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JOINT COMMITTEE PRINT

THE FEDERAL BUDGET, INFLATION, AND FULL EMPLOYMENT

REPORT

OF THE

SUBCOMMITTEE ON FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

AND

SUPPLEMENTARY VIEWS

NOVEMBER 1969

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LETTERS OF TRANSMITTAL

NOVEMBER 24, 1969.

To the Members of the Joint Economic Committee:

Transmitted herewith for the use of the members of the Joint Economic Committee and other Members of the Congress is a report of the Subcommittee on Fiscal Policy entitled "The Federal Budget, Inflation, and Full Employment."

Sincerely,

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

NOVEMBER 21, 1969.

Hon. WRIGHT PATMAN,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith for use of the members of the Joint Economic Committee, other Members of the Congress, and other interested parties, is a report entitled "The Federal Budget, Inflation, and Full Employment," prepared by the Subcommittee on Fiscal Policy.

The report is based upon hearings held by the subcommittee in October, which examined the Federal budget and other broad economic policies as they concern ending the present inflation and insuring a climate favorable to the attainment of full employment with stable prices in a continuously growing economy. The subcommittee heard from experts who discussed the anatomy of inflation, fiscal policy and inflation, areas in which inflation has been particularly persistent, such as the construction industry, health care, and rising food prices, a source of particularly widespread public concern. The report contains conclusions and recommendations on the Federal economic policies needed in the months immediately ahead as well as in the longer run.

Sincerely,

MARTHA W. GRIFFITHS,
Chairman, Subcommittee on Fiscal Policy.

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THE FEDERAL BUDGET, INFLATION, AND FULL EMPLOYMENT

THE PROBLEM OF INFLATION

The spiral of inflation, which began to accelerate in 1965, continued to accelerate through the summer of this year. As evidence, consider the following seasonally adjusted annual rate of change in the gross national product (GNP) deflator from the first quarter of 1968 through the third quarter of this year:

Period:	*Percent increase*
1968—I	3.7
—II	4.0
—III	4.0
—IV	4.3
1969—I	4.9
—II	5.2
—III	5.4

Furthermore, the annual rate of change in the Consumer Price Index from August to September 1969 was 6 percent, and the seasonally adjusted price of food showed an even greater increase. Compared with a year ago, overall consumer prices were up 5.8 percent in September, meat prices 11.7 percent, homeownership costs 10.5 percent, and medical care services 8.8 percent.

Experts for the administration, as well as some of the other witnesses who appeared before the Subcommittee on Fiscal Policy as it recently reviewed the budget picture, claimed to detect signs that inflation was being brought under control. Dr. Paul W. McCracken, Chairman of the Council of Economic Advisers, stated that there was some slowing down in the rate of price increases by the third quarter of the year. The rise in wholesale prices was definitely less than in the first or second quarter of the year. Movements of the leading economic indicators this year generally suggest a slow down in overall economic activity.

This committee believes that there is as yet only a little evidence that inflationary forces are abating. We recognize that it takes time for policies of fiscal and monetary restraint to take hold. However, we share the view of some experts that monetary restraint in the last several months, if continued, may be so severe as to sow the seeds of future recession, as we discuss later in this report.[1]

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[1] Senator Miller believes that any future recession would have its origin in previous irresponsible fiscal policy.

The Chairman of the Council of Economic Advisers outlined the strategy of the administration as follows:

> "The change of policy was expected to act upon the rate of inflation in two stages, each of which would take time. First, fiscal and monetary restraint would reduce the rate of growth of total spending. This reduction would not come fully and immediately when policy changed. For example, consumers would at first respond to an increase in their taxes by reducing their saving rates, and most of the effect on consumption spending would come later. Also, businesses and households would at first respond to monetary tightness by reducing liquidity and finding substitutes for money—adjusting their spending more slowly to these changes.
>
> "In the second stage of this adjustment process the decline in the rate of growth of spending would begin to reduce the rate of price increases. This also would take time, especially after a long period of inflation. Cost increases built in by previous wage contracts and other commitments would continue for a time. Price and wage decisions would for a time reflect the presumption that the long inflation would continue. During this period, when prices continued to rise strongly even though the rate of growth of demand had diminished, the rate of growth of real output would decline. However, in time the slower growth of demand and of production would result in a slower rate of inflation.
>
> "Neither wage-price controls nor 'guidepost' policy were necessary or useful, starting from the circumstances of early 1969, to achieve the objective of the transition to a more stable price level."

The hard evidence of disinflation (return to price stability) to which this policy strategy is necessarily addressed is, however, difficult to uncover, and where found poses serious questions as to the consequences in terms of economic stabilization. For example, the increase in GNP in current dollars (the best measure we have of total money demand) has not slowed down through the third quarter of this year, though analysis reveals that most of the rise has been in price increases rather than output increases, as discussed below.

The Council of Economic Advisers suggests that we look not at total GNP but at final sales—that is, GNP less inventory investment. This measure does show some slowdown since inventory investment apparently accelerated in the third quarter. The inventory increase, in the Council's view, is "a portent of future deceleration, rather than of increases" [in demand]. We interpret this analysis as an indication that production in the third quarter was outrunning demand and there was, therefore, some buildup of "unwanted" inventories. An excessive buildup of inventories in the past has generally been a prelude to recession, so this development must be most carefully watched.

But even more disturbing is the accumulating evidence that the very restrictive fiscal-monetary policies instituted in the past year or so are tending to reduce output and employment well below efficient capacity. The Joint Economic Committee has noted that the rise of

real output (GNP in constant prices) in early 1968, when the latest round of the inflationary spiral was set in motion, was at an unsustainably high rate—5.9 and 7.4 percent in the first and second quarters of the year. However, the increases in real output in the two most recent quarters—annual rates of 2 percent per quarter—are equally unacceptable for the long pull; such increases are clearly less than the growth potential of the economy of about 4½ percent per year. Thus we seem to face the far from pleasant prospect of continued price-wage inflation at the same time as an inadequate rate of growth.

Moreover, the restraints now in force are having impacts on sectors of the economy—principally State and local governments and housing—where clear and urgent needs are being postponed or left unfilled while as yet the restraints have not had any appreciable dampening effect on business spending for fixed capital at a time such spending is adding to capacity at an unsustainable rate.

Probably one of the most disturbing aspects of current economic policies is the probable "fallout" effect on unemployment. Unemployment has risen from 3.3 percent of the civilian labor force in the first quarter of this year to 3.7 percent in the third quarter. It jumped to 4 percent in September and remained high at 3.9 percent in October The fact that unemployment is on the rise now seems well established.[2] If, as the Council suggests, production is now outrunning real demand (with unwanted inventories increasing), and if money demand is still excessive, the obvious course of events, as the policies of restraint are continued, is that the production slowdown will continue. Moreover, there is good reason to believe that employers were "hoarding" labor earlier this year in the expectation that as demands continued to increase the excess labor would be needed later. As this expectation fails to be realized, output will be sustained with a smaller work force and unemployment will rise further.

Perhaps even more disturbing than the prospective increase in total unemployment would be its uneven incidence. It is a thoroughly documented fact that when there is a substantial increase in unemployment those first hit are the more disadvantaged workers—the young recent entrant and the poorly educated, especially those from minority groups. It can hardly be disputed that such a course of events would add greatly to the already troubled social conditions now prevailing.

While admitting the possibility of further increases in unemployment, Government witnesses before the subcommittee were unwilling to specify any limit to the "permissible" degree of unemployment. Indeed, it is fair to say that they disclaimed any intention of allowing any substantial increase in unemployment. Some private experts, however, used a target limit of 4½ to 5 percent. Dr. Arthur Okun, a former Chairman of the Council of Economic Advisers, put the problem this way: "No economist, no statesman, no one in the world has a recipe for correcting our current price performance without some unfortunate increase in unemployment."

The difficulty, as this committee sees this problem, is that there does not seem to have been any concerted effort on the part of the Government—Congress included—to see that if unemployment in-

---

[2] Senator Miller notes that the unemployment rate for each of the first three quarters of 1968 was 3.6 percent.

creases, the incidence of the concomitant suffering is kept to a minimum. The problem of controlling inflation after the spiral has been continuing—indeed accelerating—for several years is made especially difficult because imbalances have been built into the system. All workers, for example, have not shared equally—or even close to equally—in the wage advances of the last several years. Many wage agreements, moreover, cover intervals well beyond the first year after settlement, and in an inflationary milieu the agreements now being reached already have an inflationary factor built into them for future years.

The following table shows median annual rates of increase in major wage and benefit decisions reached in the 1965–69 period. (It should be noted that the median is that measure indicating that one-half increases covered were greater than that shown, and one-half represented increases lower than the median.) The most striking feature of this picture is the steady escalation of wage increases and other benefits in the last 4 years, until, in the first 9 months of 1969, the median increase was 7.4 percent or almost double that of the comparable period of 1966, averaging the increases over the life of the contracts. As may be seen from the table, the first-year wage increase is typically higher than those negotiated for later years in any given contract. The first-year increases in nonmanufacturing industries in early 1969 came to over 10 percent, roughly 2½ times the comparable figure in 1966, which figure seems about as high as would be consistent with general price stability.

WAGE AND BENEFIT DECISIONS, 1965–69

Measure	Median annual rate of increase in decisions reached during—								
	First 9 months of—					Full year of—			
	1965	1966	1967	1968	[1] 1969	1965	1966	1967	1968
Major collective bargaining situation: [2]									
Wage and benefits changes (packages):									
Equal timing [3]	([4])	3.9	4.8	6.0	7.4	3.3	[5] 4.0	5.2	6.0
Time weighted (actual timing) [6]	([4])	4.4	4.9	6.6	8.1	([4])	[5] 4.7	[5] 5.5	6.6
Negotiated wage-rate increases averaged over life of contract:									
All industries	[7] 3.3	3.8	4.4	5.1	6.6	[7] 3.3	3.9	5.0	5.2
Manufacturing	([4])	([4])	4.4	4.9	5.5	([4])	3.8	5.1	4.9
Nonmanufacturing	([4])	([4])	4.5	5.7	8.5	([4])	3.9	5.0	5.9
Negotiated 1st-year wage-rate increases:									
All industries	4.2	4.0	5.0	7.2	8.0	3.9	4.8	5.7	7.2
Manufacturing	4.2	4.2	5.0	6.9	6.9	4.1	4.2	6.4	6.9
Nonmanufacturing	4.0	3.9	5.0	7.5	10.4	3.7	5.0	5.0	7.5
Wage increases in manufacturing:									
All establishments	([4])	([4])	4.9	5.9	[8] 6.0	3.7	4.2	5.3	6.0
Union establishments	([4])	([4])	4.8	6.6	[8] 6.5	3.6	4.1	5.5	6.5
Nonunion establishments	([4])	([4])	5.0	5.0	[8] 5.0	4.0	4.4	5.0	5.0

[1] Data are preliminary.
[2] Except for packages, data are for contracts affecting 1,000 workers or more. Packages cost estimates are limited to settlements affecting 5,000 workers or more (10,000 in 1965). The package cost of a few settlements, affecting relatively few workers, has not been determined.
[3] Based on estimated increases in hourly costs at end of contract period and assumes equal spacing of wage and benefit changes over life of contract.
[4] Data not available.
[5] Revised.
[6] Takes account of actual effective dates of wage and benefit changes.
[7] Based on settlements affecting 10,000 workers or more.
[8] First 9 months' data not available; data apply to first 6 months of 1969.

Note: Possible increases in wages resulting from cost-of-living escalator adjustments were omitted.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

It should be emphasized that these money wage advances do not necessarily mean anywhere near comparable gains in real income. It might be noted that real average weekly earnings (that is, money income adjusted for the rise in consumer prices) in manufacturing have shown little change in the past year.

Ordinarily some substantial portion of the increase in money wages is offset by rising productivity, so that unit labor costs do not rise as fast as wages. This has not happened so far in 1969. Output per man-hour in the private nonfarm sector of the economy declined in the first three quarters of the year, so that unit costs rose more sharply than wage rates, thus adding to the upward pressures on prices.

An ominous feature of this lowering of productivity is that such an occurrence has been, in the past, frequently associated with the upper turning point of the business cycle just before a recession. There need be no hard-and-fast correlation of this sort involved in the current situation, but it is obviously a warning that we must be careful in shaping policies of restraint lest we bring on a recession without halting the inflation.

To sum up the economic picture, prices are continuing to rise rapidly and will return to stability only slowly—perhaps over another year or more—while at the same time unemployment has been rising slowly since early 1969. Almost all experts expect some further rise in unemployment even if a recession is avoided. Some believe a recession is now unavoidable. We cannot agree.[3]

This Nation can and must achieve both full employment and a stable price level in the long run, though there will be problems while present imbalances are worked out of the economy. We cannot afford to pursue a game of "trade off" between rates of unemployment and inflation.

The damage done by unemployment is obvious: insecurity, loss of income, want, worry, loss of self-respect. The damage done by inflation is more insidious, hidden in complex price-wage-asset relationships, but is not less costly than that caused by unemployment. Indeed, inflation may be a greater danger. It robs the saver of the purchasing power he or she has put aside for future use, frustrating rational planning. It distorts financial markets and rewards financial speculators at the expense of producers, workers, and innovators. It deprives the aged of the value of their retirement incomes. Generally, inflation creates imbalances out of which grow recession and/or excess unemployment. In consequence, it can make the poor even more impoverished. Perhaps worst of all, it throws State and local government finance into complete disorder as costs skyrocket upward faster than the general price level and revenues lag behind.

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[3] Senator Miller believes that for over a year we have been faced with a choice between two evils: a depression if serious inflation and high interest rates are not stopped; or a recession (possibly "mild" and short-lived) from appropriate monetary and fiscal policies needed to combat inflation. He maintains that the excesses represented by the $25 billion budget deficit for fiscal 1968 simply cannot be countered by "painless economics."

We do not have to choose either inflation or unemployment in the long run. We can, by rational and stable economic policies, both public and private, steer a safe course between the Scylla of inflation and the Charybdis of unemployment. Anything less would amount to betrayal of the standards set in section 2 of the Employment Act over two decades ago.

We recognize, however, that there will continue to be some inflation and excess unemployment during the transition from the present unbalanced economy to a more sustainable mix of economic policies and actions. Thus in this interim period fiscal and monetary policies should be supplemented as indicated later in this report.

THE MIX OF FISCAL AND MONETARY POLICY

The combination of continually accelerating inflation and rising unemployment emphasizes once more the high price that must be paid for even temporary departures of fiscal and monetary policies from consistency with the requirements of full employment without inflation. The rapid deterioration in the budget between fiscal years 1965 and 1968 raised the deficit in the latter year to $25.2 billion at a time when unemployment was below 4 percent and produced the predictable result of a demand inflation. This is still spreading and propagating itself through the economy even though the budget has swung back the other way to a surplus of $3.1 billion in fiscal 1969 and a currently estimated surplus for fiscal 1970 of $5.9 billion. Unfortunately this devotion to fiscal rectitude may prove to be short lived for already the budget is in danger of swinging back from surplus toward deficit, as demonstrated below on page.

As if recent instability in fiscal policy was not bad enough, monetary policy has fluctuated even more, contributing to financial chaos at times and to an exceptionally rapid rise in interest rates to historical highs. Policy was excessively restrictive in 1966, excessively expansionary for a while in both 1967 and 1968, and moved back to restriction on an ever-increasing scale during 1969. There was virtually no increase in money supply during the past summer.

The committee again recommends most strongly greater stability and consistency in fiscal and monetary policies with the aim of producing significant surplus in the budget at high employment levels combined with a more stable rate of increase in the money supply of between 2 and 6 percent per year, running toward the upper end of this range in periods of inadequate demand and to the lower end of the range in periods of excess demand.

Budget Trends

The unified budget shifted from a deficit of $25.2 billion in fiscal 1968 to a surplus of $3.1 billion in 1969. This was the result of an increase in receipts of about $34 billion and a concomitant rise in outlays (including net lending) of about $6 billion. A large share of this shift can be attributed to the ceiling on expenditures and the income surtax which were incorporated in the Revenue and Expenditure Control Act of 1968.

For the fiscal year 1970 the budget totals were given to the Subcommittee on Fiscal Policy on September 7 by Robert P. Mayo, Director of the Bureau of the Budget, as follows:

	Billions
Receipts	$198.8
Outlays	192.9
Surplus	5.9

Thus, the surplus for the current fiscal year is estimated to be $2.8 billion higher than that actually realized for fiscal 1969. This results from an increase of receipts of approximately $11 billion and an increase of expenditures of $8.1 billion.[4]

The appearance of an increasingly restrictive budget policy given by these figures is deceptive, however. In the first place, the outcome for fiscal 1970 depends heavily on approval of various legislative proposals which are still before the Congress, and which may or may not become law. About $4 billion of the surplus, or two-thirds, hinges on the proposed changes in the tax law. There are numerous other contingencies on the expenditures side, including, for example, an assumption that postal rates will go up, effective January 1, 1970, by enough to provide about $0.4 billion in revenues in the second half of fiscal 1970. Since this is treated as an offset to expenditures in the budget for the Post Office, failure to enact this rate increase would raise expenditures by the same amount. It may further be noted that the tax bill has not yet become law, and the House and Senate versions of the Tax Reform Act of 1969 do not agree, particulary as to their revenue effects. It would be very easy, therefore, for the budget for the current fiscal year to shift down close to a bare balance.[5]

But the trend looks even more ominous if we look at prospects for fiscal 1971. On the income side of the budget, receipts are unlikely to increase by more than a very small amount compared to the estimated $11 billion increase between fiscal years 1969 and 1970 and the $34 billion between fiscal years 1968 and 1969. The proposed expiration of the surtax in two stages, half on December 31 and the other half on next June 30, will itself result in a drop of about $8.5 billion in receipts between fiscal 1970 and fiscal 1971. In addition, the tax reform and relief proposals presently before Congress seem likely to further reduce revenues on balance in calendar 1971 and later years. All told, the result is likely to be revenue losses sufficient to offset most, if not all, of the rise in receipts which usually results from economic growth.

On the expenditure side, outlays for a number of categories are likely to increase under existing law, including higher interest costs on the public debt, social security benefits, other retirement benefits, veterans' benefits, medicare and medicaid, housing commitments, and there will doubtless be increases in other programs amounting to billions of dollars. This is not just our opinion—it is the informed opinion of Budget Director Mayo, who added at our hearings:

> "* * * New initiatives already announced by our administration, including revenue sharing, the family assistance program, and social security benefit increases, will require several billion dollars in fiscal year 1971. Other desirable programs, even though

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[4] Senator Miller points out that the surpluses for fiscal years 1969 and 1970 depend on use of surplus funds in the trust accounts and that tax revenue will be needed sooner or later to pay back the trust funds; that by not so using the trust funds, there would actually be budget deficits of $7 billion for fiscal 1969 and $6.8 billion for 1970.

[5] Senator Miller notes that congressional action on the tax reform bill alone could result in a deficit.

more controllable, have powerful built-in pressures for expansion. And Federal pay increases comparable to those currently being received in private industry could add billions more."

How strong these upward pressures are likely to become is seen from the fact that inflation is adding between $10 and $15 billion per year to the eventual cost of running the Government. This is in addition to the upward pressures due to a growing population with its demands for rising benefits under such programs as social security, retirement, veterans' benefits, education, and welfare.

Thus, the trends in receipts and expenditures point toward a rapid shift over the next 2 years from the present modest surplus toward a deficit of unknown dimensions.

But we do not have to look ahead to fiscal year 1971 to detect this trend. If the budget is analyzed in terms of the national income accounts (the NIA budget) it can be seen that the trend is already moving in an expansionary direction. In the first half of calendar 1969, the NIA budget showed a surplus at seasonally adjusted rate of about $11 billion per year. According to the testimony of the Chairman of the Council of Economic Advisers, Dr. Paul W. McCracken, on October 23, if the budget works out as the administration proposes, the annual rate of surplus in the NIA accounts would be about $7 billion in the second half of calendar 1969 and about $3 billion in the first half of 1970.

Thus, within the present fiscal year, the budget will have shifted from restriction toward stimulus by about $8 billion, or from $11 billion per year surplus in the first half of calendar 1969 to $3 billion per year in the first half of calendar 1970. If expenditures run higher than the total to which the President seems determined to hold, or if pending tax legislation produces lower receipts, then, obviously, the shift would be even more violently expansionary. Chairman McCracken went on to say:

"If the tax requests are not granted we will slip into a deficit at the rate of at least $5 billion in the first half of 1970."

With the surtax due to expire on June 30 and an upward bump in expenditures developing at the beginning of the next fiscal year, particularly for a Federal pay raise to maintain comparability with the private sector, we face the prospect of beginning fiscal 1971 with an NIA budget deficit of substantial size.

We conclude therefore that—

The Congress and the administration in acting upon the budget in the weeks ahead should shape decisions so as to enlarge receipts and hold down the growth in expenditures aiming at a budget surplus larger than now estimated for fiscal 1970, achieving a high employment surplus of as much as $8 to $10 billion in each of the fiscal years 1970 and 1971. This can be done by a combination of the following:

1. Combing both military and nonmilitary programs to reduce Government expenditures for programs where costs are high relative to benefits. Reassessment of priorities

could result in further reductions in military spending and in such areas as space, the SST program, highway construction, and similar items that have no place in an austerity budget.[6] [7]

2. Where expenditures cannot be eliminated in the long run, attempts should be made to postpone less pressing expenditures to make room now for the social and human resource programs we vitally need to cushion the transition from inflation to stability.

3. The pending tax measures should be revised to eliminate loss of revenue.

Tax Reform

This committee for 15 years has been annually urging the Congress to reform the tax system in a manner calculated to produce a larger tax base, improve tax equity, and contribute to steady economic growth at full employment without inflation.

We are, therefore, delighted at the speed and thoroughness with which the tax-writing committees of the Congress have proceeded with tax reform legislation in the present session. Without taking a position on particular provisions, it is clear that the committees have moved aggressively to deal with a long list of items where reform has long been advocated. They have also attempted to improve tax equity in line with this committee's standing recommendation to eliminate the possibility of numerous individuals with high incomes avoiding paying their just share of support for Federal programs.

But as indicated above, we are disappointed at the stabilization implications of the present proposed package.

When this subcommittee, in May 1966, issued its report "Tax Changes for Shortrun Stabilization," it recommended the use of the percentage surtax as the one that could best meet the criteria for a shortrun stabilization tax. We did so, however, on the assumption that there would be many circumstances in which a tax change was needed quickly but for only a very brief and predictable period. We recommended that the surtax have a built-in time limit to insure that the device, when used, would be temporary and, to quote our report, "* * * to insure that they are not substituted for longer run tax changes of a more fundamental kind." Indeed, we pointed out that whenever there is general agreement on permanent reform of the tax structure that moves in the direction appropriate to the immediate shortrun stabilization problem, then this longrun reform should be put into effect at once and the surtax would not be needed. On the other hand, the report pointed out that—

> "This means that when fundamental tax reform is a desirable course to follow, but the design of this change has not been agreed upon, the rapid shortrun tax change would be of a temporary nature designed to promote economic stability for a period during which more permanent legislation could be enacted" (p. 6).

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[6] Senator Symington says "While strongly supporting efforts to reduce expenditures and the postponing of less pressing expenditures in favor of social and human resource programs, I do not support the specific recommendation for a reduction in funds for the SST programs."

[7] Senator Miller notes that the Administration and the appropriate committees of Congress are constantly making such "reassessment" on the basis of national security needs.

The recent use of the surtax has conformed to this principle in the sense that the period of the surtax's effectiveness has enabled Congress to develop permanent tax reform legislation. But it is most unfortunate that the tax reform act as now proposed will on net balance lose revenue instead of gaining it. In addition to the loss of revenue brought about by the tax reform bill, the expiration of the surtax will reduce Federal receipts by $11 to $12 billion per year at the very least.

It is disturbing that the proposed Tax Reform Act of 1969 does not conform to precepts for a stabilizing fiscal policy in the present circumstances. We urge reconsideration of the tax reductions incorporated in this proposed legislation.[8]

Whether one views tax reform from the vantage point of the House bill or the Senate proposals, by 1975 the net loss of revenue would be in the order of magnitude of about $3.5 billion estimated at present levels of prices and incomes. In the probable event that the economy continues to grow, and that inflation slows gradually, we could easily find ourselves losing double this amount, or $7 billion per year by 1975. The loss in revenue in some years between now and 1975 could be large since the proposed revenue-gaining provisions go into effect quite gradually. It seems to this committee that programing tax reductions before we have made sure that expenditures are under control, that we have conquered inflation, and that we face a period of more stable and predictable costs for Government programs, runs a grave risk of pushing the budget into a full employment deficit. This would be grossly inflationary, as recent experience has so dramatically proven.

We cannot conceive of a monetary policy that this economy could tolerate and which would produce price stability in the face of any such trend in the budget. Therefore, we recommend—

That present revenue-losing provisions either be removed from the tax reform legislation with a commitment to reconsider them later when the budget outlook warrants, or at the very least that they be reduced, or revenue-gaining provisions added, so that the bill neither gains nor loses revenue under foreseeable conditions. It would be preferable to gain net revenue under the bill.[9] [10]

Defense Spending and Fiscal Policy

Violent fluctuations in defense spending and failures to coordinate these with other aspects of fiscal policy have been among the prime sources of economic instability in the United States throughout the more than two decades that have passed since the Congress enacted the Employment Act of 1946. This, despite the injunction of the act

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[8] Senator Javits states that while the rate reductions proposed in the House bill and the Senate version thereof bear reconsideration, he does not believe that the reform provisions of these bills—including the low income allowance—on balance have serious revenue effects. Thus he does not believe these reform provisions need reconsideration for their revenue effects.

[9] Senator Proxmire states "I disagree with any implication opposing expiration of surtax and reduction of general taxes. The desirable reduction in military spending, space, and public works will permit a modest reduction in taxes consistent with a budget surplus."

[10] Senator Javits: See footnote 8.

in section 2, that the Government "* * * coordinate and utilize all its plans, functions, and resources" for carrying out the objectives outlined in that section of the act. It is disappointing that despite repeated warnings of the dangers of such a course we still find a lack of appropriate planning and coordination in the present circumstances.[11]

This committee called attention to the effect on economic policy of a drastic underestimate of Vietnam spending in fiscal year 1967. Indeed, actual spending rose by about double the original estimate. Earlier in 1966 this subcommittee, in reviewing policies for shortrun stabilization, had recommended better information and forecasts quarterly of budget information, particularly of the full employment surplus. In the committee's report in 1962 on "The Federal Budget as an Economic Document," attention was called to the need for improved and more timely information on the budget as well as for more detailed and reliable projections.

Despite the explicit requirements of the Employment Act and repeated warnings from this committee, we are still getting confusing and inadequate information on the impact of the defense programs on the budget. During our hearing, Secretary Laird was reported in the press as having estimated that Vietnam spending by mid-1970 will have fallen to an annual rate of about $17 billion from a currently estimated level of about $25 billion. Yet, when Chairman McCracken, of the Council, was questioned, it appeared that total defense spending in the second quarter of 1970 on a seasonally adjusted annual rate basis would still be $75 billion per year, compared with $78.5 billion per year in the second quarter of 1969.

What is the most probable quarterly pattern of defense spending over the next year or more? How will changes in such expenditures be coordinated with spending under other programs as well as with proposed tax changes? Will the budget be in surplus or deficit by the second half of calendar 1970? What industries, regions, and sectors of the labor force will be affected by changes in defense spending? What changes in prices are allowed for in the budget estimates over future quarters? How much of Vietnam spending cuts are being replaced in the budget by increases in non-Vietnam defense programs? Do defense statistics have to be confusing? These and other questions are asked, but clear rational answers are lacking.

Rational fiscal policy is impossible and economic stability cannot be achieved unless coordination of defense programs with other Government activities is improved and factual reporting of defense actions and plans is forced to become completely unambiguous. We strongly recommend immediate Presidential action toward these objectives.

Monetary Policy

If the budget is allowed to slip progressively toward lower surpluses and then increasing deficits as present budget trends portend, then total money demand will continue to be excessive, with the result that inflationary expectations will continue to generate overfull credit

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[11] Senator Miller notes that wartime activities which have to take into account unknown enemy action make it impossible to make as firm plans as we would like. However, the new Administration has adopted a changed procedure of direct scrutiny of the defense budget by the Budget Director.

demands. Thus, the present tightness in monetary markets would continue under such circumstances even if the monetary authorities shift to a more expansionary posture. Obviously, an inflationary monetary policy cannot be permitted. On the other hand, the Nation's economy cannot tolerate a further spiraling of already excessive interest rates and the accompanying financial distortions. We cannot long endure a policy that produces almost no increase in the money supply. The housing industry and the budgets of State and local governments simply cannot function effectively with present tightness—indeed near chaos—maintained in financial markets. As noted elsewhere, this situation cannot be relieved without adherence to a sound fiscal policy.

When total money demands are rising sharply, a monetary policy that accommodates them in the face of limited supplies means that prices will rise. When monetary policy aims at restricting these demands, its effectiveness in containing inflationary pressures without adverse effects on output and employment depends on the extent to which unit costs can be held in line. Should wage and other costs continue to rise while the supply of money is restricted, the inevitable result is that output and employment will be adversely affected.[12] This is the situation we are in today. It is, therefore, extremely important to exercise care in monetary restraint. This committee has for some time advocated for inflationary periods such as we are now witnessing a policy of containing monetary expansion to a rather steady rate of around 2 percent. The evidence presented in our recent hearings strongly suggests that the monetary authorities moved to ever-increasing tightness in monetary policy during 1969 to date, to a point where almost no increase in money has been permitted since June.

One witness, Prof. David Meiselman, of Macalester College, commenting on the Joint Economic Committee's monetary rule and on the monetary authorities departures from it, had this to say:

> "In retrospect, the Joint Economic Committee's monetary rule would have resulted in a significantly lower rate of inflation in recent years than we have had. It also would have avoided the mini-recession of 1966–1967 and its associated 'crunch,' as well as a major share of the subsequent rapid rise in interest rates. The Joint Economic Committee's monetary rule also would have prevented the Fed from shifting from an excessively restrictive policy in 1966 to an excessively expansionary policy in 1967 and in 1968, and now back to the excessively restrictive policy of the past 6 months. *Since May there has been essentially no growth in the money supply. In my judgment, if the Federal Reserve does not soon reverse itself and increase the stock of money at the rate of at least 2 to 3 percent per year we will have a serious recession in 1970.* Monetary growth in the 2- to 3-percent range is typically consistent with longrun growth at stable prices.
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> "Because of the lags in the effects of changes in the stock of money, we must not wait until the current monetary restriction has important and visible effects on aggregate demand and employment to shift to the easier policy which would have been

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[12] Senator Proxmire notes: "Overall output would be no further restricted by a tight monetary policy than by tight fiscal policy, but housing is devastated by excessive reliance on monetary policy because of its sensitivity to tight credit and high interest rates."

consistent with longrun stability. It will then be too late. To reverse monetary policy at that time would mean that we will again have to wait until the lag of effect of that change of policy takes hold. In the interim, unemployment will surely rise.

"To avoid stop-go policies which themselves have been an independent source of economic instability requires taking a gradual approach in order to slow down the inflation without causing a serious rise in unemployment. Stepping too hard on the monetary brakes in 1969 will not eliminate from the record the poor monetary management of 1967 and 1968, nor will it undo or redress its consequences."

Needless to say, we agree in general with these comments; the recent extremely restrictive monetary policy should be relaxed and the money supply should be allowed to expand slowly given the restraint embodied in a maintained sizable Federal surplus recommended elsewhere in this report. At best, a restrictive monetary policy bears unevenly and inequitably on housing and on State and local governments; the excessively restrictive policy of the past 4 or 5 months threatens to cause further drastic cutbacks in needed spending in such sectors.

We conclude that the policy mix must be altered. As already indicated, fiscal policy must aim at a sustained high employment surplus so that the Federal Reserve can operate in a manner that permits the money supply to grow at a more tolerable rate consistent with full employment without inflation. Certainly this should be at least 2 per cent per year. Such a fiscal policy would also permit a more stable monetary policy, avoiding the excessive swings of recent years. To further improve monetary policy at high employment levels, we recommend that—

A program of selective credit restraints should be developed—perhaps on a voluntary basis—which would help avoid crippling increases in interest rates and distorted priorities in private spending. This program should include improvements in techniques to channel savings into residential mortgage markets to make housing less vulnerable and spread the overall impact of credit restraints more equitably through the private economy.[13]

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[13] Senator Proxmire says: "The Senate has passed and the House is now considering a Proxmire bill to provide voluntary credit controls as used effectively to hold down interest rates during a similar inflationary period in the Korean war."

SUPPLEMENTS TO AGGREGATE POLICY

Neither past experience nor current evidence demonstrates conclusively that a slowdown in the level of economic activity must be shortly followed by a reduction in the rate of price increase. At best, this process works only with a substantial timelag. Total reliance on an economic "slowdown" as a cure for inflation is a costly policy. Even if a recession can be avoided, and the historical record gives little grounds for confidence on this score, the costs of a slowdown, as measured by the rise in unemployment and by the sustained operation of the economy at a level below its potential, are very large.

In order to speed the restoration of greater price stability and to distribute the costs of readjustment more equitably, aggregate fiscal and monetary policy must be supplemented by vigorous efforts to improve the structural efficiency of the economy.

Wage-Price Policy

The wage and price decisions made by large unions and large corporations will not automatically be in the public interest. The forces of competition do not operate swiftly or precisely where the number of competitors is few.

Increasingly, business and labor base their pricing decisions on what they perceive to be the attitude and degree of tolerance of Government policymakers as well as on the actual economic conditions which confront them. Even if it were desirable for Government to adopt a "hands-off" policy with respect to wage and price decisions, this would no longer be possible. This influence of Government attitudes on private behavior has been illustrated during the past year. The early and well-publicized decision of the present administration to refrain from any attempt to influence business or labor decisions had in itself an influence, and an unfortunate influence, on business decisions. Business felt free to make additional price increases which might otherwise have been avoided.

The administration has now recognized that Government cannot be entirely neutral. The President has recently appealed to business and labor to act in the public interest. This committee supports that appeal and urges continued and more vigorous resort to this very appropriate exercise of Presidential power.[14]

The committee recognizes that the enforcement of specific wage-price guidelines based on productivity would be difficult in the present environment.

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[14] Senator Proxmire states: "The President's appeal was weak and meaningless. What good does it do simply to call on one and all to exercise restraint? The President should use his powerful office to cite by name corporations and unions that press for unjustified inflationary prices or wages and fight as did Presidents Kennedy and Johnson to roll them back."

As a longer term objective the committee continues to support the development of an effective, realistic, and definite set of wage-price guidelines. In the interim, until such explicit guidelines can be established, the very considerable persuasive powers of the Presidential office must be invoked to discourage unwarranted wage and price increases.[15]

Manpower Policy

Rising unemployment is an inevitable consequence of the "slow down" policy. Highest priority must, therefore, be given to policies which reduce the human costs of unemployment.

Unemployment insurance programs should be broadened in coverage, and the duration of benefits should be lengthened. Our ability to match jobseekers with job vacancies must be improved. The computerized job banks now being placed in operation are intended to meet this need. They are a promising innovation, but their adequacy remains to be evaluated.

Job training programs have a potential for absorbing some of those who would otherwise be unemployed. However, high unemployment levels will increase the difficulty of finding jobs for those completing training. If the success of job training is measured in terms of job placement, it is apt to be most successful in a high employment economy.

In the longer run, job training programs can do much to meet skill shortages and thereby increase the ability of the economy to combine high employment and price stability. For this reason, as well as for their very great benefit to the particular individuals whose earnings ability is increased, such programs should be continued and expanded.

Despite their longer run potential, however, job training programs are unlikely to have a massive aggregate economic impact in the immediate future. To imply otherwise could lead to disillusionment with what is basically a worthwhile and essential effort. It should not lead to a relaxation of efforts to correct other structural weaknesses in the economy.

While we heartily support expanded and improved job training efforts, it must be recognized that emphasis on job training does not remove the need for a vigorous attack on other structural weaknesses in the economy.

Construction Industry

The construction industry is currently plagued by instability, credit scarcity and by rapidly rising costs. None of these conditions can be tolerated if the Nation is serious concerning its goal of providing decent housing for all.

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[15] Senator Miller remains opposed to revival of wage-price guideposts as previously designed. He points out that the manner in which they were formulated and applied by the previous Administration has stripped the concept of any useful role at this time. There are simply too many differences among the various industries and within a single industry for uniform wage-price guideposts to be fair and workable.

The residential housing industry has now been hit by a fresh credit squeeze without having really recovered from the devastation of 1966. At no time since 1965 has the level of housing starts been really adequate. The stop-start pattern of construction imposed by changing credit conditions makes the development of a rational and efficient residential construction industry virtually impossible.

Monetary policy has been as effective as it has in slowing the economy only because we have tolerated wide swings in construction activity. This committee fully supports structural improvements in that mortgage market which will make housing less vulnerable to changing credit conditions. New overall strategies of economic restraint should be designed which will spread their costs more equitably throughout the economy.

If the Nation is to meet its housing goals, we must produce housing more efficiently and this improved efficiency must be reflected in lower construction costs. At present, middle-income as well as low-income families are increasingly being priced out of the market for decent housing. The problem is not primarily one of technology, but of removing artificial barriers to the employment of existing technology. The supply of construction labor must be increased. This can be done through speeding up of the training process and elimination of unnecessary training requirements as well as by drawing more labor from minority groups.

Even with an expanded construction labor force, onsite labor costs will be high. The need for onsite labor of the traditional sort can be reduced through the use of new building technology. Archaic local building codes presently constitute a great obstacle to more widespread employment of new technology.

Federal agency policies should provide incentives for localities to revise their building codes.

The Cost of Medical Care

The cost of medical care has risen very rapidly in recent years. To some extent this has been a reflection of improvements in the quality of care. The need to bring wages of hospital workers into line with workers in comparable occupations has also been a factor. The introduction of medicare and medicaid put expanded demands on health manpower and facilities to a degree not foreseen and this had a price impact.

These partial explanations of rising medical costs must not be allowed to mask the serious structural inefficiencies which exist in the health care industry and which will continue to cause excessive cost increases if they are not corrected.

Our supply of hospitals has adequate capacity, but the manner in which they are equipped and utilized is not satisfactory.[16] The inadequacy of outpatient facilities and the nature of hospital insurance programs combine to put people in hospitals who do not require hospital care. This problem has long been recognized, but it has not yet been fully corrected.

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[16] Senator Miller notes that there are many areas in the country with inadequate hospital capacity, which is why Congress continues to make appropriations under the Hill-Burton Act.

Our supply of medical personnel is not adequate. The extremely short supply of doctors can be more efficiently utilized by training more assisting personnel, who would relieve doctors of routine duties. This should be done, but it must not be supposed that this will be a substitute for training more doctors. Like the inefficient use of hospitals, the inadequate supply of medical training facilities is a problem which has long been recognized, but has not yet been corrected. Medical school capacity must be expanded, and more young people, including women, must be encouraged to become physicians.

The medicare and medicaid programs were bold new steps toward better health care for large segments of our population. It is not surprising that some administrative problems have emerged. Medicare and medicaid have probably received more than their share of the blame for rising medical costs. However, the inefficiencies in these programs must be corrected. In particular, more incentives to efficient hospital operation must be introduced into Government reimbursement formulas.

Food Prices

Rising food prices are a matter of particularly widespread public attention. Everyone must buy food, and food is normally purchased frequently and paid for in cash. In general, the rise in retail food prices over the past 3 years has been no greater than the average price rise for all other consumer items. There is no evidence of either gross inefficiency or large excess profits in the food processing and marketing industries. Farm income varies widely, but the average net income per farm and the average farmer's percenter turn on his investment is far from excessive.[17] Finally, food expenditures take only about one-sixth of the consumer's budget, less than that of any other developed nation.

The evidence suggests that the production, distribution, and marketing of food are handled efficiently, given the framework of Government policy within which this industry operates. It also suggests, however, that current Federal agricultural programs may operate in the best interests of neither farmer nor consumer. Greater reliance on the market mechanism to set agricultural prices might well be a more effective way of equating agricultural supply and demand. The resulting equilibrium would probably mean lower retail food prices.[18] Government support of farm income might still be required of a type which would do more to alleviate rural poverty, and at lower cost to the Government.

A thorough review and revision of Federal agricultural policies is needed. Full consideration must be given to the consumer interest in the price of food as well as to the producer's need for a decent income and a fair return on investment.

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[17] Senator Miller notes that in 1968, net farm income represented a 6 percent return on farm capital investment which meant that, as a group, farmers received nothing for their labor and managerial skill.

[18] Senator Miller believes that "more stable food prices" would result from such an equilibrium and that with only one-sixth of the consumer dollar going for food, lower food prices should not be expected.

Contribution of Imports to Price Stability

Foreign trade is a relatively small sector in the U.S. economy, but the effect of imports on domestic prices is proportionately much greater than the ratio of imports to GNP. In periods of excess demand, such as 1968, increased imports fill what would otherwise be severe shortages of particular items. In this way, situations in which producers could impose large and sudden price increases are avoided. Total merchandise imports rose 23 percent in 1968, and price increases would surely have been much greater if they had not done so.

Far too little study has been given to the way in which imports affect domestic prices of particular goods, but it is clear that import competition, or the threat of such competition, can have a substantial effect. Steel prices were lowered in 1968 in response to import competition. When that competition was reduced through the negotiation of voluntary quotas, steel prices rose again. Were there no quota system on beef imports, increased imports of beef might well have mitigated the sharp rise in beef prices last spring.[19]

The U.S. consumer benefits from a free trade policy. Quantitative restrictions on trade are detrimental to consumer welfare.[20] [21]

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[19] Senator Proxmire (Senator Miller concurring): "I disagree. Increased beef imports could have been disastrous for the American farmer. Appropriate domestic farm policies could solve this problem far better than to reduce the American farmers' beef market."

[20] Senator Symington states: "While recognizing the importance of a United States trade policy favorable to consumer welfare whenever possible, I would point out that such a trade policy should also take into consideration any measures which could be detrimental to industry in the United States."

[21] Senator Javits: "To better insure that the consumer interests are represented in government councils, a representative of the Office of Consumer Affairs should be authorized to participate fully in the established inter-agency committees which make the crucial decisions affecting the United States Government's trade (import) policies."

ANTIRECESSION CONTINGENCY PLANNING

We have noted earlier in this report that many economists feel that the inflationary maladjustments cannot be eliminated and longer run stability restored without an intervening period of recession. The administration witnesses, while acknowledging the possibility of recession, appear to believe that a recession can be avoided and that in any case they are ready to take firm and immediate action.

In view of imbalances accumulated over the last several years of inappropriate and unstable fiscal-monetary policies, the Committee doubts that price stability can be restored without some intervening rise in unemployment—indeed unemployment has been rising—but a full-blown recession can be avoided.

If a significant surplus is maintained in the high employment budget—about $8 to $10 billion—then we believe that monetary policy can be and should be relaxed substantially from the tightness of recent months. With a federal surplus supplying funds to the market instead of federal borrowing to finance a deficit, increased supplies of credit will become available; speculative demands for credit will decline; and hence homebuilding should revive. Thus, gradually a balanced economic growth can be restored without inflation and without a recession. We are quite aware, however, that we cannot expect perfection in economic policymaking, and that a recession might come about despite the wisest of policies. The first line of defense, quite obviously, is monetary policy, which can be quickly shifted toward an expansionary posture.[22] Indeed, available evidence suggests that the beginning of this shift ought to be underway, for unemployment has been rising since the beginning of this year.

The second line of defense is the automatics tabilizers. Any slackening of output and rise of unemployment will produce a rise in Government expenditures automatically, particularly for unemployment insurance payments, social security benefits, and welfare payments. On the revenue side, receipts would fall short of the levels that a more prosperous economy would generate. If past experience is any guide, such automatic shifts in the Federal budget should offset one-third to one-half of the decline in income brought about by a recession.

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[22] Senator Proxmire states: "I disagree. You can't push a string. Monetary policy may be moderated gradually. The quick shift is precisely what we should not do. We need a detailed, comprehensive program on the shelf to put Americans back to work—with specific jobs in the great areas of need in education, health, and so forth. Apparently no such program is available."

The economy shows evidence of having such a strong expansionist tendency that the above measures should be sufficient to prevent a recession from becoming deep or prolonged. But as we have recommended in the past, precautions should be taken by improving benefits under social security, and by revision of the unemployment insurance compensation system. Also, manpower training programs should be strengthened and expanded. These measures will reduce to a minimum the losses to workers from any rise in unemployment.

Inflation is still a danger. And if we are to achieve continuous full employment without secular inflation we shall have to follow a more stable and persistent policy mix. This is the most effective defense against recession.

SUPPLEMENTARY VIEWS OF SENATOR PERCY

I commend the preparation of such a well-written, well-documented analysis of the fiscal and monetary policies of the past 8 years, which have clearly led to the inflationary problems inherited by the present administration. If the report appears to criticize the present administration's policies, I assume such inferences were unintended since the present administration has only had a few short months to overcome the crisis which took years to create.

The strategy of the present Council of Economic Advisers, as outlined in page 2 of the report, accurately charts the course of the economic illness of recent years. Inflation is a virulent disease in its own right. Like a human patient, our economy when struck down by an illness such as inflation will frequently show signs of decline before the medicine of sound fiscal and monetary policies begin to work. Even after recovery begins, moreover, relapses frequently occur. What a good doctor does not permit, however, is for the patient to return to his old ways which brought on the illness or to partake of quack cures.

Inflation and other economic maladjustments were full blown by January 1969. The force of these conditions has inevitably continued on an upward trend for a number of months. The decline of savings rates to meet a tightened economic policy induced an upward swing of consumer spending and interest rates. In turn, this has placed pressure upon prices and wages. Industrial and business expansion policies cannot be reversed overnight. Not only will such plans continue to be carried out but the realities of our modern economy require that existing and forthcoming production facilities continue to produce at nearly level rates of output—thus contributing to the forces of inflation by piling up inventories over sales.

As effective fiscal and monetary controls begin to take hold, however, the forces of inflation begin to lose steam. This is exactly what is beginning to occur today.

Evidences of an economic slowdown are becoming more pronounced. The growth of personal consumption expenditures and fixed investment has been declining for three quarters. Gross national product rose in the last quarter it is true; however, if unwanted inventory accumulation, itself an indication that demand is slowing, is removed, final sales show a reduction from the second quarter rates. The increase in unemployment over the past few months, as painful as it is, also indicates that the economy is beginning to cool. Declines in industrial production in August, September, and October suggest that manufacturers are gearing down their production in line with an earlier slowdown in sales, and expectations of further declines. Finally, personal income has been rising at a less rapid rate, while State and local government outlays have tapered off.

These are indications, therefore, that the objective of restoring our economy to stability and sound growth will be achieved. The report at times mixes fears of depression with those of inflation. This creates some confusion as to the purpose, rationale, and direction of this

report. It seems clear, however, that a stable and rational economic policy does call for the steering clear of the rocks and shoals of economic disequilibrium. I believe the present Government policies are seeking to accomplish this purpose. Instead of launching a broadside against such policies, as this report seems to do, more could be accomplished if greater patience were shown in allowing the remedies to overcome the disease.

In this regard, as sensible physicians, let us avoid permitting the patient to return to his old ways. Until the forces of inflation are effectively worked out of the economy, we cannot afford an easing of tight budget controls and monetary restrictions. Similarly, we must not return to the days when almost total emphasis was placed on fiscal restraints. Admittedly, an overemphasis on monetary restraints as a cure-all also seems onesided and subject to question. What is needed, instead, is the application and support of balanced fiscal and monetary control. To recall nostalgically questionable policies of former days is quaint, but not too sophisticated or helpful.

The report appears to grasp at get-well-quick tonics of credit restraints and wage-price guidelines. These in my opinion are of unproven value.

Present policies are designed to slow down the forces of inflation. The imposition of arbitrary and artificial selective credit restraints, as recommended, could well hinder the return to a stable economy. The implementation of such restraints would not only promote disillusionment with current restrictive policies at a time when these policies are beginning to take hold, but they could well promote increased borrowing and spending in anticipation of future prohibitions.

The strict application of monetary policies has caused dislocations—even discrimination—in certain areas of our economy. This is particularly true in the housing sector. Instead of undermining our overall policy or of imposing questionable credit restraints, we should advocate the institution of specific actions to correct these abuses. These would include further improvements in the residential mortgage market and in the activities of the financial intermediaries who service this market. Assistance can also occur through the exercise of greater flexibility by HUD in raising the rates on Government-insured mortgages to levels competitive with other sources of money demand. Improved housing technology and training are also necessary. It should not be forgotten, moreover, that historically housing starts rise as inflation is dampened.

The wage-price guidelines, as originally conceived by the Council of Economic Advisers in 1962, were a useful educational device to indicate the road of noninflationary behavior when business and labor made significant wage and price decisions. Although the record is unclear, they may have been successful in reducing inflationary price and wage pressures during the period of substantial slack in the economy of the early 1960's. However, as large Government deficits superimposed on a booming economy produced undeniable inflationary pressures, the guidelines were forced arbitrarily on the private sector, often in areas where they were clearly not designed to apply, creating the illusion that the Government was working to reduce inflation. As was inevitable, both business and labor shattered the guidelines, and the concept lost its credibility, for a long time to come.

Our unfortunate experience with the wage-price guidelines leads me to believe that they should not be revived, as the subcommittee report recommends. We had better turn our energies to promoting a healthy environment of price stability and high employment through the Government's economic policies rather than create harmful distortions in the private economy.

As we begin to cure the ills of the economy and return to stable conditions, it is our hope that we can all profit from our previous errors. Let us not fall into a pattern of forgetting past mistakes and of not profiting from the lessons they have to offer.

CHARLES H. PERCY.

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