market has shown some significant improvements.

Now I don't take the stock market as a forecast. I think a lot of people do and I think that is a very, very "iffy" question. Nonetheless, the fact that stock prices have risen so significantly has a real effect in the financial markets. It makes financing of small business and large business in the equity area easier, which eases some of the very problems we are talking about with respect to the financing discussion I just got into.

And secondly, credit ratings of corporations for purposes of borrowing are not independent of what their stock sells for in the marketplace.

So one may say, there are signs on the positive side although at the moment I must say to you that the vast proportion of the evidence is not positive.

MORE

Q Dr. Greenspan, if the President's $30 billion energy package did not pass, what would be the effect on the GNP, the CPI and unemployment?

MR. GREENSPAN: The major effect is on the CPI. The CPI, we estimate, will go up a little over two percent as a consequence of the energy package, most of it occurring in calendar 1975, some spread over into the next year.

In our judgment the effects on real GNP or on unemployment are small; I think they are of a very small dimension. This presupposes, I might add, that the basic outflow of the tax receipts that we receive in the process of gaining the energy program are expedited and on schedule because clearly one can do things if it is mid-handled that will cause negative effects. We do not expect that to happen.

Q To follow up on that, in terms of the timing of this very complicated program, you lay out a chart in here -- I have forgotten the page right now -- but it shows in effect that the program gets very little stimulus in the first half of the year when the economy needs it most and the stimulus really doesn't come until the third quarter.

Isn't that an argument in effect for slowing down some of the President's energy package or not passing it according to his time table?

MR. GREENSPAN: No, it isn't, Jim, because first of all the size of the numbers you are dealing with are relatively quite small compared with the normal volatility of what the economic activity is. We must remember when we start to get exact on numbers we have to have a sort of balanced view of what our ranges of error are.

You know, if we just take any list of forecasters, ourselves included, and take a look at what happens from one forecast to the next, just maybe one month later, there is far more change that occurs from one of our forecasts from one month later reflecting the change in the current economic outlook which sort of dwarfs any impact that we are particularly talking about.

The basic reason and why the President is pushing hard on the energy program is essentially the basic issue that we are exposing the United States to an unacceptable risk of major -- and I mean major -- disruption because of a shortfall of oil, embargo, or something like that, not immediately, not in the next six months, nine months, although it could certainly be very difficult if we had one.

We are talking of the period 1977, '78, '79 and the question is the sooner we start on engaging in some program which reduces our energy vulnerability in a period which is very considerable out there, the better we are.

MORE

The President's concern is that every day we delay here adds another day of vulnerability out there. That is a very significant concern. So it may well be that there are minor effects in the fact that there is a revenue increase in the very short-run, but I think you just cannot look at merely the costs without recognizing what you are doing it for. I think the costs are very small. I think they are very unlikely even to be perceived in the economy in the short-run because of the volatility.

What is far more important is the fact that we just must get on to a path which reduces the extreme vulnerability of this Nation's economy in the periods in the 1980's.

Q Dr. Greenspan, what would a $70 billion deficit do to your assumptions and your projections?

MR. GREENSPAN: I assume that is not what you mean we are forecasting but that's what it means if it happens that way.

I think it will put very significant strains on the financial markets and will make it difficult for the Federal Reserve. Obviously, one cannot answer the question unqualifiedly without also stating what is the state of the economy generally, and what is private demand doing, and what are the private credit demands, but clearly, if one finds oneself uncomfortable with a deficit, as I do, of $52 billion, I am far more uncomfortable and a good deal more concerned about the tremendous risks that we are exposing this Nation to if we start down that line.

One cannot say -- and I want to emphasize this -- one, you cannot say is one number exactly good and the next number right next to it exactly bad. We are dealing here in an inexact science and what we are doing is measuring risk, exposure, things of which one can only be sort of probabilistic about.

All I can tell you is that a $70 billion deficit in my view, when I look at the economy and look at the markets out there, puts me out in the range of concern which makes me more than uncomfortable and I tend to play my emotions down on such issues.

Q You are being very modest about the validity of your economic forecast. I wonder how strong you felt about your outlook that the energy program would involve only two percent inflation?

MORE

MR. GREENSPAN: It is not a question of being modest about the forecast. I am being modest about what economists in general are capable of forecasting. We know a great deal. In many areas I think we do exceptionally well and in fact in most areas I think that forecasting has improved exceptionally and the tools and techniques I think are really quite remarkable.

There are occasions, however, when we find ourselves in periods where past precedence is not simple, you can't basically, simply match one period against another and I think to be flexible in your outlook and be constantly aware of it is not something which one should -- to put it another way -- if you become terribly dogmatic about what your computers are printing out for you, your policies are going to be terribly inflexible, and I think that is a mistake.

We have gone over this basic analysis question of what the inflation forecast is on the energy program and unfortunately, it will take me 15 minutes to go over it, and I don't intend to do that unless somebody presses me as to the technical reasons why we came out that way and why we disagreed with others who have significantly high numbers.

Let me say this: On the basis of past experience, I don't know that the number is going to be exactly two percent, but if you are talking about a direct impact analysis, I feel reasonably confident, in a sense a good deal more confident than one usually should, about such things as the price effect, and we have done it in a number of different ways. There are a number of different conditions, and we come out reasonably close to two percent-plus. It is a small plus and it varies. I don't want to get more detailed than that.

Q Dr. Greenspan, Saturday, Roy Ash said that Dr. Burns participated with the Administration in setting up the economic programs and Mr. Ash then said that he believes monetary policy would be consistent with that. Would you describe what you believe would be an appropriate monetary policy?

MR. GREENSPAN: I never head of a Chairman of the Council of Economic Advisers ever answering that question and I would not start a precdent.

Q If I could ask the same question another way, in which you should answer, how does the Administration's economic policy now guard against the very real problem of the liquidity crunch catching major corporations and possibly forcing them to go belly up in the strains that the financial markets will apparently be under.

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MR. GREENSPAN: Did everyone hear the question?

All I can say to you with respect to that at this moment is that we are very much aware of what is going on in the financial system, what is going on amongst numbers of corporations. We watch the situation quite closely.

There have been very considerable discussions about the nature of the problems that we are looking at. There are all sorts of options that we are constructing. We haven't gotten to the point where we think anything beyond that is required. Nonetheless, we do think that because events move quite quickly that it is important to have all one's analyses up to date so you don't start from scratch, if and when any such problems begin to emerge.

I must say, however, that to date one forecast of mine which I am delighted that has gone wrong, is that I expected far more problems in this area, the corporate financial area, than I think we have seen, and we may find that we will do a lot better and that the grave concerns that a number have expressed may turn out to be unfounded.

Q Mr. Greenspan, a moment ago in defending your forecast of a two percent rise in inflation due to the President's energy ---

MR. GREENSPAN: A little more than two percent.

Q But you described that as, I think, a very good direct impact analysis. That was the phrase you used.

Now, could this be the difference between your forecast and those of other economists, that they are taking both the direct and indirect impact?

MR. GREENSPAN: No, that is a misuse of terminology on my part. I did not mean to use the word "direct" in that context.

What we are doing is estimating the immediate impact, and I think as I recall in the text we showed that the immediate effect on consumers' price index from a rise as we estimate it in gasoline prices, distillate fuel oil, motor oil and electric power's direct pass-through effect of the index is only 1.3 percent in the CPI.

The indirect effects -- that is the effects that occur because oil costs work their way through petrochemicals, resins, synthetic rubber and through other products -- there is an indirect effect and that is adding something which in total brings us something slightly in excess of two percent.

MORE

The major difference, I might add, between our forecast and those of others represents what is called the "ripple" effect which is essentially not the effect of any increase in energy per se, but rather its effects on setting off a wage-price spiral, so to speak, which is directly attributable to the initial onset of energy cost increases.

We have gone over that and we believe that the effect of that, if it exists, is quite negligible and in fact there is even a possibility that the "ripple" effect under certain circumstances could be negative. Our view is that whatever it is, it is a small number.

Q Dr. Greenspan, could you quantify for us what your full costs are on a quarter to quarter basis for this year?

MR. GREENSPAN: Would you repeat that?

Q Would you quantify for us your forecast of a quota basis for this year and also how you see the balance of payments outlook?

MR. GREENSPAN: You mean the GNP accounts?

Q Yes.

MR. GREENSPAN: We usually don't do quarterly forecasts. We do them but we don't feel we should make them public. All I can say is the first half is down on average; the second half is up. Beyond that, I would just as soon not say anything specific.

Willy, would you want to talk on balance of payments for a minute?

MR. FELLNER: Maybe there are some questions that would arise in co-nection with the balance of payments and maybe I can or cannot answer them.

You see, what has been happening this year, we have a trade deficit which was not large, given the size of the oil component that was very large. We are expecting a somewhat greater trade deficit for '75 -- a moment ago I said this year, I meant '74. For '75 we are expecting a somewhat higher trade deficit than we had in '74, a trade deficit very small consistent with, say, the second half of '74 experience than with the whole year, which started differently, because the oil payments, the oil imports, the settlements, came later.

So we will have a larger deficit -- still a much smaller deficit, I think, than what would correspond to the oil imports alone. So, aside from that we will have a surplus.

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We will have a deficit, also, on goods and services, although a smaller deficit than on trade because the services will give us a surplus if you view them in isolation; and a current account deficit which will probably be of the same order as the trade deficit because the current account includes, in addition to goods and services, the unilateral transfers.

Now, the figures I could quote would be very approximate and very tentative. But due to the fact that the economy is weak, the deficits will be somewhat smaller than they would have been otherwise, probably.

We have had some weakness in the dollar recently. And I think that is largely a consequence of interest rates having come down -- that is, the market is very sensitive to interest rates.

That, I think, is what I would say on that.

Q Could you give us those very tentative figures?

MR. FELLNER: Let's put it this way: If I talk to people who are as good at forecasting as anybody, I think, although these are very undependable figures, they are, I think, putting the 1975 merchandise deficit now at somewhat less than $10 billion.

Q Wasn't it only $3 billion in 1974? So, isn't that considerably larger than in 1974?

MR. FELLNER: No, I believe it was more like five, although the last quarter figures are perhaps not final yet. It is larger, but it is in keeping with the second half -- the experience of the second half of the old year which is influenced by the very early part of this year.

Q Which basis do you mean?

MR. FELLNER: The balance of payments basis.

Q Dr. Fellner, can you tell us on an 8 percent average unemployment for the year, what your projection is based on; the peak of unemployment and what it will reach during the year?

MR. FELLNER: We say in the report it is conceivable it will be slightly exceeded and then will come down. I don't think we would expect anything that would be very different from the average figure.

Q Will it get to 9 percent?

MR. FELLNER: No.

MORE

MR. GREENSPAN: Our forecast, as we say in the text, is that we expect unemployment to go above 8 percent sometime during the year and then be below that at the end of the year.

Q Will it reach 9 percent?

MR. GREENSPAN: That is not our forecast.

Q Dr. Greenspan, our forecast for unemployment for 1975 and 1976 is about twice as high as the normally acceptable 4 percent. Why is it acceptable?

MR. GREENSPAN: The forecast is not acceptable. If you are asking the distinction between what is acceptable and what is a goal, our view is that the lower the unemployment rate is, the better.

The question is, itself, not an issue here of what we are aiming for or desiring to create, of course not. This is a forecast and it is an estimate based on what economists, looking at the economy, would project.

If you are saying what we would like to see, obviously, that is a good deal lower than that and I think anything at that level is quite disturbing.

Q Did you say unemployment would be below 8 percent at the end of this year? How does that match up with the 7.9 average for 1976?

MR. GREENSPAN: It is basically not very much below in the forecast.

Q Does that mean 1976 stayed steady or you will have an increase?

MR. GREENSPAN: Let me put it this way: It is a question--I should say I am not talking about the quarterly figure, but as it gets into the period. It is just about 8, as I recall.

Q Dr. Greenspan, does that mean you are going to stay about absolutely level for a full year?

MR. GREENSPAN: No, let me retract that. I am trying to remember what the actual figures are. I think I was a quarter off. It does not go below 8 percent until we get into the early months of 1976 in that forecast.

Q Dr. Greenspan, earlier you spoke of the dangers of a tax cut greater than that which the Administration planned. In that context, what is your reaction to the tax bill that came out of the House Ways and Means Committee?

MR. GREENSPAN: Irving, I haven't had a chance to take a look at it and I think it would be premature for me to comment on it. Certainly, others should be commenting on it, at any rate.

Q Dr. Greenspan, the Democrats are saying that the 7.9 percent rate of unemployment in the year 1976 is unacceptable. I would like to ask how much deficit would be needed to reduce that 7.9 percent and what would be the inflationary impact of such a deficit?

MR. GREENSPAN: Let me first say that the basic question of the relationship between stimulus and the unemployment rate is not as clear as it used to be. Back in the early 1960s when we had a noninflationary economy, every significant increase in the amount of stimulus in, say, surrent dollar terms, was usually converted pretty completely into real physical volume output and as a consequence, in a declining unemployment rate.

In fact, I think we state in one of our chapters in discussing one of the periods sort of hypothetically, the 1958 period,which was very classic in that sense.

So, let me say just to point out where we stand at the moment that we no longer have a situation in which one merely can stimulate the economy and be sure that one will have a significant impact -- I mean, significant impact -- on the unemployment rate.

There are, as you may well know, other countries throughout the world who, at the moment, with increased fiscal stimulus, will not affect their real GNP. Now, we are nowhere near that, fortunately. What I hope we avoid is get to a situation in which we find that by continuously attemtping to stimulate the economy by tax cuts or increases in Federal expenditures, we set into motion what we call a shift in the Phillips curve to the right -- that is, an ever-decreasing proportion of the increase in current dollar GNP as a result of fiscal stimulus -- which translates into real GNP increases and therefore, into improvements in unemployment.

Now, I don't know at this particular point what the particular mixes are, or the like, or where we basically stand. All I can suggest to you is if we engage in a very significant degree of stimulus well above what the President is proposing, the presumption that therefore the unemployment rate will fall by significant proportions is not something to which I would give great credence.

I don't say that there would not be some, but what you would be doing in a sense is trading off some small short-term reduction in the unemployment rate for significantly higher rates of inflation in the longer run and in that longer run, an average rate of unemployment which is higher than I think we would be able to sustain.

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Q Dr. Greenspan, given the high level of unemployment that you anticipate for '75 and '76, can you give us any approximate measure of how many workers will have exhausted their unemployment compensation benefits or who will be beyond the scope of the public service employment program as now planned by, say, mid-1975?

MR. GREENSPAN: I can't give you a specific number on the public service employment but one measure of the effects of the unemployment insurance and the total employment effect is shown in the table which I believe is on page 41 of the budget, which shows a distinction between the unemployment rate as we usually conceive of it and the insured unemployment rates. So you can take a look.

There is a gap process there which is opening up. As I understood it, there is more than adequate funds at this stage to carry us for quite a while.

Q Your analysis of the Phillips curve relationship seems to conclude that the country will have to live with a considerably higher average unemployment rate than we have in the past or that we have been accustomed to think of as a full employment target; is that correct?

MR. GREENSPAN: Not necessarily. Let me just say that what I am saying is this: That unless you can diffuse the very strong underlying inflationary pressures which still exist in our economy, then I would say the answer to that is unfortunately yes, and one of the reasons -- in fact the most important reason -- why we take the issue of inflation so strongly is not because we have some peculiar view that prices going up are somehow in themselves bad, that we don't like the indexes to rise.

The problem is that when you have an unstable inflationary environment, ultimately its impact is devastating on the unemployment figures. So that in one respect the reason why we emphasize that the problem is not inflation versus unemployment, because it is really in many respects the same disease looked at from the different point of view.

If we do not bring the underlying inflationary pressures under control and return this economy to a stable, non-inflationary growth, then I think we do risk the problem of one, both not only higher rates of inflation than we would like to perceive; but also, higher rates of unemployment.

In a sense, what I am basically arguing for is that the best way we can be sure we can reduce the rates of unemployment and keep it there -- down -- is essentially to diffuse the strong underlying inflationary imbalance of which we have seen.

Q On the table in the budget that you have mentioned, on page 41 of the budget, you draw some linear extrapolations to 1980 that suggest it would take that long for us to get inflation below, let's say, four percent and unemployment down to around five and a half. Is that the best path that you foresee or is there some combination of policies that will get us to that happy land a little faster?

MR. GREENSPAN: No, I think that is merely a sort of illustrative type of projection for purposes of allowing one to examine the specific nature of the budget figures which are constructed on the basis of it.

At this particular stage, I would say long-term economic forecasting is a lot more treacherous than short-term. I just gave you my views of short-term forecasting.

I think that it is quite possible that if we proceed in a very circumspect and prudent way on governmental policies and we are capable of restoring the confidence to the American economy which has been sorely lacking, I think we can arrive at far better levels of both inflation and unemployment well before those illustrative examples suggested.

I think it requires, however, some very considerable concentration on the nature of our problems. We must not try to paper over what the difficulties are or to overemphasize short-term palliatives at the expense of more fundamental remedies.

Q In relationship to the importance of the inflation question you outlined before, how do you answer those who say your own figures on the full employment surplus show there is room for more expansion without the danger of inflation?

MR. GREENSPAN: Basically, I think one must distinguish between the calculation of a full employment surplus and the nature of inflation. These are two separate concepts -- the full employment surplus is a statistical calculation which assists one in evaluating strictly the changes, the causes of changes, in Federal deficits. And the changes in the full employment budget are a useful tool for examining the particular levels of restraint or lack of restraint, in those accounts in and of themselves.

What the full employment budget does not encompass is the financial system as it exists at that point -- the balance sheets of corporation, the balance sheets of financial institution, the rates of cash flow in the corporate sector and the like -- numbers of other elements which are not in there which must be considered in measuring any inflationary impact, because it is not strictly either the measure of physical slack that exists in the economy, which is often

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one measure of the degree of capability of expansion or the full employment budget, even its rate of change, which is a more useful thing, as an indication of the inflation impact of any particular stimulative policies.

One must bring to bear the initial state, the state at the time of what position of the financial markets is at that point. And in that sense, I would say that the degree of slack that existed in years past -- a decade or so ago under the same full employment budget conditions. -- I think would have enabled very significantly greater tax cuts for fiscal expansion without inflationary implications than I think exists today.

In other words, to merely use the statistic without qualification, without interfacing it with other elements that exist in the economy is I think to misuse the number. Statistics have very good uses and I think they should be used for what they are useful for, but I think they can be used in a much too simplistic way and I think in this case you are over-generalizing it.

Q Will you expand on the reasons why you think most of the tax cut will be spent rather than saved? You say past experience suggested this would be so and yet we are in a novel set of circumstances.

MR. GREENSPAN: First of all, when we talk about what is spent and not spent, we always fail to put in what time frame. Obviously, within 30 seconds after everybody receives their check, it will be 100 percent saved and will remain that way for the next hour, I hope.

The concept of what is saved and what is spent is not a meaningful concept unless you say over what period of time.

Now, in examining this so-called one-shot type of thing -- we have had a lot of experience, for example, going back to, remember the soldiers' bonus, I think, was 1936, where we had this big lump sum payment and one was able to estimate what happened subsequent to that, the national service life insurance payments in the '50's, big lump sum payments, and the general experience one has is those payments do tend to be distributed somewhat differently from the normal pattern of consumer outlays.

In effect, we do know that they are pushed, the distribution is pushed more towards savings and big ticket items than is normally the case.

Now, to the extent that the amounts are initially saved, that obviously is not a loss. It basically would improve the flows of funds in the S & L's; it would improve the financial system and in a sense would be helpful.

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But I think when you take the context not of the first two months but the next three months, but over, say, a six or nine-month period, it is our judgment that the very substantial amount of that eventually will find its way into the spending stream.

Q How relevant is it to your general forecast of a domestic economy, what rate the dollar actually happens to be?

You made no mention of the dollar or the dollars internationally exchanging, and it seems the dollar has been falling very sharply. In your forecast, how do you see the dollar's future developing and its impact, therefore, on domestic inflation?

MR. GREENSPAN: Obviously, I have a view, but I think it would be inappropriate for me to come out on anything which relates to markets. That is why I don't comment on Federal Reserve policy, forecast of exchanging rates, stock markets, commodity features and the like.

Q Mr. Greenspan, if the slump does not bottom out this summer or this spring, do you have any contingency in mind what to do then or must it just be endured?

MR. GREENSPAN: I say that we are auditing the economy on a day-by-day basis and policy will be appropriate to the conditions of the economy at that time.

Q Mr. Greenspan, as recently as two weeks ago the President in an interview on television said he expected the unemployment rate to be below seven percent perhaps by the end of this year, but certainly in 1976. How does that gibe with your forecast?

MR. GREENSPAN: I would say that basically if the economy improves -- let's put it this way -- if confidence improves a good deal faster than we can measure -- and in fact let's recognize it. We don't have techniques which are capable of making judgments about confidence. We missed the decline in confidence recently; I suspect we may well miss a recovery in it. I don't think one should go out and forecast it. But if confidence is restored far more quickly, I think that is precisely what we may well see happen.

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Q A double-barreled question: One, what is there in this report to restore public confidence?

MR. GREENSPAN: You are talking of the economic report?

Q Yes.

And two, looking back over the past six months with the benefits of hindsight, what policies do you now wish you had recommended to prevent us from getting into the situation that we are in as represented in this report?

MR. GREENSPAN: Irving, you stay up late thinking up the most interesting questions.

First of all, I don't think it is the job of the Council of Economic Advisers to put together a report to either add or subtract from confidence. I think it is our job to tell it like it is, to tell it as we see it, and that is what we have attempted to do.

Secondly, I don't believe that confidence is significantly affected by talk on the basis, by either governmental officials or by others. I think what restores confidence is not an issue of what people say, but what actions are taken, not only by government, but also by what is going on in the private sector.

What will restore the confidence of consumers and the American people is not what we say but what we do -- and I hope it is a very responsible policy that will be initiated by this government and I cannot indicate to you that the importance of responsible policies and candid appraisals of what our problems basically are to assist in that direction.

To answer your second question, I always wish at all times and in all places that I knew what the outlook was going to be six months hence, and if I did, I would be in a much better position to do a lot of things. I must say also that it doesn't serve us very well to go back and say, "If we knew then what we know now," what would we do. I think that is not a particularly useful exercise to go through.

Q Could I ask a follow-up on that question? You gave a very significant answer, I thought. Could you give us the percentage of the odds in favor of confidence being restored as the President suggested? In other words, what percentage is the likelihood that this is going to come to versus the other odds?

MR. GREENSPAN: I am sorry. What was the question?

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Q What is the percentage between the outlook presented in the book and the outlook you gave in a very brief answer to the President in explaining the President's -- that is, that confidence should be restored -- what are the oods?

MR. GREENSPAN: Let me put it this way: It is not something which one can put odds on. I think that what you do as an economic forecaster is to take the events that you have in front of you. To try to forecast something which is beyond your ken and it is beyond my ken, I think, does not do justice to an economic forecast. It enables people to look at a base of statistics and say, "This is essentially what it looks like under current conditions." And I think if we were somehow able to capture this very illusive element of confidence in our models our forecasts would be far better.

Remember, when we are talking about conficence, we are talking about the views of over 200 million Americans and this is not something we have been successful in forecasting with our simple, analytical tools.

Thank you very much, ladies and gentlemen.

END (AT 10:40 A.M. EST)