804

CURRENT ECONOMIC SITUATION AND OUTLOOK

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-FOURTH CONGRESS

SECOND SESSION

SEPTEMBER 22, 1976

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CURRENT ECONOMIC SITUATION AND OUTLOOK

WEDNESDAY, SEPTEMBER 22, 1976

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, D.C.

The committee met, pursuant to notice, at 10:15 a.m., in room 1202, Dirksen Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senator Humphrey.

Also present: Courtenay M. Slater, William A. Cox, L. Douglas Lee, Michael J. Runde, George D. Krumbhaar, Jr., M. Catherine Miller, Lou Krauthoff, Mark R. Policinski, G. Thomas Cator, Ralph L. Schlosstein, Charles H. Bradford, and Richard Boltuck, of the committee staff.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. Gentlemen, let me on behalf of the committee express our thanks to you for your cooperation today.

Mr. Brimmer, we have had you testify before us many times. We are most grateful for your presence here.

And we give special thanks to Mr. Grove of IBM Corp. and Mr. Hymans of the University of Michigan.

I hope you will be understanding of the situation in Congress. We are trying to wind up a number of our legislative measures. And most of my colleagues are either in what is called a conference committee now, or are feverishly trying to process a piece of legislation that local constituents are demanding action upon. This morning I thought it would be well for us to hear from three of our most distinguished citizens who have great competence in the field of commerce and economics, and to get their views on the economic situation and outlook.

It seems to me that we need to keep a sort of running account of developments in the economic scene. All too often in a period such as the one we are currently in, there is a tendency to either point with pride or view with alarm the economic situation. I thought maybe this morning we might get some perspective as to what has actually happened as you see it, and what you might expect to happen in the months that lie ahead. It is always very difficult to predict too far in advance. But it is an enjoyable exercise. If you are right, you can come back a year later and say, I told you, sir. If you are wrong you can say, well, events transpired over which I had no control, and there was no way that I could foresee it, and I hope you will be understanding. So you can't lose.

This morning the Joint Economic Committee is, as I have now indicated, meeting to take testimony on the economic outlook. We will be publishing a midyear economic review looking at the developments up through the first three quarters. I guess midyear is the wrong way to put it, but it is a periodic review. Before that review is finalized, I thought it would be appropriate that we hear from additional witnesses.

For our audience and those who may not be familiar with the calendar of our witnesses, Mr. Andrew Brimmer is a former member of the Federal Reserve Board, and former professor at Harvard University.

As a Midwesterner I can forgive you for that, Mr. Brimmer.

Now he is president of his own firm here in Washington, D.C.

Mr. David Grove is the vice president and chief economist of one of our great companies, International Business Machines.

Mr. Saul Hymans is professor of economics at the University of Michigan.

You will notice, Mr. Brimmer, that I balanced you off with somebody from the Big Ten in the Midwest.

This is the time of the year in which I am also parochial.

When this committee held its midyear hearing in June, many of our witnesses, both from the administration and the private sectors, gave us a fairly rosy view of the economic situation. Output had grown strongly in the first quarter, and unemployment had been coming down faster than had been generally expected. In addition, the inflation rate in the first quarter had dropped to about 3 percent. We knew at that time that some of this improvement was of a temporary nature, but nonetheless most of our witnesses seemed pretty well satisfied with the progress of economic recovery.

Now, that was just 3 months ago. Perceptions have shifted quite a bit in those 3 months. Some of the good news seems to have evaporated. In these 3 months we have seen the following development: The unemployment rate has risen from 7.3 percent in May to 7.9 percent in August.

The growth of industrial production has slowed to about one-half its pace during the first year of the recovery.

Retail sales flattened out in dollar terms, meaning an actual drop in real terms, although hopefully that trend has been reversed in August. I notice that the most recent reports seem to so indicate.

Total new construction spending, which is a very important indicator, has remained at a depressed level, with July of this year actually below 1 year earlier levels in real terms.

Business plans for new investment spending have failed to pick up as had been expected. I think it is fair to say that they are up some. Those plans indicate some better investment, but not nearly what has been anticipated.

The rate of price increases picked up, with wholesale industrial prices rising at nearly an 8 percent annual rate, during the most recent 3 months.

The CPI is increasing at an annual rate of 6 percent.

All this adds up to a less than happy picture, I wouldn't say gloomy, but a less than happy picture.

I am not by nature, as you know, a gloomy person, except occasionally on a morning such as this. I do want to point out some of the bright spots. Housing starts and building permits have recently begun to pick up. Preliminary data show quite a surge of retail sales in August. Orders for nondefense capital goods have recently risen strongly. These bits and pieces of good news have led to the administration's proclaiming that the pause in the economy is over, and that recovery is reaccelerating.

I hope the administration is correct. But in all honesty, I sometimes have the feeling that these administration spokesmen are grasping at straws. We need to face up to the fact that the recovery may have fallen off the strong track which is needed to bring this high rate of unemployment down. We need to understand that action may be needed to get us going again.

Everybody has his bias. And I have mine. What is happening that worries me is a kind of conditioning process for the acceptance of a rather high rate of unemployment as the price that we must pay for price stability.

An argument has been made for this. I notice that some of the international organizations like the OECD and others have cautioned against too rapid an expansion of the economy of the respective member countries in their efforts to overcome high unemployment.

I wish that I could feel more comfortable with this kind of talk. But I don't, and I will be frank about it. I think there is something amiss in the economic field among economists and bankers, financiers and business people, and political people when we are willing to accommodate ourselves to the misery of others in order to have a degree of comfort for ourselves. What we are really saying is that price stability is the extension of the misery to a rather substantial minority.

I have had a chance to look over your testimony, Mr. Brimmer, and I will be interested as you explain it, because it is very moving testimony in terms of what is happening to unemployment among certain groups in our society.

I realize that to attack unemployment is not an easy assignment. But what worries me is not so much that it is a difficult assignment as it is that we are being somewhat conditioned by a host of forces, knowingly and unknowingly, directly and indirectly, that it is a whole lot better to have high unemployment and low inflation than it is to have full employment and possibly even a little inflation. There are those of us who believe—and I am one of them—that you can have, reasonably, full employment and price stability. I believe that is possible. I believe that if it isn't possible, then something ought to be done with the economy to make it possible. That is why I would like to start the morning off by saying I do not accept the proposition that the economic system that we adhere to and support must compel an ever-rising degree of misery and deprivation on the part of an increasing minority in order to provide comfort for a majority. I don't believe that makes much sense. And quite frankly, I am not at all sure that the majority has all that comfort, because I have just been reading what is the indebtedness of the majority—the debts that are owed by them. When I think of the financing of that debt. One of these days I want somebody to tell me why it is that everything else is supposed to be held down but the rent on money is supposed to go up. Why is it that the Government gets concerned about wage increases, but never seems to shed a tear on what

I call rent increases on money? And that is all that interest is. Interest is nothing but a rent on money. The very people who are worried about the fact that a farmer may get another 2 cents a pound for his hogs are the very same people who say: "Well, you know, it is too bad that interest rates went up, but that is the way the market system works." The President will slam an embargo on wheat to keep down the price of wheat, but he doesn't do anything about the interest rates.

Now, I am a populist from the Midwest. I don't believe that money is a special breed of commodity that ought to be treated separately and distinctly from the rest of the commodities. If you are going to demand that there be less inflation on other goods, then I think you ought to demand that there be less inflation on money. And how in the name of commonsense anybody is going to build a house with 9-percent mortgage money is beyond me. I want the wizard to explain that for me.

I said something about housing starts here this morning. Again, I want to say that I wish that everybody who contemplated housing starts would do all their statistical evaluation from the nice, warm climate of Minnesota starting this fall. How are you going to build many houses in my part of the country in November, December, January, February, and March? You start building construction in my part of the country in April. And your season runs from April until November. And the rest of it, just forget it. Once in awhile you get lucky, you have a warm winter. And you call that luck. That is what it really boils down to.

Having listened to the Humphrey sermonette this morning, I am prepared now for the main service. We will take up the collection a little later. But I thought you ought to know some of my concerns. I have been chairman of this committee for 2 years. I want to tell you, my views have become more hardened instead of softened. I thought that possibly after sitting here listening for 2 years to what the best brains that the country had to offer that I would find out that I was wrong. But maybe it is just that I am a stubborn person. I find out that I am more right than ever. What I do find out is that as some people become better off, they become much more convinced that they don't have to help other people be better off. They are less worried. There was a time when we had 12-percent inflation around here, and this table would be full of witnesses up here, and this room would be jampacked. We had nearly a 9-percent unemployment rate. You would have been surprised at the amount of charity and compassion that ran through the entire group, we have got to do something about inflation and we have got to do something about unemployment, they said. Now, the corporate profits are getting way up, the dividends are good, and the stock market looks much better, and the boys who had the cash in the beginning are getting more of it. The banks have been bailed out by the Federal Reserve System, which is the first big bailout job that took place in this Government before anybody got on the disaster relief program.

I wish the Department of Agriculture was as attentive to the disaster conditions of drought in my part of the country as the Federal Reserve System was to the banks of New York. It would have been beautiful out there, we wouldn't care whether God made it rain or not, we would just have the Government make it rain. That is what they did up here a couple of years ago. But when the conditions got a little better, it is sort of like that old story that as long as you are on the deathbed you are willing to look up at your doctor and follow his instructions and love the good old doctor and do everything he says, and repent for your sins. But the minute you start to feel the process of healing you pick up the crutch and hit the old doc over the head and go right back to the bottle.

I think that that is about where we are right now. The folks have been on the jug a little. They don't like the doctor much and they are feeling pretty good. Of course there are only about 25 million folks out there that are living in abject poverty and 7½ million people with no jobs, and 40 to 50 percent of our black youth in the city ghettos that are being left to rot and die, and end up as drug addicts, and alcoholics, and criminals. And those little things are just taking place.

But in the meantime, why, the reports in the Wall Street Journal are good. I have been reading the financial pages every week; they look good for most folks. But this man believes that the moral judgment of a society is not only what it does for its majority, but how it treats its minority. With that we start this hearing.

Mr. Brimmer, lead off, brave soul.

STATEMENT OF ANDREW F. BRIMMER, PRESIDENT, BRIMMER & CO., INC.

Mr. Brimmer. Thank you very much, Mr. Chairman. I always enjoy accepting an invitation to appear before this committee.

I have a prepared statement which, with your permission, I would like to ask be included in the record in its entirety. I will not attempt to read it.

Chairman Humphrey. Yes.

By the way, I want to thank you for your prepared statement. I did read it this morning, and it is a very excellent prepared statement. And it will be all printed in the record.

Mr. Brimmer. Thank you very much, Mr. Chairman.

The prepared statement is basically a reiteration of some views and approaches to key issues of the national economic policy that I have expressed or undertaken before.

However, in the last few months, I have been spending—in my new capacity—a great deal of time in corporate board meetings and speaking with commercial bank officials. I would like to draw on that experience to look behind the statistics presented in the prepared statement.

I have been particularly concerned with the persistence of exceptionally high levels of unemployment, and above all, the differential impact of unemployment on particular groups in the society.

I have gone to some length in this prepared statement to sketch out the demographic characteristics of this unemployment. And I would like very much, Mr. Chairman, if during the questioning-and-answer period I might have a chance to concentrate on that a little more.

Chairman Humphrey. Yes. You have given us more detail on this than anything we have received in the past, and it is very helpful.

Mr. Brimmer. Thank you.

Rather than pursuing that, Mr. Chairman, let me then share with the committee the kinds of impressions that I am getting as I travel about this country and vote on budgets and capital spending plans in the corporate boards on which I sit, and counsel with financial institutions in the conduct of their business. Drawing on that experience, this is the impression I get.

The expansion is continuing, but it has definitely slowed down. Moreover, while architects are at work and engineers are at work on the planning of capital spending, we should not expect a major boom in capital spending in the next few months, nor in the first half of 1977. I want to emphasize that—because capital spending has been one of the main hopes on which the administration and so many observers of economic trends in this country are placing a great deal of weight.

We will have an expansion of capital. But capital budgets are growing much more slowly than would be required if we are to create the kind of thrust from the private sector that the economy needs. I will come back to that later.

It looks as though sales are running 10 to 15 percent below the plans and projections adopted as recently as the spring of 1976. I want to emphasize that. Within the year, the shortfall between projected sales and actual sales is in the order of 10 to 15 percent.

It also appears, Mr. Chairman, that the expansion in retail sales in August may have been a temporary upspurt which might not continue through September. The early weeks of September suggest that sales in the major department stores around the country are much more sluggish than many retailers expected.

So the consumer appears to be cautious. There appears to be little prospect of a sharp reduction in consumer savings and, therefore, an additional spurt of spending.

Nevertheless, there is no reason to expect a relapse into recession. I want to stress that. We have expansion. My point is that it is not likely to be vigorous enough, with the present configuration of policies, to assure that real gross national product expands in the neighborhood of 6 percent or better. We are not likely to have that.

Chairman HUMPHREY. Is that what you think is needed?

Mr. BRIMMER. I do think we need to aim for a real growth rate over the next year or so of at least 6 percent.

Chairman HUMPHREY. I notice that you had in your prepared statement somewhere that those growth rates were on a descending scale on your projection for 1977 to 1978.

Mr. BRIMMER. That is right. You will notice that I said over the next year.

Chairman HUMPHREY. Yes.

Mr. BRIMMER. It looks as though—if the present configuration of national policy remains in place—the growth rates over the next few years might descend steadily along the following lines. And I will not bore the committee with detail, but just to stress it very quickly, we might end up in 1976 with a growth in real gross national product of just over 6 percent, between 6 and 6½ percent. But in 1977, reflecting the kind of contours and underpinnings I have described, we may end up with a growth rate in the neighborhood of 5½ percent. And then, in 1978, it may be as low as 3½ percent. I rely heavily on the forecasts of the Data Resources Corp. I do not do any independent forecasts. But I note that other forecasters are suggesting a similar kind of profile.

I repeat, we do need to have a reassessment of national economic policy, and I suggest that we look at it along the lines suggested in my prepared statement.

Before I start on this, I would like to address myself to the question of monetary policy, which I specifically do not do in the prepared statement, mainly because the prepared statement is long enough. I wanted to emphasize it, in addition.

As I read the record of the behavior of the national economy, I assume that the Federal Reserve Open Market Committee, in its meeting yesterday, read the evidence the same as I have read it, and if they did not adjust their near-term policy objectives, I would be surprised. For example, I would assume that the target for the Federal funds rate, which is the operative target that they use on a day-to-day basis, has been in the area of about 5¼ percent—within a range of 5 and 5½ percent. I would assume that the midpoint was scaled down somewhat. Given the demand for money by corporations especially, such a slight downward move in Federal funds target would have been justified. On the other hand, given the kind of evidence on inflation you are seeing, I would not be surprised that the Federal Reserve has concluded that it should not shift entirely to greater stimulation without regard to the long-term implications of such moves for the rate of inflation. So I would have expected them to have been cautious, and I would have expected them to make a slight downward adjustment, in the old language, a slight easing, but not very much. I think they would have wanted to wait and see.

Chairman HUMPHREY. You are speaking of the discount rate, particularly?

Mr. BRIMMER. I am talking now, Mr. Chairman, about the Federal funds rate.

Chairman HUMPHREY. That is the rate that the banks borrow from the Reserve?

Mr. BRIMMER. No; that is the rate banks pay when they borrow from each other, in order to build up their reserves at the Federal Reserve bank. The discount rate——

Chairman HUMPHREY. Your view is that the purpose of that is to ease credit?

Mr. BRIMMER. The purpose of such an adjustment, if it were made, would be to make funds somewhat more readily available to the banking system, because to sustain such a lower Federal funds rate, the Federal Reserve would have had to seek a somewhat faster expansion in bank reserves.

Chairman HUMPHREY. I get you.

Mr. BRIMMER. But I repeat, Mr. Chairman, I would have also expected the Federal Reserve to have been cautious in such a move in the face of some quickening in housing expenditures, typified by housing starts. With some projected increase in plant equipment spending, the Federal Reserve would have to anticipate that there would be some added momentum in the economy in the months ahead. So it is a balanced proposition. But in the near term, I would have expected them to have eased off somewhat.

I will come back to this, Mr. Chairman, at a later point if you wish. Thank you very much.

Chairman HUMPHREY. Thank you very much.

[The prepared statement of Mr. Brimmer follows:]

Prepared Statement of Andrew F. Brimmer*

Prospects for Output, Prices and Employment

THE TASKS OF NATIONAL ECONOMIC POLICY

I am pleased to respond to the invitation from the Joint Economic Committee to present my ". . . overall evaluation of the growth prospects for the remainder of this year and for 1977. . . ." In presenting my views on the outlook, I want to give particular attention to the outlook for jobs. In recent weeks we have heard a great deal about the "abnormal" expansion in the participation of women in the labor force as a main cause of the noticeable rise in unemployment in recent months. I am personally disturbed by this emphasis. Although women have historically had less permanent attachment than men to the labor market, an increasing proportion of the female population is committed to careers. Consequently, we will have to face squarely the question of whether the nation's economy will be able to accommodate this new mass of job-seekers—most of whom seem to prefer payrolls to welfare roles.

In preparing to appear before this Committee, I have taken a close look at the near-term job prospects, and the picture I see is far from encouraging.

Before turning to a discussion of the results of this analysis, a brief summary can be presented here:

The nation's economy is well along in its recovery from the 1974–75 recession, but the pace of expansion has slowed noticeably. The near-term outlook is for a further slackening in activity in 1977, and we face a "growth recession" in 1978. Real gross national product (GNP—after allowing for price changes) might rise by 6.3 per cent in 1976; 5.3 per cent in 1977, and 3.5 per cent in 1978.

The pace of inflation has improved greatly since double-digit rates were being recorded in 1974. However, the core rate of inflation remains in the range of 5–6 per cent—which is still high by historical standards. Moreover, the basic rate of inflation is not likely to decline very much in the near future.

The persistently high unemployment rate (at 7.9 per cent in August) remains one of the most difficult national economic problems. But the rate for blacks (at 13.6 per cent) is ever more distressing. The white labor force rate stood at 7.1 per cent in August. So far, the recovery from the 1973–75 recession has benefitted blacks to a much smaller extent than has been the case with whites.

In the near-term, there appears to be little prospect of a boom in the nation's economy. Housing and construction are particularly depressed. Despite the recent pick-up in starts (especially multi-family units) home building is likely to remain depressed for many months.

Looking ahead over the next four years, we need a greatly stepped-up national effort to achieve full employment. We should aim for an unemployment rate between 4–4½ per cent by 1980. The key stone of this policy should be a sustained annual rate of growth in real GNP in the range of 5–6 per cent.

But we must also remain alert to the dangers of rekindling excessively high rates of inflation—which too much reliance on aggregate monetary and fiscal stimulus would produce. Instead, we need to put more stress on breaking supply bottlenecks and specially-targeted manpower programs.

Fundamentally, we must rely on the private sector to create the needed jobs—although more public service jobs can also be helpful—especially to young people who now suffer permanently from depression-level rates of unemployment.

If the present configuration of national economic policies remains in place over the next four years, this nation is not likely to make any meaningful progress in closing the gaps between blacks and whites in the nation's labor market. I assume that we will recognize the real cost of this waste of human resources—and will act to correct the situation.

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*Dr. Brimmer is President of Brimmer & Company, Inc., a Washington, D.C.-based economic and financial consulting firm. From March 1966, through August 1974, he was a member of the Board of Governors of the Federal Reserve Board.

RECENT TRENDS IN THE NATIONAL ECONOMY

Real GNP rose at a seasonally adjusted annual rate of 4.5 per cent in the second quarter of this year. (See Table 1, attached). This represented a significant moderation in the pace of economic expansion compared with the 9.2 per cent rate of growth recorded during the January–March period. Some easing off had been expected, but the actual outcome was a surprise.

So far in 1976, consumers have been the mainspring of the economy. This is especially true of the strong rise in outlays for new cars. In contrast, business spending on plant and equipment has been particularly sluggish. Housing starts have risen only moderately. Spending by the public sector (including Federal as well as state and local governments) has not been a major source of strength for the national economy.

As the fall begins, the general expectation is for continued expansion through the remainder of the year. However, there is little prospect of a dramatic quickening in economic activity. For example, Data Resources, INC. (DRI), whose projections I follow most closely, is forecasting real GNP to rise at an annual rate of 4.3 per cent and 4.6 per cent, respectively, in the third and fourth quarters of 1976. The unemployment rate, which averaged 7.4 per cent in the second quarter, is forecast to rise to an average of 7.5 per cent in the July–September period and to decline to about 7.3 per cent in the closing months of the year.

The overall pace of inflation (as measured by the GNP deflator—the most broadly-based of the price indexes) ran around 5.2 per cent in the second quarter of this year. During the same period, the consumer price index (CPI) advanced at an annual rate of 4.8 per cent. Both of these measures represent a significant improvement compared with the double-digit rates which prevailed in 1974. For instance, both the GNP deflator and CPI rose at an average rate of about 12 per cent in the last half of 1974.

In general, economic recovery has lifted the level of economic activity well above the recession lows. For example, in the second quarter of this year, real GNP (at an annual rate of $1,260 billion) was 8.8 per cent above that recorded during the recession trough in the first quarter of 1975. During the recovery period, industrial production has risen by 19 per cent (to 131.4, where 1967=100). The national unemployment rate (which averaged 8.7 per cent in the second quarter of 1975) eased off to an average of 7.4 per cent in the same period of this year. However, as the pace of economic activity has slowed, the unemployment rate has risen in the last few months and stood at 7.9 per cent in August.

JOB PATTERNS IN BLACK AND WHITE

During the 1974–75 recession and subsequent recovery, the job experience of blacks differed significantly compared with that of their white counterparts. In general, blacks had to bear a disproportionate share of the burden of increased unemployment during the recession, and they have benefitted proportionately less from the subsequent recovery.

In August of this year, there were 11.0 million blacks[1] in the labor force. (Table 2.) Blacks were holding 9.5 million jobs, and 1.5 million were unemployed or looking for work. In the same month, 95.5 million people were in the civilian labor force. Total employment amounted to 88.0 million, and 7.5 million workers were idle. So, in August, blacks accounted for 11.5 per cent of the civilian labor force; 10.8 per cent of total employment, and 19.9 per cent of all unemployed persons.

As mentioned above, the adverse impact of the 1974–75 recession was especially marked among blacks. For example, from September, 1974, through April, 1975—the worst phase of the recession—the total civilian labor force continued to expand. In sharp contrast, the black labor force declined somewhat—with the declines being registered mainly among adult males and teen-

[1] Most of the statistics relating to blacks used in this discussion refer to "Negroes and other races." Blacks constitute about 92 percent of the persons in this statistical category used by the U.S. Bureau of the Census.

agers of both sexes. During the same period, blacks lost their jobs at almost double the rate experienced by whites. For instance, in September, 1974, blacks held 10.9 per cent of the total jobs. But during the succeeding seven months, they accounted for 21.7 per cent of the recession-induced decline in employment. About 17.5 per cent of the climb in total joblessness over this period was borne by the black community.

So far in the recovery, blacks have not participated in the job rebound as fully as have whites. For example, between March, 1975, and August, 1976, the total civilian labor force rose by 3.9 per cent; the corresponding figures for blacks and whites were 6.5 per cent and 3.6 per cent, respectively. Over the same period, total employment expanded by 4.6 per cent; black employment climbed by 6.8 per cent, and jobs held by whites rose by 4.3 per cent. However, in actual numbers, the growth of the black labor force (by 673 thousand) outstripped the rise in black employment (602 thousand). Consequently, over the 17-month period, the number of blacks without jobs rose by 5.0 per cent—while total joblessness declined by 3.0 per cent, and joblessness among whites declined by 4.7 per cent.

Reflecting these mixed trends, the total unemployment rate (which had been 7.5 per cent in June) had rebounded to 7.9 per cent in August. The rate in August. for whites was 7.1 per cent. The unemployment rate for blacks in August was 13.6 per cent—almost back to the rate (13.8 per cent) for March last year. Among demographic groups, the unemployment rate for black teenagers rose somewhat (to 40.2 per cent) during this period, and that for black adult females rose to 12.3 per cent. The unemployment rate for all other groups declined—at least moderately.

The extent to which black unemployment has responded more slowly to economic recovery can be seen in the behavior of the black-white unemployment ratio. In March, 1975, the ratio was 1.77. By August, 1976, it had climbed to 1.92—reflecting the relatively greater decrease in the white unemployment rate. The same pattern was evident among adult black males and females—as well as among black youths of both sexes.

These mixed black-white employment patterns should be kept in mind as we turn to a brief assessment of the near-term outlook for the national economy.

NEAR TERM ECONOMIC PROSPECTS: IMPACT ON JOBS

At this juncture, the prospect that economic expansion will extend through 1977 seems fairly assured. However, the accumulating evidence also suggests that the pace of expansion has slowed appreciably. The main contours of economic activity in 1976 and the next two years (as forecast by DRI) are shown in Table 1. Several features of these data are worth mentioning. Real GNP, which is projected to rise by 6.3 per cent this year, may grow by 5.3 per cent in 1977 and by 3.5 per cent in 1978. If this pattern does materialize, the country would be caught in a "growth recession" two years from now—meaning that output would be rising at a rate below its long-run potential of about 4.0 per cent. Such a situation would not represent an actual recission, but it would reflect a significant slowdown in economic performance.

Real consumer spending may rise by roughly 4.1 per cent in 1978—compared with approximately 5½ per cent in 1976 and 1977. Non-residential fixed investment (which might expand by 7.9 per cent next year) may advance by only 3.2 per cent a year later. Spending on residential construction may rise by nearfly 20 per cent this year—and the growth rate may then ease off to 12 per cent in 1977 and to only 2.6 per cent in 1978. Other major spending sectors may display a similar slackening pattern.

But behind these broad outlines is a mosaic of rising unused resources—both human and physical. If the projected slowdown in the rate of expansion does materialize, about 6.6 million and 6.4 million people might be unemployed in 1977 and 1978, respectively—compared with an average of 7.1 million this year. The total unemployment rate might average 7.5 per cent in 1976; 6.8 per cent in 1977, and 6.4 per cent in 1978.

The backlog of unused physical resources is typified by the projected capacity utilization rate in manufacturing. For 1976 as a whole, a 73.3 per cent operating rate is forecast. The rate is projected at 76.4 per cent in 1977 and 77.2 per cent in 1978. While these levels would represent substantial improvement over the 68.7 per cent registered in 1975, they would still leave considerable spare capacity in the nation's factories.

But of all major segments of the economy, the housing and construction sectors are likely to show the greatest weakness. For example, private housing starts may average 1.466 million in 1976. This would represent a considerable advance over the 1.163 million units started last year, but it would remain well below the 2.356 million starts recorded in 1972. Partly reflecting the expanded availability of mortgage credit during the last year or so, private starts may climb to 1.685 million in 1977. But the adverse effects of increased monetary restraint (which virtually every observer of the financial scene expects to occur next year) may shave starts to 1.649 million in 1978.

In the construction industry as a whole, employment in the second quarter remained at the depressed level reached a year earlier. In August, the unemployment rate in construction was nearly 20 per cent—compared with 7.9 per cent for the economy as a whole. If present trends continue, employment in contract construction may rise slightly during the remaining months of this year. In 1977, such employment might rise by 2.6 per cent, but the gain may amount to only 0.4 per cent in 1978.

LONG-TERM ECONOMIC OUTLOOK AND PROSPECTS FOR JOBS

At this juncture, we might look ahead to the kind of economic horizon that might be in store toward the end of this decade. On July 16 of this year, the Federal Government made public its latest long-run forecasts and projections of overall economic activity. The main features of the forecasts are shown in Table 3. Several highlights of these data should be mentioned. Real GNP (which fell by 2.0 per cent in 1975) is forecast to rise by 6.8 per cent in 1976.

Between 1975 and 1981, the real growth rate is projected to rise at an average annual rate of 5.5 per cent. However, the rate falls off sharply (to about 4.1 per cent) in the early 1980's. The rate of inflation (as measured by the CPI) might average 4.5 per cent over the entire period. But the rate in 1980–81 may average only 3.0 per cent. If this profile were to materialize, it would represent a major achievement in the campaign against inflation.

On the other hand, the unemployment rate is projected to average 5.7 per cent through the early 1980's. In 1980–81, the figure might average 4.8 per cent.

However, the rate of growth in real GNP may well be below the annual average of 5.5 per cent projected by the Administration. For example, DRI has projected real GNP to rise at an average annual rate of 5.0 per cent between 1975 and 1980—and 4.5 per cent between 1976 and 1980, thus allowing for the rebound from the recession. (See Table 4.) The DRI projection puts the average annual increase in the CPI at roughly 4.9 per cent (versus 4.5 per cent implied by the Ford Administration). Over the same period, the nation's unemployment rate may average 6.6 per cent—according to the DRI forecast compared with the Administration's 5.7 per cent.

If the actual unemployment experience during the rest of this decade turns out to be less hopeful than the Ford Administration anticipates, the results would be disappointing for the nation at large—and disastrous for the black community. This fact can be seen readily in the figures in Table 5, which shows the civilian labor force, employment, and unemployment (by race, sex, and age) in 1975 and projections for 1976 and 1980—based on the DRI projections.

Several features stand out in these figures. If the national unemployment rate were to average 4.8 per cent in 1980, it would represent substantial improvement compared with the 8.5 per cent experienced in 1975. Under this assumption, the total number of jobless blacks would decrease from 1,450 thousand in 1975 to about 950 thousand in 1975. However, their share of total unemployment would rise noticeably (from 18.4 per cent in 1975 to 20.3 per cent in 1980). (The lower fraction in 1975 reflected the sharp rise in whie unemployment induced by the recession rather than any basic improvement in black's position). The black-white unemployment ratio might be back at the historical 2.0 by 1980—versus 1.78 recorded in 1975.

In conclusion, if the present national economic trends were to continue through the remainder of this decade, the effects on blacks would be particularly adverse. Under those circumstances, blacks would have little chance to resume the progress (checked by two recessions) toward closing the job and income gaps they suffer vis-a-vis whites.

NATIONAL ECONOMIC POLICY AND FULL EMPLOYMENT

As I reflect on the unfolding economic scene, I see an urgent need to mount a vigorous national economic policy to achieve full employment. The persistance of excessive slack in many plants and other facilities is itself a waste of productive potential. But the continued idleness of millions of Americans—able and willing to work—is far worse. And the most tragic of all is the enforced idleness of nearly 1¾ million young people just at the point when they should be beginning useful life-time careers. We should no longer tolerate such waste of human resources.

The evidence presented here suggests that overall economic activity will be expanding only moderately for the next several quarters. Real GNP might expand at an annual rate close to 4½ per cent in the second half of this year and around 5.3 per cent in 1977. For 1978 as a whole, real GNP may expand by only 3½ per cent. Under these circumstances, the unemployment rate might get stuck in the neighborhood of 6½ to 6¾ per cent over the next several years.

Given this prospect, we need to take several steps—at the Federal Government level—to enhance the prospects of achieving full employment. Over the next four years, we should seek to reduce the national unemployment rate from the present 7.5 per cent to the range of 4 to 4½ per cent. To aim for a lower rate over the same period of time might put so much pressure on resources that the danger of rekindling double-digit inflation would become quite real. And we must remind ourselves that the poor segments of the population (which include a disproportion of blacks) suffer most from high rates of inflation.

But even if we get the national unemployment rate down to the neighborhood of 4½ per cent by 1980, the rate for whites may be under 4 percent while that for black workers might still exceed 8.0 percent. This would continue the historical 2 to 1 black-white ratio. It would represent no net improvement over a situation in which the legacy of racial discrimination and lack of opportunity has kept blacks from acquiring the skills which would permit them to compete more successfully in the nation's labor market.

As a country, we clearly need a new economic policy to achieve full employment. The central element in that policy should be a sustained rate of real economic growth in the range of 5–6 percent for the remainder of this decade. In view of the unused physical and human resources that now exist, we clearly have the potential to achieve this goal. In particular, we still have enormous slack in the housing and construction industry. And business spending on plant and equipment is also rising much more slowly than is necessary if we are to upgrade our facilities and create the jobs we will need in the future.

But we should not be content with more stimulus for the economy as a whole. If we do too much of this, we will run the danger of rekindling excessive high rates of inflation. Rather, we must also give serious attention to the supply side of the economy. We have done little to overcome many of the bottlenecks encountered in a number of materials producing industries in 1973–74. This is especially true in industries such as paper, chemicals, and steel production. To encourage American business to get on with this task, I have been among those advocating Federal tax reform to provide more stimulus for capital formation. I still think we need to assign a high priority to this goal—although the recently enacted tax measure ran in the contrary direction.

The main efforts to expand job opportunities must come in the private sector. Blacks in particular will benefit from the accelerated expansion of private sector employment. Historically, blacks have found public payrolls relatively more open than was the case in the private sector. As a result, by 1974, public sector employment represented 21.6 per cent of the total number of jobs held by blacks, but the corresponding proportion for all workers was only 16.1 per cent.

On the other hand, for some segments of the population, the Government must stand ready to provide jobs. For them, the Government must be an employer of first—and last—resort. This may be especially true of young people who might otherwise not find jobs at all. Still other workers will be needed to upgrade and maintain the nation's basic public services—provided mainly at the State and local level.

All of us—blacks as well as whites—must also be concerned with the hardening attitudes toward the expansion of equal opportunity. In fact, there is growing evidence that a countermove to the campaign for affirmative action is underway. This countermove appears in a variety of forms, but the main thrust is frequently expressed in charges of "reverse discrimination" against whites—especially against white men. But blacks are also becoming apprehensive over the extent to which the strong drive for equal opportunity on the part of white women has an adverse effect on blacks—especially on black men.

However, a close examination of employment trends in recent years suggests that—at the margin—white women have increased their share of the higher-paying jobs at a rate slightly faster than their representation in total employment. In contrast, all other groups—black men, black women, and other minorities—have experienced relatively more modest improvements. Although white men have seen their share of total employment (and especially among better paying occupations) decline slightly in recent years, they still command the heights of the occupational ladder—with little or no challenge. Consequently, it is toward those heights that blacks and other minorities—as well as white women—must look as they seek to improve their occupational status in the years ahead.

To underpin these efforts, we need to adopt the kind of forward-looking national economic policy outlined here.

78-546—76——3

TABLE 1.—DATA RESOURCES FORECAST OF THE U.S. ECONOMY

[Billions of dollars—SAAR]

	1976			1977			Years			
	II	III	IV	I	II	III	1975	1976	1977	1978
GNP and its components:										
Total consumption	1,064.7	1,088.6	1,117.5	1,146.8	1,176.5	1,207.4	973.2	1,078.6	1,192.9	1,305.6
Nonresidential fixed investment	15.9	163.2	169.1	175.3	181.2	187.3	147.2	160.9	184.2	202.9
Residential fixed investment	65.3	67.3	70.9	74.7	78.2	81.3	51.2	66.2	79.6	87.2
Inventory investment	16.0	14.9	12.6	15.4	17.5	19.3	−14.6	14.6	18.4	15.4
Net exports	8.1	9.2	9.6	7.9	8.0	7.8	20.5	8.8	8.0	8.3
Total Federal	131.2	133.2	137.9	139.5	141.3	144.1	124.4	132.9	143.8	156.4
State and local	230.9	236.8	243.0	249.1	255.4	261.7	214.5	234.0	258.6	283.7
Gross national product	1,674.1	1,713.1	1,760.5	1,808.9	1,858.2	1,909.0	1,516.3	1,696.0	1,885.5	2,059.5
Rean GNP (1972 dollars)	1,259.4	1,272.8	1,287.3	1,305.9	1,324.1	1,342.5	1,191.7	1,266.5	1,333.4	1,380.2
Prices and wages—Annual rates of change:										
Implicit price deflator	5.1	5.1	6.6	5.3	5.4	5.4	9.2	5.3	5.6	5.5
Fixed weight deflator	5.2	5.0	6.8	5.4	5.5	5.5	9.0	5.6	5.7	5.1
Consumer Price Index	4.8	5.4	4.9	4.9	4.9	5.1	9.2	5.7	5.0	5.7
Wholesale price index	4.8	3.9	5.6	5.2	5.4	5.9	9.3	4.3	5.3	5.8
Adjusted average hourly earnings index	6.5	6.7	7.0	7.2	7.4	7.3	8.9	7.2	7.1	6.8
Production and other key measures:										
Industrial production (67=1)	1.228	1.243	1.263	1.285	1.308	1.329	1.134	1.235	1.318	1.373
Annual rate of change	7.3	5.0	6.4	7.3	7.3	6.6	−8.7	8.9	6.7	4.2
Housing starts (million units)	1.439	1.462	1.563	1.635	1.675	1.714	1.163	1.466	1.685	1.649
Retail unit car sales—Total	10.1	10.3	10.8	10.9	1.0	11.3	8.7	10.3	11.2	11.2
Unemployment rate (percent)	7.4	7.5	7.3	7.1	6.9	6.7	8.5	7.5	6.8	6.4
Federal budget surplus (NIA)	−53.5	−55.3	−55.9	−50.7	−47.2	−45.9	−71.3	−57.1	−47.2	−48.3

Money and interest rates:										
Money supply (millions)	302.7	306.2	313.0	317.7	323.1	328.7	289.5	304.6	326.2	345.9
Annual rate of change	8.6	4.7	9.1	6.2	6.9	7.2	4.2	5.2	7.1	6.0
New AA corporation utility rate (percent)	8.87	8.66	8.71	8.82	8.88	8.95	9.45	8.78	8.94	8.93
New high-grade corporation bond rate (percent)	8.50	8.49	8.54	8.64	8.68	8.73	9.01	8.47	8.73	8.64
Federal funds rate (percent)	5.20	5.27	5.59	6.25	6.68	7.23	5.82	5.22	6.95	7.28
Prime rate (percent)	6.90	7.02	7.12	7.44	7.71	8.05	7.86	6.97	7.87	8.06
Incomes:										
Personal income	1,362.0	1,393.8	1,433.1	1,469.8	1,511.2	1,555.9	1,249.7	1,380.0	1,535.3	1,691.3
Real disposable income	890.5	899.9	911.9	922.7	935.8	950.2	855.6	895.7	943.5	984.2
Saving rate (percent)	7.1	7.1	7.1	7.0	7.0	7.2	7.8	7.1	7.1	7.4
Profits before tax	145.3	150.6	153.5	157.8	162.4	167.9	114.5	147.6	165.6	175.1
Profits after tax	81.1	84.0	85.7	88.1	90.6	93.7	65.3	82.6	92.4	97.7
4th quarter percent change	33.0	16.6	15.6	10.5	11.8	11.5	−13.1	26.5	11.9	5.7
Details of real GNP—Annual rates of change:										
Gross national product	4.3	4.3	4.6	5.9	5.7	5.7	−1.8	6.3	5.3	3.5
Total consumption	4.0	4.1	5.5	5.7	5.5	5.6	1.5	5.6	5.3	4.1
Nonresidential fixed investment	8.4	9.4	8.4	8.1	7.2	7.3	−13.3	4.4	7.9	3.2
Equipment	8.2	11.0	8.9	8.7	8.8	9.0	−13.6	4.5	8.9	5.[illegible]
Nonresidential construction	8.9	6.3	7.3	6.8	4.0	3.8	−12.7	3.9	5.9	−1.2
Residential fixed investment	15.3	4.5	15.1	14.9	11.9	9.3	−14.7	19.6	11.8	2.6
Exports	4.8	5.9	5.9	7.7	10.0	9.3	−6.7	5.3	7.6	7.3
Imports	12.5	1.7	7.1	10.9	10.4	11.5	−15.7	16.4	9.0	7.7
Federal Government	2.5	1.7	−.2	−.1	.2	2.9	.4	.3	.9	1.5
State and local	2.7	2.8	3.2	3.4	3.7	3.8	2.6	1.9	3.4	3.6

Source: Data Resources, Inc.

TABLE 2.—CHANGES IN THE CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT, BY COLOR, SEX, AND AGE, MARCH 1975–AUGUST 1976

[In thousands]

Category	March 1975		August 1976		Change: March 1975–August 1976	
	Number	Percent distribution	Number	Percent distribution	Number	Percent distribution
Civilian labor force, total	91,881	100.0	95,506	100.0	3,625	100.0
Both sexes, 16 to 19	8,751	9.5	9,114	9.5	36	10.0
Male, 20 plus	50,461	54.9	51,758	54.2	1,297	35.8
Female, 20 plus	32,669	35.6	34,634	36.3	1,965	54.2
White, total	81,551	88.8	84,503	88.5	2,952	81.4
Both sexes, 16 to 19	7,840	8.5	8,137	8.5	297	8.2
Male, 20 plus	45,346	49.4	46,381	48.6	1,035	28.6
Female, 20 plus	28,365	30.9	29,985	31.4	1,629	44.7
Black, total	10,330	11.2	11,003	11.5	673	18.6
Both sexes, 16 to 19	911	1.0	977	1.0	66	1.8
Male, 20 plus	5,115	5.5	5,377	5.6	262	7.2
Female, 20 plus	4,304	4.7	4,649	4.9	345	9.5
Employment, total	84,199	100.0	87,973	100.0	3,854	100.0
Both sexes, 16 to 19	6,986	8.3	7,310	8.3	324	8.4
Male, 20 plus	47,146	56.1	48,684	55.3	1,538	39.9
Female, 20 plus	29,987	35.6	31,979	36.4	1,992	51.7
White, total	75,216	89.5	78,468	89.2	3,252	84.4
Both sexes, 16 to 19	6,441	7.7	6,72	7.6	285	7.4
Male, 20 plus	42,611	50.7	43,842	49.8	1,231	31.9
Female, 20 plus	26,164	31.1	27,900	31.7	1,736	45.0
Black, total	8,903	10.5	9,505	10.8	602	15.6
Both sexes, 16 to 19	545	.6	584	.7	39	1.0
Male, 20 plus	4,535	5.4	4,842	5.5	307	8.0
Female, 20 plus	3,823	4.5	4,079	4.6	256	6.6
Unemployment, total	7,762	100.0	7,533	100.0	−229	100.0
Both seses, 16 to 19	1,765	22.7	1,804	23.9	39	−17.0
Male, 20 plus	3,315	42.7	3,074	40.8	−241	105.2
Female, 20 plus	2,682	34.6	2,655	35.2	−27	11.8
White, total	6,335	81.6	6,035	80.1	−300	131.0
Both sexes, 16 to 19	1,399	18.0	1,411	18.7	12	−5.2
Male, 20 plus	2,735	35.2	2,539	33.7	−196	85.6
Female, 20 plus	2,201	28.4	2,085	27.7	−116	50.7
Black, total	1,427	18.4	1,498	19.9	71	−31.0
Both sexes, 16 to 19	366	4.7	393	5.2	27	−11.8
Male, 20 plus	580	7.5	535	7.1	−45	19.7
Female, 20 plus	481	6.2	570	7.6	89	−38.9
Unemployment rates, total		8.5		7.9		
Both sexes, 16 to 19		20.1		19.7		
Male, 20 plus		6.6		5.9		
Female, 20 plus		8.3		7.7		
White, total		7.8		7.1		
Both sexes, 16 to 19		17.8		17.3		
Male, 20 plus		6.0		5.5		
Female, 20 plus		7.8		7.0		
Black, total		13.8		13.6		
Both sexes, 16 to 19		40.2		40.2		
Male, 20 plus		11.3		9.9		
Female, 20 plus		11.2		12.3		
Black/White ratio		1.77		1.92		
Both sexes, 16 to 19		2.26		2.32		
Male, 20 plus		1.88		1.80		
Female, 20 plus		1.44		1.79		

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

TABLE 3.—U.S. GOVERNMENT FORECAST OF THE NATIONAL ECONOMY, 1975–81

[Annual rates of percentage change, except as indicated]

Year	Real GNP (1972 dollars)	GNP deflator (1967=100)	Consumer Price Index (1967=100)	Unemployment rate (percent)
1975 actual	−2.0	8.8	9.1	8.5
1976 forecasts	6.8	5.3	5.7	7.3
1977	5.7		5.4	6.4
1978	5.9		5.4	5.7
1979 projections	6.3		4.7	5.1
1980	4.4		3.5	4.8
1981	3.7		2.4	4.7

Source: Executive Office of the President, Council of Economic Advisers, July 16, 1976.

TABLE 4.—LONG-TERM ECONOMIC OUTLOOK: SELECTED INDICATORS, 1975–80

Category	Actual 1975	Projected 1976	Projected 1980	Average annual percentage change 1975–80	Average annual percentage change 1976–80
Real GNP (Bil. 1972 dollars)	$1,186.1	$1,268.4	$1,514.8	5.0	4.5
Industrial production (1967=100)	113.4	124.6	157.6	6.8	6.1
Implicit price deflator (1972=100)	126.4	133.1	162.5	5.2	5.1
Consumer Price Index (1967=100)	161.2	170.4	206.3	5.0	4.9
Civilian labor force (thousands)	93,062	94,800	101,741	1.8	1.8
Employment (thousands)	85,182	87,800	97,071	2.6	2.5
Unemployment (thousands)	7,880	7,000	4,670	−8.1	−8.3
Unemployment rate	8.5	7.4	4.6	6.6	6.0

Source: Derived from DRI Projections.

TABLE 5.—CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT, BY COLOR, SEX, AND AGE

[In thousands]

Category	1975 Number	1975 Percent	1976[1] Number	1976[1] Percent	1980[1] Number	1980[1] Percent
CIVILIAN LABOR FORCE						
Total	93,062	100.0	94,799	100.0	101,741	100.0
Youths, 16 to 19	8,910	9.6	8,963	9.5	9,803	9.6
Males, 20 and over	51,137	54.9	51,921	54.7	55,320	54.4
Females, 20 and over	33,015	35.5	33,915	35.8	36,618	36.0
Black	10,438	11.2	10,943	11.5	11,543	11.3
Youths, 16 to 19	921	1.0	1,102	1.2	1,053	1.0
Males, 20 and over	5,169	5.5	5,090	5.3	5,690	5.6
Females, 20 and over	4,348	4.7	4,751	5.0	4,800	4.7
White	82,624	88.8	83,856	88.5	90,198	88.7
Youths, 16 to 19	7,989	8.6	7,861	8.3	8,750	8.6
Males, 20 and over	45,968	49.4	46,831	49.4	49,630	48.8
Females, 20 and over	28,667	30.8	29,164	30.8	31,818	31.3
EMPLOYMENT						
Total	85,182	100.0	87,914	100.0	97,071	100.0
Youths, 16 to 19	7,140	8.4	7,267	8.3	8,563	8.8
Males, 20 and over	47,677	56.0	49,127	55.9	53,650	55.2
Females, 20 and over	30,365	35.6	31,520	35.8	34,858	36.0
Black	8,988	10.6	9,546	10.9	10,593	10.9
Youths, 16 to 19	581	0.7	703	0.8	793	0.8
Males, 20 and over	4,559	5.4	4,591	5.3	5,360	5.5
Females, 20 and over	3,848	4.5	4,252	4.8	4,440	4.6

See footnote at end of table.

TABLE 5.—CIVILIAN LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT, BY COLOR, SEX, AND AGE—Continued

[In thousands]

Category	1975		1976 [1]		1980 [1]	
	Number	Percent	Number	Percent	Number	Percent
White	76,194	89.4	78,368	89.1	86,478	89.1
Youths, 16 to 19	6,559	7.7	6,564	7.5	7,770	8.0
Males, 20 and over	43,118	50.6	44,536	50.6	48,290	49.7
Females, 20 and over	26,517	31.1	27,268	31.0	30,418	31.4
UNEMPLOYMENT						
Total	7,880	100.0	6,885	100.0	4,670	100.0
Youths, 16 to 19	1,770	22.5	1,696	24.6	1,240	26.7
Males, 20 and over	3,460	43.9	2,794	40.6	1,670	35.8
Females, 20 and over	2,650	33.6	2,395	34.8	1,760	37.6
Black	1,450	18.4	1,397	20.3	950	20.3
Youths, 16 to 19	340	4.4	399	5.8	260	5.6
Males, 20 and over	610	7.7	499	7.3	330	7.1
Females, 20 and over	500	6.3	499	7.2	360	7.6
White	6,430	81.6	5,488	79.7	3,720	79.7
Youths, 16 to 19	1,430	18.1	1,297	18.8	980	21.0
Males, 16 to 19	2,850	36.2	2,295	33.3	1,340	28.7
Females, 16 to 19	2,150	27.3	1,896	27.6	1,400	30.0
UNEMPLOYMENT RATES						
Total		8.5		7.3		4.8
Youths, 16 to 19		19.9		18.9		12.6
Males, 20 and over		6.8		5.4		3.0
Females, 20 and over		8.0		7.1		4.8
Blacks		13.9				8.2
Youths, 16 to 19		36.9		36.2		25.7
Males, 20 and over		11.8		9.8		5.8
Females, 20 and over		11.8		10.5		7.5
Whites		7.8				4.1
Youths, 16 to 19		17.9		16.5		11.2
Males, 20 and over		6.2		4.9		2.7
Females, 20 and over		7.5		6.5		4.4

[1] Projected.

Source: Figures for 1975 are from the U.S. Department of Labor, Bureau of Labor Statistics. Figures for 1976 and 1980 were derived by author from the forecast prepared by Data Resources, Inc.

Chairman HUMPHREY. What I thought we would do would be to have each of you make your statement and then we would have some general questions.

Mr. Grove, would you proceed next?

STATEMENT OF DAVID L. GROVE, VICE PRESIDENT AND CHIEF ECONOMIST, IBM CORP., ARMONK, N.Y.

Mr. GROVE. Thank you, Mr. Chairman.

It is a pleasure for me to be here today, to address this distinguished committee, and hopefully to make a contribution to the very useful body of analysis that has been amassed under your auspices. In my prepared statement, which I respectfully submit for your consideration and, with your approval, for inclusion in the published record, I focus on (1) indications of a recent slowdown in economic growth, and other evidence of a more favorable nature; (2) why these developments are consistent with the forecast I shall be presenting; (3) risks in the forecast; and, (4) some implications for policy actions. In my briefer oral presentation I shall try to cover some of the salient points contained in the formal submission. I should emphasize that I am here today in a personal capacity and do not presume to speak for anyone else, especially in respect to policy assumptions and recommendations.

Increasing concern has been expressed about a recent slowdown in the pace of business recovery. Indeed, indications of such a slowdown abound. Selective focusing, however, can produce an unduly pessimistic picture of what has been happening and what is likely to happen. Some of the indicators can be given a more sanguine interpretation and other, favorable, evidence must also be considered. In my prepared statement I attempt to provide a balanced assessment of recent developments. In this brief oral presentation, I shall pass over this in order to use my allotted time to concentrate on the future.

Aside from those developments which have raised doubts about the strength and durability of the current business expansion, some renewed anxieties about a reacceleration of inflation have occurred.

However, the recent worsening of the price indicators should have been anticipated. The pleasant first quarter results reflected declines for food and fuel, which were expected to be reversed and were. In fact, the summer reductions in wholesale prices of farm products and processed foods may provide another small dose of transitory relief. Nevertheless, an underlying inflation rate in the 5 to 6 percent area is likely to prevail for some time.

The pattern of recent developments is remarkably in line with the forecast the economics research staff at IBM has had for some time. In that forecast, the liveliest part of the recovery already is behind us. This stems mainly from the near completion of the inventory adjustment process—a swing from heavy liquidation of inventories to sizable accumulation. This swing accounted for much of the increase in output over the first year of the current recovery. Another important factor underlying the reduced rate of growth—which I believe has been insufficiently noted—has been the diminished thrust of fiscal policy. While this shift toward fiscal restrictiveness can be shown in terms of the pattern of change in the high employment budget balance, I prefer to use another measure to approximate the degree of policy induced fiscal stimulus or restraint.

Under this latter measure, a policy shift toward stimulus is indicated whenever increases in Federal spending rise—aside from unemployment benefits, which are induced primarily by weakness in the economy—and whenever reductions—or smaller increases—occur in Treasury receipts as a consequence of tax rate changes. The combined effects of these changes in calendar year 1976 will be less than half as large, in relation to GNP, as the corresponding change in 1975. This pattern reflects a substantial deceleration of Federal spending growth and the absence of the $8 billion in special personal rebates disbursed last year. For the future periods it must be emphasized that the figures in table 1 of my prepared statement embody assumptions as to Federal spending and taxes. These have been keyed to the base case forecast, which thus is a conditional forecast—in other words, conditional on the correctness of the assumptions about what the Congress and the President will do in the fiscal area.

On the expenditure side, the figures are consistent with total outlays on a unified budget basis of about $412 billion for fiscal year 1977 and $454 billion for fiscal year 1976. On the tax side, I have assumed that the recent income tax cuts for individuals and corporations would be extended with relatively little net change in aggregate Treasury receipts, that the social security tax base would rise to $16,500 in 1977 and $17,700 in 1978 and the combined rate from 11.7 percent to 12.1 percent in 1978, that unemployment tax rate and base changes would increase collections by $0.6 billion in 1977 and $1.5 billion in each of the next 2 years. All of these tax changes are in accordance with current law or nearly consummated legislative actions. In addition, I have assumed a further personal tax reduction of $8 billion in calendar 1978.

Chairman HUMPHREY. Why?

Mr. GROVE. On the basis that I think the need for stimulation will become apparent, and the Congress would take action of approximately that magnitude.

Chairman HUMPHREY. Very interesting. We had such a suggestion about 4 months ago in the Joint Economic Committee report. I was rather hesitant about seeing it in print, I thought it would frighten people. But this stubborn staff that we have around here insisted that I be honest, but it was only in small type.

Mr. GROVE. I go into those assumptions in detail, Mr. Chairman, because the forecast that I am going to present rests on them.

For the next 2 calendar years, given these assumptions, there will be slightly greater fiscal stimulus than this year. This stems mainly from the anticipated acceleration in Federal spending and the income tax cut assumed for 1978.

Chairman HUMPHREY. Have you been listening to the candidates?

Mr. GROVE. To some extent.

Chairman HUMPHREY. You haven't taken them too seriously, then, in the light of this statement.

Mr. GROVE. I beg your pardon?

Chairman HUMPHREY. I say, you have not taken them too seriously in the light of this statement, when you say that the fact there will be greater fiscal stimulus stems mainly from anticipating the acceleration in Federal spending and income tax assumed for 1978.

Mr. GROVE. Senator, I have learned that it is better to make one's assumptions on what I think the force of circumstances will dictate rather than on what people will say, particularly when it pertains to matters at least a year away.

Chairman HUMPHREY. I think you are a very wise man, and that is why you are vice president of IBM.

Mr. GROVE. On the monetary front, I expect short-term interest rates to move upward through mid-1977, as business loan demand gains momentum and as the Federal Reserve gradually moves toward somewhat greater restraint, reflecting its fears about a possible acceleration of inflation. In the latter part of 1977, the course of borrowings and monetary policy should ease, in reaction to the predicted deceleration in the business advance. As a result, rates on short-term obligations are projected to turn moderately downward in late 1977 and early 1978. Long-term rates, after tending slightly downward over the remainder of this year, seem likely to inch upward during 1977 and then edge lower—lagging the movements in short-term rates.

Assuming this fiscal and monetary environment, I expect the business recovery to continue. The expansion has been well balanced. Inventories clearly are not excessive in relation to sales. Replacement demand is growing for autos and household durables. Consumer spending will benefit also from continued increases, though very moderate ones, in real incomes. Net exports should improve somewhat. Capital spending is being spurred by rising utilization rates, by needs for replacement and modernization, and by the continued advance of corporate profits.

The base case forecast, generated by an econometric model developed by the IBM economic research staff, is summarized in table 2 of my prepared statement. It is noteworthy that an inflation rate in the 5 to 6 percent area is projected. This reflects slightly greater increases in employee compensation, to rates substantially in excess of anticipated growth in productivity.

Of course, a worse inflation picture, as well as even slower economic growth in 1977 and 1978, could occur. In my prepared statement I outline possible developments that could produce these environments, and try to assess them. In any formulation of public policy, these contingencies should be kept very much in mind.

Probably the highlight of the forecast is the pattern of reduced economic growth in the second half of 1977 and in 1978, which stems largely from the lagged effects of shifts toward fiscal and monetary restraint and from inhibiting factors inherent in the dynamics of the cyclical expansion process. The rise in real GNP decelerates to a 4-percent annual rate during the second half of 1977, and for the year as a whole the growth rate falls to slightly below 5 percent, from the 6.3 percent predicted for 1976. In 1978, the advance is projected to slip below 4 percent, even after reflecting a redirection of Federal Reserve policy toward ease and a somewhat greater fiscal stimulus fostered by an $8 billion tax cut as well as by a moderate acceleration in Federal spending. The slowdown in growth will be felt by most economic sectors, and the decline in the unemployment rate will be arrested in the latter part of the year.

If my forecast proves to be reasonably correct—and it will be tracked and modified at least every 3 months—what are its implications for public policy? In the monetary realm, it suggests that the Federal Reserve can afford to be accommodative for a fairly extended period, and that the dangers of inflation being reignited by booming levels of demand pressing close to productive capacity limits really are quite small, probably at least for the next 2 years.

On the fiscal side, I would recommend that policy go somewhat beyond the modest shift toward expansiveness I have assumed in my forecast. There is a very worrisome amount of unemployed capital and labor resources in this country. Aside from the great human and economic costs to the individuals directly affected, this is economic waste that weakens our national strength, our world leadership, and the faith of our citizens in our economic system. And in good part it must be viewed as reflecting less than optimal public policy. When the Congress, under your new and extremely desirable budget review procedure, considers the 1978 budget, I suggest that you reflect not only on such matters as prudence, efficiency, and program needs in arriving at your expenditure and tax goals—though I certainly do not wish to seem to minimize their vital importance, because I do not. But I suggest that you also reflect on the need to provide sufficient stimulus, preferably, in my opinion, in the form of tax cuts, to make greater progress toward reducing this national waste of resources to which I have just alluded. Obviously, I do not recommend that any fiscal stimulus be carried to the point of reigniting inflation. That would serve only to start another cycle of boom and bust. This cautionary note, however, leaves considerable room for positive action.

The United States could be poised for the kind of sustained well-balanced expansion that prevailed from early 1961 through mid-1965—a well-balanced expansion that would have continued well beyond that had we not had a Vietnam escalation on top of Great Society spending with no offsetting tax increases. Many of the preconditions are present. As compared with early 1961, present capacity utilization rates—even after over a year of expansion—are about the same as then and the unemployment rate is even higher. This cushion of unemployed resources provides a capability for relatively high growth for some years without creating demand pull inflationary pressures. While current inflation rates are indeed higher than in the early 1960's, it is likely that we can avoid an acceleration of prices; in fact, if external forces are favorable, there could even be further deceleration.

It devolves upon public policy to provide the measured stimulus to consumers and to business investment to achieve such a result. As in the early 1960's, there should be a balanced program to expand real consumer after-tax incomes and to provide incentives for increased business investment and for the lagging homebuilding sector. Clearly, inflationary developments have to be continually reviewed and offset insofar as possible by appropriate actions. Should they show signs of gaining momentum, they should be dealt with quickly and decisively. But the nature of that threat must be properly diagnosed. And legitimate preoccupation with it should not overlook the parallel danger of economic undernourishment. In my judgment it would be unwise to starve the expansion to counter price rises triggered by transitory forces or caused by events that cannot be significantly affected by restricting demand.

I recognize that the public policy course I have charted requires great skill both in tracking and interpreting events as they occur over the coming year and in taking appropriate action in a timely fashion. This points up the vital contribution your committee can make to our national welfare and progress.

Chairman HUMPHREY. Thank you very much, Mr. Grove. We are very grateful to you for your thoughtful statement. And we will come back and have some commentary on that.

[The prepared statement of Mr. Grove follows:]

PREPARED STATEMENT OF DAVID L. GROVE

THE U.S. ECONOMY—RECENT DEVELOPMENTS AND THE OUTLOOK THROUGH 1978

It is a pleasure for me to be here today, to address this distinguished committee, and hopefully to make a contribution to the very useful body of analysis that has been amassed under your auspices. I shall focus on (1) indications of a recent slowdown in economic growth, and other evidence of a more favorable nature; (2) why these developments are consistent with the forecast I shall be presenting; (3) risks in the forecast; and, (4) some implications for policy actions. I should emphasize that I am here today in a personal capacity and do not presume to speak for anyone else, especially in respect to policy assumptions and recommendations.

EVIDENCE OF SLOWDOWN—AND MORE REASSURING DEVELOPMENTS

Increasing concern has been expressed about a recent slowdown in the pace of business recovery. Indeed, indications of such a slowdown abound. Selective focusing, however, can produce an unduly pessimistic picture of what has been happening and what is likely to happen. Some of the indicators can be given a more sanguine interpretation and other, favorable, evidence must also be considered. The following is an attempt at a balanced assessment of recent developments.

Aggregate Activity.—Real GNP grew at only a 4.3% annual rate in the second quarter, well below the 7.3% rate achieved in the first year of the upturn or the 9.2% rate of the first quarter of 1976. Moreover, partial data thus far available point to another lackluster increase in the third quarter.

During the recovery there has been substantial variation in the quarterly growth of real GNP—ranging from 3.3% to 11.4% at annual rate. Most of this variation reflects an erratic pattern of change in inventory investment. Probably more indicative of underlying demand than GNP is final sales, which is simply GNP minus the change in business inventories. This measure has shown much less volatility. Quarterly increases in real final sales have ranged only from 3.7% to 5.6% (annual rate), and the gain in the second quarter of 1976 exceeded the one registered in the first.

Household Sector.—Much of the diminished buoyancy has been in the household sector. Retail sales, even without adjusting for the effects of inflation, recently were fluctuating within a narrow range, with July's performance only moderately above the rate of last March. This pattern included a decline in the number of new cars sold from a 10.8 million seasonally adjusted annual rate in March to 10.0 million rate in July. However, in August, retail sales rose by over 2% and new car sales were back up to a 10.6 million annual rate. Moreover, auto volume has been significantly constrained by supply conditions—customers have been turned away because of limited inventories of some key compact, intermediate, and larger models. With the increasing availability of 1977 models, the sales figures shortly should show some decided strengthening.

Homebuilding activity, after sinking to the lowest level in decades, has registered only a moderate recovery, with little if any upward thrust since midwinter. Starts in August were at a 1.5 million annual rate, more than 35% below the peaks of late 1972. Housing permits, however, have trended somewhat higher in the past few months. It also is important to differentiate the sizable and rather typical cyclical pickup for single-family units from the still-depressed state of apartment house construction. The latter market is hurt by previous overbuilding, the financial difficulties of REIT's, and concerns that rental income would not be high enough in relation to increasing costs. Underlying demographic conditions, replacement needs, and especially the enormous increase in liquidity of mortgage lending institutions, suggest at least some further near-term improvement in homebuilding activity.

Underlying the weaknesses in the household sector has been the rather small growth in real wages during the current business upswing. Over the first five quarters of recovery, constant-dollar average hourly earnings of nongovernment employees rose 1.3%, well below the 3.4 to 4.0% increases registered during the comparable periods of the four previous revivals. Furthermore, this modest increase in real wages follows an unprecedented decline during the recent recession. Nevertheless, I do expect some acceleration in real labor earnings, which should be favorable for retail sales, although thus far there is no hard evidence supporting this prediction.

Employment and Unemployment.—Probably the most vivid and disconcerting measure of recent sluggishness has been the third consecutive rise in the unemployment rate to 7.9%. Although the worsening of joblessness was most pronounced for women aged 20 and over, it has affected most labor force categories. However, as Administration spokesmen have observed, employment and the civilian labor force have grown very substantially. Indeed, the latter has risen at a rate greater than in comparable periods of all other post-World War II expansions, largely because of a sharp rise in participation rates of adult women. To be sure, this growth was only moderately larger than the one registered in the 1971–72 recovery period and should not have been totally unexpected. And economic performance should be regarded as unsatisfactory if it does not absorb the increase in the labor force, much less reduce the present high level of unemployment. Nevertheless, I do anticipate that in the near future a moderate step-up in economic growth will help produce a resumption of the downward trend in the jobless rate, although at a painfully slow pace.

Foreign Trade.—In July, the United States incurred an $827 million trade deficit, the worst result in almost two years. But this should not be interpreted as representing a major deterioration of our nation's net export position. Month-to-month movements in foreign trade statistics are quite erratic and the July figures include a bulge in petroleum imports. To a sizable degree, the weakening in our trade balance this year reflects the somewhat earlier timing of the business recovery in the United States than in the other major industrial countries. Our front position in the international recovery parade has tended to increase American imports relative to our exports. As the expansion gains strength in the other nations, this pattern is likely to be reversed.

Capital Spending.—The Commerce Department's August plant and equipment survey failed to show any significant change in planned spending for 1976 from the moderate 7.3% increase (current dollar basis) called for in the survey taken three months earlier. However, I definitely am not pessimistic about the outlook for the capital goods sector. This sector should provide much of the momentum for the economy's advance over the next twelve to eighteen months. Planned outlays for 1976 still are likely to be raised from the August survey levels. Contract awards for commercial and industrial construction have decidedly strengthened in recent months. Most significant has been the very sharp uptrend since February in nondefense equipment recovery in profits over the past year and a quarter. This is providing a potent inducement for further investments as well as much of the funds necessary for their realization. Access and terms of external financing also have improved significantly.

Inflation.—Aside from those developments which have raised doubts about the strength and durability of the current expansion, some renewed anxieties about a reacceleration of inflation have occurred in response to a sharper rate of advance in the consumer price index and in the GNP price deflator since the first quarter of the year. Moreover, there has been a spate of price increase announcements in a number of major industries, and large wage settlements have been won by the trucking, electrical, and rubber unions.

However, the recent worsening of the price indicators should have been anticipated. The pleasant first-quarter results reflected declines for food and fuel, which were expected to be reversed and were. In fact, the summer reductions in wholesale prices of farm products and processed foods may provide another small dose of transitory relief. Nevertheless, an underlying inflation rate in the 5 to 6% area is likely to prevail for some time.

ECONOMIC FORECAST

This pattern of recent developments is remarkably in line with the economic forecast the economic research staff at IBM has had for some time. In that forecast, the livliest part of the recovery already is behind us. This stems mainly from the near-completion of the inventory adjustment process—from heavy liquidation to sizable accumulation. This swing accounted for much of the increase in output over the first year of the current recovery. Another important factor underlying the reduced rate of growth—which I believe has been insufficiently noted—has been the diminished thrust of fiscal policy. While this shift toward fiscal restrictiveness can be shown in terms of the pattern of change in the high-employment budget balance, I prefer to use the following measure to approximate the degree of policy-induced fiscal stimulus or restraint.

A policy shift toward stimulus is indicated whenever increases in Federal spending rise (aside from unemployment benefits, which are induced primarily by weakness in the economy) and whenever reductions (or smaller increases) occur in Treasury receipts as a consequence of tax *rate* changes. The combined effects of these changes in calendar year 1976 will be less than half as large, in relation to GNP, as the corresponding change in 1975. This pattern reflects a substantial deceleration in Federal spending growth and the absence of the $8 billion in special personal rebates disbursed last year. For the future periods it must be emphasized that the figures shown embody *assumptions* as to Federal spending and taxes. These have been keyed to the base case forecast, which thus is a *conditional* forecast—in other words, conditional on the correctness of the assumptions about what the Congress and the President will do in the fiscal area.

On the expenditure side, the future figures are consistent with total outlays on a unified budget basis of about $412 billion for FY 1977 and $454 billion for FY 1978. On the tax side, I have assumed that the recent income tax cuts for individuals and corporations would be extended with relatively little net change in aggregate Treasury receipts, that the Social Security tax base would rise to $16,500 in 1977 and $17,700 in 1978 and the combined rate from 11.7 to 12.1% in 1978, that unemployment tax rate and base changes would increase collections by $0.6 billion in 1977 and $1.5 billion in 1978, and that telephone excise taxes would be cut by $0.2 billion in each of the next two years. All of these tax changes are in accordance with current law or nearly consummated legislative actions. In addition, I have assumed a further personal tax reduction of $8 billion in 1978.

For the next two calendar years, given the assumptions, the table points to slightly greater fiscal stimulus. This stems mainly from the anticipated acceleration in Federal spending and the income tax cut assumed for 1978.

On the monetary front, I expect short-term interest rates to trend higher through mid-1977, as business loan demand gains momentum and as the Federal Reserve gradually moves toward somewhat greater restraint, reflecting its fears about a possible acceleration of inflation. In the latter part of 1977, the course of borrowings and monetary policy should ease, in reaction to the predicted deceleration in the business advance. As a result, rates on short-term obligations are projected to turn moderately downward in late 1977 and early 1978. Long-term rates, after trending slightly downward over the remainder of this year, seem likely to inch upward during 1977 and then edge lower—lagging the movements in short-term rates.

Assuming this fiscal and monetary environment, I expect the business recovery to continue. The expansion has been well balanced. Inventories clearly are not excessive in relation to sales. Replacement demand is growing for autos and household durables. Consumer spending will benefit also from continued increases, though very moderate ones, in real incomes. Net exports should improve somewhat. Capital spending is being spurred by rising utilization rates, by pollution and safety requirements, by needs for replacement and modernization, and by the continued advance of corporate profits.

The base case forecast, generated by an econometric model developed by the IBM economic research staff, is summarized below.

TABLE 1.—FISCAL POLICY

[In billions of dollars]

	Change in Federal spending excluding unemployment benefits (1)	Change in Federal receipts due to tax changes (2)	(1) minus (2) (3)	(3) as percent of GNP (4)
Calendar year:				
1969	7.7	11.4	−3.7	0.4
1970	14.0	−8.6	22.6	2.3
1971	14.6	−7.3	21.9	2.1
1972	24.3	−3.2	27.5	2.3
1973	21.6	8.0	13.6	1.0
1974	32.4	3.2	29.2	2.1
1975	47.3	−15.3	62.6	4.1
1976	25.6	7.2	28.4	1.7
1977	39.2	2.4	36.8	2.0
1978	43.1	.3	42.8	2.1

TABLE 2.—FORECAST SUMMARY

[Percent change]

	1973	1974	1975	1976	1977	1978
GNP	11.6	8.2	7.3	11.9	10.8	9.9
GNP (1972 dollars)	5.5	−1.7	−1.8	6.3	4.9	3.8
Price of GNP	5.8	10.1	9.2	5.2	5.7	5.9
Consumption (1972 dollars)	4.7	−1.1	1.5	5.2	3.9	4.0
Residential construction (1972 dollars)	−3.7	−24.6	−14.6	22.4	15.1	−2.0
Profits before taxes	20.4	10.2	−10.2	30.5	16.3	5.9
Producers' durable equipment (1972 dollars)	15.2	1.1	−13.6	5.6	11.6	6.0
Consumer price index	6.2	11.0	9.1	5.8	6.1	6.0
Private hourly earnings	7.0	8.8	9.1	7.5	7.8	8.0
Unemployment rate (percent)	4.8	5.6	8.5	7.5	7.2	6.5
Business inventories (billions of dollars)	17.9	10.7	−14.6	15.9	15.7	18.5

Of course, a worse inflation picture could unfold. Some observers fear a strong acceleration in wage increases. In this regard, it is noteworthy that wage gains thus far in 1976 have been smaller than many had expected. And, although I too am projecting some acceleration in wage increases, I believe that continued high unemployment will constrain labor's demands and the terms on which employers will settle.

Of course, there also is the possibility of sharp increases in food prices, perhaps due to extended and widespread bad weather. While this contingency certainly can not be ruled out, I am encouraged by the 16% increase in U.S. crop acreage over the past three years as well as by the fact that stocks are beginning to rise again. Moreover, despite the drought in western Europe, world grain production is expanding significantly.

Additional concerns exist in regard to another major petroleum price hike. Gasoline demand is rising. U.S. energy legislation will permit a 10% increase in domestic crude prices at the end of this year and another one in late 1977. Most importantly, OPEC prices are likely to be raised, probably around January 1 of next year and again in 1978. However, in a year or two, significant production will be coming from the North Sea and from the Alaskan North Slope, and OPEC apparently has become more sensitive to overall world demand factors. I expect that, over the next year and a half, petroleum product prices will rise by perhaps 6 to 8¢ per gallon. This should not cause a sharp worsening in the overall inflation rate.

Anxiety about possible production bottlenecks focuses on the materials sector, where capacity utilization reached 93% in 1973, at the height of shortages. In August of this year, the seasonally adjusted operating rate in the materials industries averaged 81.5%, only slightly above the late winter figure. Assuming only modest capacity growth over the next two years, the prospective demand for materials suggests that operating rates will remain well below the peak-1973 levels. Moreover, there are signs that recent capital spending is being targeted specifically toward potential bottleneck areas. Some individual industries, especially paper, still may experience tight supply, but this situation will be the exception rather than the rule.

Probably the highlight of the forecast is the pattern of reduced economic growth in the second half of 1977 and in 1978 which stems largely from the lagged effects of shifts toward fiscal and monetary restraint and from inhibiting factors inherent in the dynamics of the cyclical expansion process. The rise in real GNP decelerates to a 4% annual rate during the second half of 1977, and for the year as a whole the growth rate falls to slightly below 5%, from the 6.3% predicted for 1976. In 1978 the advance is projected to slip below 4%, even after reflecting a redirecion of Federal Reserve policy toward ease and a somewhat greater fiscal stimulus fostered by an $8 billion tax cut as well as by a moderate acceleration in Federal spending. The slowdown in growth will be felt by most economic sectors, and the decline in the unemployment rate will be arrested in the latter part of the year.

RISKS

Events could turn out worse than this forecast. The inflation rate might significantly exceed my expectations—perhaps because of external forces such as bad weather or sudden military actvity, or perhaps because I have not properly assessed some forces inherent in the economy.

The other major forecast risk would involve a shortfall from the predicted growth-path of real economic activity. It is quite possible that even the moderate shifts I have assumed toward monetary and fiscal stimulus will not be implemented, perhaps out of fear of inducing a resurgence will exhibit a degree of caution in their spending that does not conform to past behavior patterns. While I do not believe that these developments have any very high degree of likelihood, in my judgment, the chance of a peetering out of economic activity *is* greater than is that of a significant acceleration of inflation.

POLICY IMPLICATIONS

If my forecast proves to be reasonably correct—and it will be tracked and modified at least every three months—what are its implications for public policy? In the monetary realm, it suggests that the Federal Reserve can afford to be accommodative for a fairly extended period, and that the dangers of inflation being reignited by booming levels of demand pressing close to productive-capacity limits really are quite small, probably at least for the next two years. I would hope that the Federal Reserve will avoid a mechanistic response to any large near-term rates of increase in money supply figures. By this I mean a response which would produce a substantial jump in interest rates. I believe that interest and conditions of credit availability are quite important and deserve at least as much consideration as any specified monetary aggregates. I have no firm reason to believe that the Federal Reserve thinks otherwise, I might add.

On the fiscal side, I would recommend that policy go somewhat beyond the modest shift toward expansiveness I have assumed in my forecast. There is very worrisome amount of unemployed capital and labor resources in this country. Aside from the great human and economic costs to the individuals directly affected, this is economic waste that weakens our national strength, our world leadership, and the faith of our citizens in our economic system. And in good part it must be viewed as reflecting less-than-optimal public policy. When the Congress, under your new and extremely desirable budget review procedure, considers the 1978 budget I suggest that you reflect not only on such matters as prudence, efficiency, and program needs in arriving at your expenditure and tax goals, though I certainly do not wish to seem to minimize their vital importance, because I do not. But I suggest that you also reflect on the need to provide sufficient stimulus—preferably, in my opinion, in the form of tax cuts—to make greater progress toward reducing this national waste of resources to which I have just alluded. Obviously, I do not recommend that any fiscal stimulus be carried to the point of reigniting inflation. That would serve only to start another cycle of boom and bust. This cautionary note, however, leaves considerable room for positive action.

The United States could be poised for the kind of sustained well-balanced expansion that prevailed from early 1961 through mid-1965—a well-balanced expansion that would have continued well beyond that had we not had a Vietnam escalation on top of Great Society spending with no offsetting tax increases. Many of the preconditions are present. As compared with early 1961, present capacity utilization rates (even after over a year of expansion) are about the same as then and the unemployment rate is even higher. This cushion of unemployed resources provides a capability for relatively high growth for some years without creating demand-pull inflationary pressures. While current inflation rates are indeed higher than in the early 1960's, it is likely that we can avoid an acceleration of prices; in fact if external forces are favorable, there could even be further deceleration.

It devolves upon public policy to provide the measured stimulus to consumers and to business investment to achieve such a result. As in the early 1960's, there should be a balanced program to expand real consumer after-tax incomes and to provide incentives for increased business investment and for the lagging homebuilding sector. Clearly, inflationary developments have to be continually reviewed and offset insofar as possible by appropriate actions. Should they show signs of gaining momentum, they should be dealt with quickly and decisively. But the nature of that threat must be properly diagnosed. And legitimate preoccupation with it should not overlook the parallel danger of economic undernourishment. In my judgment, it would be unwise to starve the expansion to counter price rises triggered by transitory forces or caused by events that can not be significantly affected by restricting demand.

I recognize that the public-policy course I have charted requires great skill both in tracking and interpreting events as they occur over the coming year and in taking appropriate action in a timely fashion. This points up the vital contribution your committee can make to our national welfare and progress.

Chairman HUMPHREY. Mr. Hymans, we welcome you.

STATEMENT OF SAUL H. HYMANS, PROFESSOR OF ECONOMICS, UNIVERSITY OF MICHIGAN

Mr. HYMANS. Thank you very much, Mr. Chairman.

Let me just very briefly mention that the specific forecasts I will be talking about arise from the latest run of the Michigan quarterly econometric model of the U.S. economy, which is part of an ongoing program which has been in existence at the university since the early 1950's.

Let me begin the discussion in as direct manner as possible, let me state that, as I interpret the prospects for the coming year and a half, the American economy is in trouble.

If that is both too blunt and not sufficiently informative, let me clarify.

In the first place, I do not believe that the economy faces a substantial likelihood of sliding back into a recession during the next 18 months.

But I do believe that we are in for a period of inadequate and progressively declining growth of real gross national product, and further, I do believe that a severe unemployment problem—an unemployment rate at best near 7 percent—will be with us for all of the next year and a half.

If I am correct, then by the end of next year we will be looking back at 2½ years of recovery from the worst of our postwar recessions and asking how so severe a recession could have been followed by so anemic a recovery. We will have suffered tragic costs if we allow ourselves to be found in that position.

What is it that generates so dismal an outlook for the rest of this year and next year? Let me tell you how I came to this view. The substantial economic recovery from mid-1975 to the present has been led by two factors: A sharp rebound in consumer purchases, especially the purchase of automobiles and other consumer durables; and the rebuilding of stocks of business inventories. Consumer spending—as well as the mood of the consumer—was depressed for most of 1974, began to recover early in 1975 and moved ahead even more strongly once the 1975 tax cut and the slowing of inflation gave a strong, positive jolt to the growth of consumer purchasing power. The recovery of consumer spending ate into the existing stock of inventories, and production jumped in the fall quarter of 1975 and again in the first quarter of this year. That is the background. Where do we stand now? Consumer purchases of durable goods are at or near record level. We can no longer expect consumers to be leading the overall rate of growth with unusually rapid increases in their spending. Further, business inventory stocks look fairly normal relative to sales, so, again, we can expect little more than a kind of average behavior of stockbuilding activity.

I believe most strongly that the economy is going to have to experience sustained 5- to 6-percent growth rates for the next 18 to 24 months if it is to get back on the track of reasonably full employment in reasonable calendar time. In the period ahead, the source of that growth will have to be some combination of a takeoff in plant and equipment investment and/or a marked surge in residential building activity and/or expansionary fiscal and monetary policies. But no such prospects now appear to be in the offing. The first concurrent resolution on the fiscal 1977 Federal budget envisions an expenditure level of $422 billion in the national income accounts. Even if that target is achieved—and the grant program contained in the $422 billion target looks awfully rich to me from where we are now—it will represent an increase of only 9 percent at annual rate compared with the fiscal 1976 budget. That is much less than the 15-percent increase in fiscal 1976, and once it is discounted for inflation it amounts to a very spare expenditure budget. On the monetary side, Mr. Burns can hardly be interpreted as willing for the Federal Reserve to be anything more than nearly accommodative to the financing requirements of the economy. And that is not equivalent to a stimulative monetary policy. When I factor all these conditions into the Michigan econometric model, the results indicate no reasonable expectation that plant and equipment spending is poised for a takeoff in the near term, or that homebuilding activity is about to surge. On the contrary, the econometric results for the next year and a half may be characterized as follows and as shown in the table[1] attached to my statement.

From mid-1976 through the end of 1977, the rate of growth of real GNP will decline progressively from a 4-percent annual rate in the second half of this year to a 3.7-percent rate in the second half of next year.

And then if we conceive of events that will take place by the second half of next year we will find: That economic growth will have slowed down to that point at which little further progress at reducing the unemployment rate will be forthcoming.

We will find that the rate of growth of consumer purchases adjusted for inflation will be just keeping pace with the growth of real gross national product, not leading that growth.

After adjusting for inflation, Federal Government purchases will be rising at an annual rate barely in excess of 1 percent, thus amounting to a drag on the economy's growth rate.

Business fixed investment, capital equipment, in real terms, will be rising by more than 6½ percent—annual rate—thus leading the growth of real gross national product, but not nearly by enough.

Residential building activity is likely to be stalled, if not declining, by the second half of next year: and I would suggest a housing start level of 1.6 to 1.7 million, which is far below the peak rate of early 1973. If the Federal Reserve does no better than provide weak accommodation for the economy as a whole, homebuilding activity will be subjected to tight credit conditions.

Let me provide a bit more perspective on the prospects for Federal purchases and the outlook for capital expenditures and residential building. In the mid-1960's, these three sectors combined accounted for about 26 percent of the real gross national product: About 11½ percent for Federal purchases, 10½ percent for business fixed investment, and 4 percent for residential building. Since the mid-1960's, Federal purchases as a share of real gross national product have trended downward to a current level of only about 7½ percent. Business fixed investment has fallen to below 9½ percent of real gross national product, and residential building is barely over 3½ percent of gross national product. All combined, these three sectors now account for only 20 to 21 percent of real gross national product, compared with 26 percent a decade ago. And the problem is that with present prospects, their combined share is highly unlikely to move out of the 20- to 21-percent range in 1977, and that is a major reason why the near-term outlook is so gloomy. And we would have to expect a significant expansion in one or more of these sectors if we are going to expect a significant factor in the growth of the gross national product.

One other point must be made before I try to draw conclusions from this analysis. Experimental calculations which I have made indicate that at an unemployment rate of about 4½ percent, the Federal budget would be in surplus to the tune of at least $10 billion, despite the

[1] See table on p. 30.

current deficit of some $50 billion. I, therefore, believe that a tax cut of at least $10 billion is easily justified, from a budgetary point of view, as well as vitally needed. I would aim a good deal of that cut toward the stimulation of business investment expenditures—both to stimulate economic growth and to provide the capital stock needed for more efficient, less inflationary production in the future. I would also opt for a more stimulative monetary policy—to the tune of at least 2 or 3 more percentage points in the rate of growth of the monetary aggregates than is embodied in the Federal Reserve's targets.

I believe that we are facing a difficult time. Business investment and business profits are very low even though they are rising, by the standards of past periods of rapid growth, and the Federal budget is deeply in deficit. In the short run an even larger deficit produced by a sizable tax cut may be absolutely necessary to restore the inducement to invest in capital equipment. This soon after the tax cuts of 1975, it will take special courage to push the current deficit even deeper. And even that may not be enough by itself, for I judge that much of the hesitancy of the business sector can be traced to the myriad of Government rules and regulations which have made it seem ever more risky to tie up financial capital in equipment which may soon be judged harmful to the public interest.

Let me close with a few words about inflation. It is obvious from the tone of my presentation that I am presently far more concerned about unemployment than inflation. I see inflation staying at about 5 percent for the next year and a half, whether we grow at 4 percent or manage to push the growth rate even to 6 percent. And I think that our 5-percent rate of inflation still contains several percentage points which are a legacy of the past. We may need an incomes policy to restrain inflation—I fully recognize and believe that we do. But we are now in far greater need of restoring spirit to what is rapidly becoming a very dispirited economic recovery.

Thank you very much, Mr. Chairman.

Chairman HUMPHREY. Thank you, Mr. Hymans.

[The table attached to Mr. Hymans' statement follows:]

SUMMARY OF RSQE CONTROL FORECAST FOR 1976–77 (SEPTEMBER 1976)

	Actual,[1] 1975.4–1976.2	Control forecast 1976.2–1976.4	1976.4–1977.2	1977.2–1977.4
Percent change at annual rates:				
Gross national product (billions of 1972 dollars)	6.7	4.0	3.9	3.7
Personal consumption expenditures (billions of 1972 dollars)	6.4	5.3	4.5	3.7
Autos and parts (billions of 1972 dollars)	31.2	10.0	5.1	1.6
Business fixed investment (billions of 1972 dollars)	8.1	7.5	6.3	6.6
Residential construction (billions of 1972 dollars)	19.0	16.1	3.1	−.5
Government purchases (billions of 1972 dollars)	−1.2	1.1	1.8	2.1
Gross national product (billions of dollars)	11.1	9.8	9.3	9.3
GNP deflator (1972 equals 100)	4.1	5.6	5.2	5.5
Personal income (billions of dollars)	9.8	9.9	9.4	9.0
Corporate profits before taxes (billions of dollars)	22.5	5.6	6.0	5.2
Level in terminal quarter:				
Aggregate unemployment rate (percent)	7.4	7.6	7.4	7.2
Treasury bill rate (percent)	5.2	5.7	5.3	5.9
Consolidated national income account surplus (billions of dollars)	−44.3	−45.1	−44.1	−44.1

[1] Based on preliminary data.

Chairman HUMPHREY. My first reaction is that—and I say this out loud so that I don't have to put it in writing—I want the staff to see that every member of the House and Senate Budget Committees gets a copy of the testimony of the three witnesses today, and to send this to them over my signature and ask that it be read.

I have listened to a lot of testimony, gentlemen. I have been going to a postgraduate school in economics ever since I have served on this committee. I don't think I have ever heard more thoughtful and informative testimony than I have heard today. I really compliment you and thank you for the work that you have put into it.

There are many common denominators here, and there are some variances, some degrees of differences and emphasis. But you all seem to come out pretty much on the same line. Maybe there is a little argument among yourselves. Washington is not the place for peace and harmony, but for the promotion of fights. We have more fight promoters per square foot in Washington than in any place in the world, even though it is a city supposedly dedicated to peace and understanding.

The last thing Mr. Hymans said here, I think, is terribly important. Let me put it as I see it. When it comes to large-scale capital investment, I think that businessmen are much more concerned about what the rules are going to be, and what the consistency and continuity of the policy is going to be, than they are even about the policy itself. They learn how to adjust to a policy. They have preferences, to be sure. But it is this off again, on again, this uncertainty as to what is going to be the fiscal policy, the monetary policy, and what the concurrent budget resolutions are going to be, and what the regulatory measures are going to be. I think that has had a tremendously deadening effect upon capital investment.

Most of our corporate executives today almost exercise fiduciary responsibility, they don't own the plants, they are the higher managers of these great combines. They must wonder just what is going to happen 1 year from now, or 6 months from now, what is Congress going to do, what is the White House going to do, what is the Federal Reserve going to do, what are these regulatory agencies going to do. And all of that is bound to have a dampening effect and, indeed, a deadening effect upon the rate of investment. And that to me is central to a good deal of my thinking about economic policy. It is like saying that you can get used to walking with a short leg once you know that it is there, and you can accommodate yourself. But if somebody keeps adjusting your leg every other day you are apt to stumble. And most likely you won't want to take a long hike. We have these adjusters, we have political chiropractors around here all the time, and they adjust everything. I like to go to the chiropractors; I want to make it clear that I don't have a bias against them at all. In fact I went to one the other day and he helped me a great deal. My sacroiliac went out of joint.

But I just want to make these couple of observations.

Mr. Brimmer, you pointed out something which is obvious but doesn't seem to be getting much attention: That we do have supply problems. I guess another term for it is, we have structural problems in our economy that exacerbate our difficulties, prices, and whatnot. We don't seem to have yet developed any mechanism within government policy to get at what everybody knows exists.

We used to have certificates of necessity. I remember we built a refinery in Minnesota at the time of the Korean war, when there was a shortage of materials, and you weren't supposed to be building any refineries. But for two reasons we built a refinery. One reason was we needed it. And the second reason was that I was a Senator. I believed in doing everything I could for my State and we just got a little tired of depending upon somebody to bring us up a bucket of oil every once in awhile. It gets cold up our way, you know. We thought we ought to have the refinery to take care of our needs. Well, it was the worst of all times to think of building a refinery. After all, there were pressures on our economy—the Korean war, and we had tremendous inflation. All at once, before we got the controls on it, everybody anticipated the controls and they raised the prices 10, or 20, or 25 percent—I have forgotten the exact figure, and then they got the controls on top of it. But there was a bottleneck. We needed that petroleum. We knew where the supply was. It was in Canada. We knew where the market was. It was where our people lived. An order called a certificate of necessity was issued. If you had one you were able to get the materials and the capital, everything to get it done.

Now, we have these bottlenecks in this economy. We just go along pretending they are not there. I am going to tell you something, I hope I never, ever meet a doctor who is like that, because that is the sort of fellow who finds out that you have got arterial problems, or you have got a weak vein wall, or you have got a blockage in the artery, and he says, don't worry about that, what you really need to to do is jog. We believe in jogging regardless of whether you have got any blood coming through the system, just jogging. If you fall over dead they say, well, it was the parking system that wasn't working.

I just want to underscore that point. I don't think anybody is listening—don't misunderstand me, we go through these recitations. Sometimes I feel that we in this sort of a retreat here where we are meditating, and there seems to be lots of religion nowadays anyway. Nobody seems to be doing much about it. But it is worthwhile talking about it, because it may seep out sometime. There are leaks. Maybe we can get Daniel Schorr over here and he can tell somebody about it and get it out where it belongs.

One thing, Mr. Grove. I noticed your discussion about inflation and the agricultural outlook. For a man from IBM to know as much about agriculture as you do—tell me, how did it happen? I have yet to meet anybody from industry that seems to be as informed about the world food situation as you, sir. You are unusual. Are you a farm boy?

Mr. GROVE. Well, I spent my summers on a little farm in Maine. But I learned most of what I know about agriculture when my wife inherited, along with some cousins, a share of two farms in Nebraska.

Chairman HUMPHREY. That will teach you something.

Mr. GROVE. And when I see how little income comes from those farms I wonder why anyone stays on the farm any more.

Chairman HUMPHREY. That is what I meant when I said it would teach you something.

You said, Mr. Grove, in your prepared statement—and by the way, I commend you for your prepared statement—I am going to steal a good deal from this prepared statement that will appear as original Humphrey text—you have some commentary about wages, which I think is fair and balanced. You say, there also is the possibility of sharp increases in food prices, perhaps due to extended and widespread bad weather. While this contingency certainly cannot be ruled out, I am encouraged by the 16-percent increase in U.S. crop acreage over the past 3 years, as well as by the fact that stocks are beginning to rise again.

Moreover, despite the drought in Western Europe, world grain production is expanding significantly. All of which is on target, every bit of it. The actual truth is that grain prices are going down. And for the immediate future—and I just wanted to caution you here—there will be a drop in beef prices. There is going to be a big carryover, of wheat. This hasn't hit the mark yet, except the boys who are really smart that are looking down the road. If you really want to find out what is happening in agriculture, go to Chicago, don't go to Earl Butz over here at the Department of Agriculture. The fellows down there that play those futures, they have some pretty good ideas of what is going to happen.

We are going to have about 800 to 900 million bushels carryover of wheat. Now, fortunately, most of that is still going to be in the hands of farmers, which means that the Government can't play tricks with it—dump it in the market. But farmers can only hold that so long, because it costs a lot of money to hold that wheat. So, for a period of time there is going to be lower prices. The farmers in Minnesota think they are not lower prices, they think they are disastrously low prices. If you put on top of that those that are afflicted with drought, which is a regional problem, it is a real serious situation.

I do think that in the long run we have to keep in mind the possibility of higher food prices. But in the short run, particularly for the balance of this year, and for next year, I would think that grain prices as such, which affect all our products, livestock, poultry, and so forth, will be somewhat lower. The reason is a big crop in Bangladesh, which was a basket case a year ago, a big crop in India, and the Soviet Union will have at least 205 million, maybe 210 million metric tons. They had anticipated 215, but they will be close to their target this year. We don't know what China will have. That is always a question mark. The Argentine crop is better. The only place that there is a bad crop in the world today of any significance, is in Western Europe. Actually, the African crops are pretty good this year. We don't have the same problem that we had in Swaziland that we had about 2 years ago.

I notice that our own Government is having a little trouble, right now in the election year there is a strange mixture of what I call parochial economics, as they suddenly decide to send out a lot of that Public Law 480 grain just as we get down closer to November. The spirit of the Lord moves them, and all at once we load up the ships and we are looking for hungry people all around, because that does raise the price a little bit as those Public Law 480 shipments go out. But it is not fooling anybody who has been around here a long time.

It will be just a little injection. Then it will subside.

Mr. Grove, your estimate is that food is not going to be, in the next couple of years at least, a major inflationary factor?

Mr. Grove. That is right.

Chairman Humphrey. That is No. 1. And, No. 2, I understand your estimate is that energy will not be a major inflationary factor—we have had a big shot of inflation due to it—over and beyond what we have experienced.

Mr. Grove. There will be some increases which I specify.

Chairman HUMPHREY. Yes, I notice that there are some.

Mr. GROVE. But the indication is that this should not cause a sharp rise in the overall inflation rate.

Chairman HUMPHREY. Why do you say that? You figure about a 6-percent increase in prices?

Mr. GROVE. Per gallon, 6 to 8 cents, because the share of fuel costs of prices in the overall price level is not that high.

Chairman HUMPHREY. Also would you attribute greater fuel efficiency use? Industry has learned to be more efficient.

Mr. GROVE. Yes. Certainly business and consumers are gradually responding to that as they replace equipment, and as they have an opportunity to make the various changes in their homes and elsewhere that enable them to increase their consumption of energy at somewhat lower rates.

Chairman HUMPHREY. Mr. Hymans, you said you would provide a bit more perspective on the projects for Federal purchases and the outlook for capital expenditures of residential building. Then you give us the period of the 1960's, in which accounted for about 26 percent of the real gross national product, 11½ percent for Federal purchases. Now, you say that, in the current level, is about 7½ percent. Would you like to explain that?

Mr. HYMANS. Explain why it has gone down?

Chairman HUMPHREY. No. You see, I try to explain from time to time that everything is relative, there is some kind of a view out there that while it is perfectly all right for wages to go up, for the price of wheat to go up, and for understanding that the price of other things have to go up, that somehow or other the costs of government ought to come down. When you take a look at the total gross national product, and you say that the Federal purchases proportion of the gross national product has truly dropped, then they say, call the doctor, this fellow is in trouble, or he is the biggest liar that we have had since the last fellow from Washington came through.

Now, how do we get this media of ours, this print media in particular, to truly understand the situation? I am not picking on any of your folks out here at the table. But how do we get these editors, who write those editorials, to understand what you are saying?

Have you ever held a seminar for editors? Would you like to establish one, Mr. Hymans? I would be glad to put in whatever little bit I have.

Mr. HYMANS. I think it would be fun to participate in one, Senator.

Chairman HUMPHREY. Do they ever go to seminars on economics, these fellows that write these economic editorials? Have you ever had one up in Michigan? You have got a great university there, the second best to Minnesota.

It bothers me, honestly. I have all the respect in the world for your professional competency. Now, I am not asking about the political judgments that have to be made. That is another question. How people use facts and figures is a question of policy and judgment. But for some reason or another we ought to be able to agree on the statistics. It is like I used to say when we would have the Council of Economic Advisers in here, they would give us one set of statistics, and the next thing you know we would have the Office of Budget and Management with another set of statistics, and our crowd around here would come up with a third set of statistics, talking about the same country at the same time, the same people, the same month. Finally, the Federal Reserve Board would come up with its set of statistics.

Mr. Brimmer, you know how difficult this problem was. We would never be able to get the same figures. It is better now. I really think Mr. Burns helped on this. I have a great respect for him. He has got some clout around town. He pulled things together. We began to get statistics that are at least close to one another. From that point on, then, judgments can be made. People like myself who are elected, and maybe people you don't think too much of, but they get here some way or other, we have to start to make judgments. Here is your judgment, Mr. Hymans. You say in the mid-1960's three sectors, Federal purchasing, business fixed investment, and residential building, combined to account for 26 percent of real gross national product; and about 11½ percent for Federal purchases, 10½ percent for business fixed investment, and 4 percent for residential building.

But, Federal purchases are now only 7½ percent of real gross national product. Why is it that the public thinks that the Federal purchases are up to about half of the gross national product?

Mr. HYMANS. Well, I would suggest that part of the confusion arises from the fact that people think of government as being one group. It is true that the share of gross national product accounted for by State and local government purchases has somewhat counterbalanced the decline in the Federal share.

Chairman HUMPHREY. I agree.

Mr. HYMANS. The people look at the combined governmental share.

Chairman HUMPHREY. Yes. But when you are running for office, you have got these States and local governments here. Put it all back to them and it will work beautifully. I have a son who is in State government, so I can speak disparingingly on this issue. But it is a fact that many people say, well, if we should just give more money to State and local governments and let them do everything. But the real truth is that there is a certain amount of things that have to be done and have to be paid for in a certain way, whether by daddy, or mommy, or a brother, or sister, or cousin, or uncle, somebody pays for it. There is a lack of communication here. I know it is not going to do any good to say what I am saying. But I am going to keep at it anyway. There is economic ignorance in this country. I am not opposed to breaking it down as to what is the percentage of gross national product that is State and local. I recognize that that has gone up.

Gary Hart, a new Senator from Colorado, a brilliant addition to the Senate, made a speech the other day pointing out that there are actually fewer civilians at work in the Federal Government now than there were in 1954. But you know we never let facts stand in the way of fiction. So we have got people charging around the country talking about this huge Federal Government up here. And people believe the fictitious speeches and ignore the facts.

I mention this to you because you are a professor and I feel it is your obligation to correct all this.

Mr. GROVE. Senator, I think it should be pointed out that while the figures here on Federal purchases of goods and services have declined as a ratio of gross national product, that is, in good part, because the big increase in Federal Government spending has been on transfer payments. There has been a much larger increase in Federal expenditures for transfer payments than on purchases of goods and services.

Chairman HUMPHREY. Those are the ones I like.

Mr. HYMANS. But a good part of that also is a huge rise in unemployment compensation. That is not something you want to take much credit for.

Chairman HUMPHREY. Now, I want to get back to a couple of matters here. Here are your predictions. Let me see if I am correct here.

For real gross national product growth next year, you predict the following, Mr. Brimmer, about 5.3 percent, is that right?

Mr. BRIMMER. About 5.3 percent.

Chairman HUMPHREY. Mr. Grove, about 5.9 percent; and Mr. Hymans about 3.8 percent. Now, for the unemployment rate, Mr. Brimmer predicts about a 6.8 percent average for next year; Mr. Grove, 7.2 percent; and Mr. Hymans, 7.2 percent in the final quarter of next year.

For the inflation rate next year, as measured by GNP deflator, Mr. Brimmer, you estimate 5.6 percent; Mr. Grove, 5.7 percent; and Professor Hymans, 5 to 5½ percent.

It all adds up to a picture of rather slow to moderate gross national product growth with no appreciable acceleration of inflation and a continued high level of unemployment.

Would that be your summation of your statements in those catagories?

Mr. BRIMMER. Yes. That captures the essence of what I have to say and what I hear my colleagues here saying, with respect to specific numbers. But I was saying something in addition to that, Mr. Chairman. I was saying that I see no mainsprings of growth which would provide additional stimulus from the private sector. Thus, the economy seems to be stuck in an equilibrium well below the full utilization of resources with no inherent tendency to get away from it.

Chairman HUMPHREY. You make that statement.

How do you feel about that, Mr. Grove, what Mr. Brimmer said?

Mr. GROVE. I would agree with that.

I would add a couple of other notes. I think one has to look at the quarterly pattern. The quarterly pattern shows more of a slowing down that the annual rates do.

Second, I would note that we do have a potential for several years of quite high rates of growth, we have conditions not unlike those that existed prior to the period 1961 to 1965.

Chairman HUMPHREY. You outlined that.

Mr. GROVE. So that it would be appropriate to set fairly high growth rate targets.

I would also point out that I made some fiscal policy assumptions that are by no means preordained, and might, in themselves, be regarded as more expansionary than those that would be advocated by some people. In addition, I recommended stimulus over and beyond those that I used in the forecast.

Chairman HUMPHREY. Professor Hymans.

Mr. HYMANS. The precise thrust of my presentation was this pattern of declining growth that we forecast from now to the end of 1977, the fact that it will clearly be well below anything that would continue to reduce unemployment very soon. We are going to be at a growth rate below 4 percent by the end of the year. As Mr. Brimmer indicated, the precise point I was making is that I don't see where, in the private sector. there is going naturally to come forth the elements that would turn that situation around and produce an accelerating growth rate.

I think we sorely need growth rates for the next couple of years of about 6 percent.

Chairman HUMPHREY. Let me pick your brains just a little bit more. What the three of you are saying, in substance, is that you see nothing in the private sector that is of such substantial significance that it can promote a rather sharp acceleration in the growth rate; is that correct?

Mr. Grove, Mr. Brimmer, and Mr. Hymans, you all agree on that?

And you see a continuing rather high rate of unemployment, around the 7-percent figure.

Is that correct, Mr. Grove?

Mr. GROVE. Yes, sir.

Mr. BRIMMER. Yes, Mr. Chairman. And as I stressed in my prepared statement, that is just the national rate.

Chairman HUMPHREY. That is national rate. I want to break that down a little bit later.

Mr. Hymans.

Mr. HYMANS. The same thing.

Chairman HUMPHREY. Now, you have recommended a tax cut, Mr. Grove, an additional tax cut of about $8 to $10 billion?

Mr. GROVE. Well, I assumed a personal income tax cut of $8 billion in 1978.

Chairman HUMPHREY. That is over and beyond what we have done in the current tax law that we just sent to the President?

Mr. GROVE. Absolutely, yes. I didn't indicate the additional amount that I would feel would be appropriate. But given the size of the economy, I believe a number twice that size, in other words, let's say $15 to $16 billion, would be appropriate, although my forecast I assumed that the cut would be only $8 billion.

Chairman HUMPHREY. Your assumption of $8 billion is that you feel that the necessity of it will be so evident that the Congress and the President, whoever he may be, will see that it is a minimum, is that correct?

Mr. GROVE. That is my expectation.

Chairman HUMPHREY. But on top of that you feel that in order to get the kind of growth rate that you feel would be desirable, that you would need a larger tax cut?

Mr. GROVE. I think that is true. I think one of the problems is that we tend to think of tax cuts in terms of levels that were appropriate when the total gross national product was much smaller than it is today. But we must recognize that we are now dealing with a very, very large base, in fact one so large that most economists don't even pay much attention to the level of gross national product, they talk in terms of annual percentage increases, but it is $1½ trillion or thereabouts. So that, when one talks of tax cuts of $8 or $10 billion, these don't have nearly the same relative significance that they had, say, 5 years ago. And that is why the number $15 or $16 billion that I have referred to may seem like a large amount. But I think, if put in proper perspective, it would not seem large relative to some of the fiscal actions that have been taken in the past.

Chairman HUMPHREY. Yes. That point needs to be made. Those who are in the governmental structures themselves are always expected by the general public to adjust their thinking to the new arithmetic, to the new statistics of economics. This is one thing that I constantly find is the problem as I go about the country in my sometimes futile efforts to try to explain my point of view. I recognize that each of us does have some point of view that may be different from another. But the biggest problem that you have is to get people to comprehend that we are not talking about a $500 million gross national product, we are talking of $1½ trillion. People don't comprehend those figures, they can't cope with them at all. And it is very, very difficult to explain the economic policy today with any degree of understanding because people don't get that picture. The only time that they get it is when they buy a car.

You know, I get that. I was thinking about buying a car. I am a tightwad, I want you to know. If you don't believe so, you ask Mrs. Humphrey. Politically, I am supposed to be a spender and a liberal, but, privately, I am very conservative, and when it comes to money I am a real tightwad. Most people that know me know it, so I try not to pick up too many bills, figuring that you can always go to the men's room one more time, or something like that. But I am, in fact, that kind of person. I grew up in a family with a Midwestern work ethic. Dad wanted to know where all the money went, and mother thought they knew and never did. So I grew up that way.

So I understand why people have problems dealing with economic facts. But when I found out what it costs to get what they call a little car—I went out with my sister to look at a Pinto. I decided that we all ought to buy bicycles. They are expensive, too. It is incredible. You can't get a car with wheels on it for less than $4,000 if you have got anything that is inside beyond a harmonica. That is when people begin to understand what is happening. But to get them beyond that figure, and to move them up into what we are talking about in the Joint Economic Committee is a task that I hold all professors accountable for. They have to teach more specifically there.

This is our problem, seriously. That is why it is very difficult to get a sensible discussion of economic policy in elections. I will go home to my State and have arguments and debates with my opponents. The very first thing they will remind you of is 10 years ago, you know, this, and that, and so on. What has 10 years ago got to do with what is happening now? It doesn't have anything to do at all, except that it makes a mighty good speech. You can just see the folks nodding their heads. You are up there trying to talk to them about what is really going on, and they look at you and say: "Well, he has been there too long." The way you protect yourself is to project back 10 years ago and be as ignorant as your opponent. Then you have a chance to get reelected.

I have a feeling that there is a lot, right now, going on in higher places. I had better be careful or I will get in Newsweek, or Time, or something.

Do I gather that you favor a tax cut, Professor Hymans?

Mr. HYMANS. Yes, very definitely. I have suggested that a $10 billion tax cut not in 1978, but as soon as possible, would be justifiable on many grounds. The two most important grounds on which I think one could justify it is that I believe very strongly the economy needs more stimulus, as I have already pointed out.

Second, I think all of the calculations that one undergoes to try and determine what a full-employment surplus would be are very problematical. But I think there would be no disagreement that a full-employment budget now would produce at least a $10 billion surplus in the Federal accounts and, therefore, that easily justifies a tax cut of $10 billion.

Chairman HUMPHREY. Politically it may not be, but economically?

Mr. HYMANS. Economically it is, and I think the same Congress that had the guts in the middle of a recession, with an already large deficit, to pump out tax rebates and tax cuts, ought to be able to find a little bit more intestinal fortitude to realize that that was the right policy at that time, and there is still a very sizable unemployment surplus, and the economy is sorely in need of further stimulus now.

Chairman HUMPHREY. You know the reason why we haven't done that now. It is because we have to go home and talk to the folks. The folks don't believe a word of what you say, because they have been reading a lot of trash.

Mr. HYMANS. But you will be back in January.

Chairman HUMPHREY. Who was the fellow that wrote these fairy tales? Hans Christian Andersen. They have got a lot of these Hans Christian Andersen economic writers that are telling people a lot of fiction. I am here to tell you—and I want to say to you, my friends, that what you said to me makes a lot of sense. All three of you have said pretty much the same thing. I don't know much about your political background, and I am not really concerned about that. But you are giving us what I consider to be solid material that is at least worthy of our consideration. You just said something very important, that the Congress had the courage, and the President went along with them, in the depth of the recession to really come to grips and give us a tax cut. The reason was, they got deathbed religion. You get holy when you think you are about ready to roll over and face downward in the good old dirt. But now they have been telling us we have got everything under control. Things are moving up again. We have prosperity, and things are good.

So the idea now in this Congress—and I know this Congress, I have been around here a long time—is to ignore what you are saying. I know why they won't contemplate anything that you are saying. Because they feel when they go home with that suggestion it will be blown out of the water.

I hear people talking about a balanced budget and no new Federal programs. There is a contest on now which one of the Presidential candidates can give the greatest assurance to the American people that there will be no deficits. But if you have another tax cut you are going to have to add onto a deficit temporarily, aren't you?

Mr. HYMANS. Sure, absolutely.

Chairman HUMPHREY. You don't think that by putting a $10 billion tax cut on that you are going to overcome the Federal deficit in the next year?

Mr. HYMANS. No.

Chairman HUMPHREY. Mr. Brimmer, I want to hear from you.

Mr. BRIMMER. Mr. Chairman, I apologize to you——

Chairman HUMPHREY. You have got to go, that is right.

Mr. BRIMMER [continuing]. For having to go off and get on an airplane, but I explained to your staff that I had that commitment.

But may I say a couple of things before I leave?

Chairman HUMPHREY. Yes. Would you give us a little more on that breakdown of the unemployment picture that you were going to?

Mr. BRIMMER. Yes; I will do that, Mr. Chairman.

But before doing that, I want to call your attention to the fact that I did not recommend a tax cut.

Chairman HUMPHREY. I noticed that. I want to know why.

Mr. BRIMMER. It is not because I do not think it is desirable or needed, but I do not think we could get it.

I realize, with no reflection on Congress, that Congress may have put itself in a position of less flexibility to manage fiscal policy while it was making an attempt, and a successful one, to manage its budget more efficiently. The budgetary process that was used in the new fiscal year beginning next month essentially locks the Congress in for a very long time both on the revenue side and the spending side. That being the case, I am not particularly optimistic about the ability of Congress to come back into session in January or the early months of next year and address itself successfully to the kind of economic policy stimulus we are talking about.

Consequently, I would pursue a different course. Rather than stressing a tax cut, I would rely first on a longer term relaxation of monetary restraint. In my prepared statement I had a note which said that the Federal Reserve probably would return to a policy of restraint sometime next year. I think it would be unwise to do so to any great degree. Instead, I would like to rely on a monetary policy to provide a much greater proportion of the stimulus that we should have, because they have the flexibility to respond to it.

Chairman HUMPHREY. They don't have to count the votes.

Mr. BRIMMER. They count the votes, but they only have to count 12 of them.

Chairman HUMPHREY. That is what I meant.

Mr. BRIMMER. Also they can adjust the implementation of monetary policy with much greater precision. That is where I want to start. Unless we do a great deal to assure that we have a housing expansion that can be sustained beyond the level being forecast it would be impossible.

It would also do a great deal to make certain that inventories can be financed without substantial increases in the prime interest rate.

And it might help a little on the plant and equipment side.

So that is where I would want to look as far as the consideration of monetary policy is concerned.

Then I would look to the Congress to spend more on highly targeted, specific kinds of programs. That, too, would provide some stimulus to the general economy, but it would do it in a way which would not necessitate a complete replaying of the drama of a tax cut.

And for the reason I stated in my prepared statement, I would want to see that highly focused spending on the kinds of human resources programs which would be very helpful for reducing the unemployment rates among young people, blacks, and others as I spell out in my prepared statement.

Chairman HUMPHREY. On monetary policy, could I quickly put this to you, Mr. Brimmer. The other two gentlemen may want to comment also. During this recovery we have had a moderate growth of money supply. The money supply has been consistent with stable and declining interest rates. This has surprised many people. It apparently will be due, at least in part, to surprisingly weak business demands for bank credit. Total bank loans to business have now been declining for well over 1 year. Will this continue, or will the Federal Reserve soon have a difficult choice between the faster money growth and life interest rates? If so, which should they choose?

Mr. BRIMMER. First, Mr. Chairman, I expect the demand for funds by the business sector to remain sluggish for sometime. Many analysts have been expecting a prominent increase in bank loans to business month by month. It has not happened. It has not happened because liquidity is high, given the level of activity of corporations, but also because corporations are extremely cautious in inventory management. There has not been the replenishing of stocks which one would expect, even given the sluggish economic progress that we have described. We should not expect to see a sustantial loosening of the controls on inventory management.

Bank loans are expensive when you compare the commercial bank prime rate—even with the reduction that has occurred—with alternative sources of funds—such as commercial-paper rates. Bank loans are expensive, and businesses are economizing on them. I stress the sluggish demand for credit rather than the generosity of supply of funds by the Federal Reserve. The Federal Reserve has been accommodating; the Federal Reserve has not been generous with respect to the supply.

Consequently, if demand does pick up, as I think it will moderately, interest rates would rise, and we may get a sharp uptick in short-term rates early next year if the present monetary policy were to be maintained. So I would hope——

Chairman HUMPHREY. What is your view on long-term rates, Mr. Brimmer? I know you have to go.

Mr. BRIMMER. I think long-term rates, triple-A bonds, corporate bonds, may be at 8 percent or 8¼. They might ease down just slightly and then begin to rise with a lag in response to short rates by the middle of next year. But I would not expect a substantial spurt in long rates.

Chairman HUMPHREY. You don't expect rather sharp gyrations, do you, in these rates?

Mr. BRIMMER. No, Mr. Chairman, I do not.

Chairman HUMPHREY. I think again, speaking personally, that even though the rates may be high, again if there isn't this uncertainty it is better.

If you have to go, Mr. Brimmer, you feel perfectly free to go.

Mr. BRIMMER. I apologize, Mr. Chairman.

Chairman HUMPHREY. May I say that your statement on the unemployment problem, particularly in particular sectors, is a masterpiece. I want to thank you very much for it. I am going to take the liberty of sharing it generously with my colleagues in Congress.

Mr. BRIMMER. Thank you, Mr. Chairman. I am sorry I have to leave.

Chairman HUMPHREY. I want to ask you gentlemen a couple of more questions.

You have heard Mr. Brimmer discuss monetary policy.

Mr. Grove, would you like to make a comment?

Mr. GROVE. Yes. I wouldn't disagree with his recommendations on monetary policy. I didn't go into any recommendations at any length, because this committee doesn't have the same direct responsibility in the area of monetary policy that it has in the area of fiscal policy. I did say that in the monetary realm my forecast suggests that the Federal Reserve can afford to be accommodative for a fairly extended period, whereas in my assumptions I assumed that they would start tightening up sometime next year.

The reason I didn't recommend tax action before then was for the reasons that you and Mr. Brimmer mentioned; namely, practical considerations.

So I have no disagreement. Mr. Brimmer didn't indicate whether or not he would favor tax action in 1978. He limited his remarks, I judge, to 1977 because the invitation from the committee did ask for our views for 1977.

Chairman HUMPHREY. Yes.

Mr. GROVE. I extended mine into 1978 because I know that you have to think about 1978 in 1977.

Chairman HUMPHREY. On monetary policy, do you favor a policy which keeps interest rates at or below present levels, even if it means money might grow in excess of present Federal targets?

Mr. GROVE. I would like to see interest rates kept at their present levels, and not rise next year. I don't know what rate of growth in the money supply or the monetary aggregates would be consistent with that. Personally, having gotten my doctorate at Harvard, I never have been greatly enamored with the Chicago school's money supply theory. I would say that money supply growth should be whatever it takes to provide the sort of credit market conditions that are considered appropriate.

Chairman HUMPHREY. Mr. Hymans, do you have any comment on that?

Mr. HYMANS. Yes. I would suggest, as I mentioned before, that I think the Fed's targets on the growth of monetary aggregates are 2 or 3 percentage points below where I would like to see them, indicating that I think interest rates are going to go higher than I would like to see them if the Fed. continues to pursue its policies.

I would make one further comment. I made a few solemn predictions about the future. Let me make one happier prediction that may be politically more palatable. That is, I think it is true about the University of Michigan, and about the University of Minnesota as well, that both of these institutions, and most other colleges and universities around this country, are turning out a greater proportion of graduates than ever before who understand that there is a big difference between a Federal deficit that derives from a spendthrift Congress and a Federal deficit that derives from some factor which has depressed the economy. I think more and more of our students understand this. They are obviously not the majority of voters yet, they are not the majority of adults in this country yet, but they are becoming more and more important in the constituency that the Congress, I think, will have to look toward in the future.

Chairman HUMPHREY. I hope you are right. I am afraid I was born too soon. That has been the story of my life. Timing is all important.

One thing that I do find is that, and I take justifiable pride in spending a lot of time with constituents, there isn't a weekend that I don't go home to my State—I find that when I talk to the people out there, that I get a little different view about the economy than what I sometimes get here in official quarters. I talk to contractors, for example.

If you want to really get an earful of trouble, you just talk to a good, hard working, honest, Midwestern contractor who is not trying to have any ripoff, but who just likes to build a few buildings, build a few homes. One of them got ahold of me the other day, and he got me at the worst possible time—I guess he thought it was the best time—because Governor Carter was in our State, and I wanted to at least be somewhat attentive to the distinguished Governor and his official party and my constituents. But this fellow would have none of that. He wanted to remind me of what went into the cost of building a house. He started talking to me about construction of homes. He said, Senator Humphrey, if I don't get anything into your head in all of our time and years of association, I am going to take the time now to pound it in. He said when he has to go to a bank and borrow money or get a construction loan and have to pay *x* percent, he has to put that in the cost of that house. He said the increase in the cost of money is more than he has had to pay in the increase in the cost of the building trade that he has to negotiate with. He said why don't you get up and tell people this.

I thought, my God, I have spent a whole life here trying to inform this man who is my constituent. He is a big businessman, and he got ahold of me for 25 minutes—and it is not an exaggeration—to give me a first-class lecture on what is happening in the construction business.

Now, housing is in the doldrums. I don't care what the new start figures are. I know, in my city of Minneapolis, that over 20 percent of the building trades people in that city are unemployed. I know in Mankato, Minn., 40 percent of the finest labor force that we have is unemployed. I know that if you go to Rochester, Minn., it is better than the other two, in terms of employment, but unemployment is almost 20 percent.

I know that there is money in the Federal savings and loan banks out there. They have got lots of it, they keep publishing in the paper how much they have got. I know that the bank deposits in my State are as big or better than they have ever been in the history of our State. We have workers. We are not short of lumber despite the forest fires. We have all kinds of brick and mortar. We can transport. We can get the money. Why is it, then, we are not building the houses? Would you tell me what the main bottleneck is? This contractor told me it was interest.

What do you think, Professor Hymans?

Mr. Hymans. I don't know what the circumstances are in your State, sir.

Chairman Humphrey. Just take your State. Michigan is worse than we are.

Mr. Hymans. That is right. Our problems are that Michigan incomes are just beginning to recover from the disaster period in 1974–75. Interest rates are very high. There is still a lot—in some places there are still pockets of apartments that are unrented.

Chairman Humphrey. Overbuilt.

Mr. Hymans. All these things combine to produce a very sorry picture in construction in the State of Michigan.

Chairman Humphrey. Let me get at it more simply.

Do you think these housing interest rates are going to come down? Or will it be similar to the problems with petroleum prices which we experienced? You know we had quantum jumps, and you sort of adjust yourself to it, or you have to live with it. What is your judgment? I am speaking now of construction primarily.

Mr. GROVE. As long as we have inflation in the 6-percent range, the real cost of money, the money that we are borrowing at 9 percent, is only 3 percent. We are really no worse than when we had no inflation at all and we were paying only 3 percent. Personally, I don't think it is the interest rates that are the main factor. People get much more interest on their savings deposits, and on their savings bonds, and on Government bonds now than they ever got before. So you have to look at what they get as savers as well as what they pay as borrowers. I think the principal problem is the lack of income, the real spendable earnings of the typical wage earner in the United States are not now back up to where they were in 1973.

So, while a builder understandably is concerned about the high cost at which he has to borrow money, my guess would be that even if he could borrow money at 5 percent, he would still have difficulty in today's economic environment in selling homes, for some of the reasons Professor Hymans has indicated.

Another factor is the current situation of mortgage lenders. Look at the REIT's, for example; for almost all of them more than 50 percent of the construction loans they made in the past are in arrears. They obviously simply can't afford to make loans to builders unless they have every reason to believe that builders can sell the homes and sell them promptly. Because the builders, for the most part, are not well enough capitalized any more to enable a lender to say: "It really doesn't make very much difference whether the borrower can sell the house and lot, he has enough liquidity and enough assets so that he can pay off a construction loan." So you have a combination of circumstances. I think that the situation has to be looked at in its totality, rather than looking at any one of the variables.

Chairman HUMPHREY. I guess the basic question is, can you really have a truly, genuine, healthy recovery without a construction recovery?

Mr. GROVE. It might not be impossible, but it certainly is difficult.

Chairman HUMPHREY. I just noted here that on that matter of the construction doldrums, several major categories of construction remain depressed due to more or less long-term economic and demographic factors. For instance, real spending on highways is down about 15 percent since 1973. The Federal highway program is now grinding toward completion. I might add there is no need for that. Because there is a desperate need for improvement in our county roads, and what we call our feeder roads. Commercial construction, shopping centers, office buildings, and the like is depressed about 5 percent in real terms from its 1973 levels. This sector tends to depend on residential and highway construction. Building by utilities, which comprises two-thirds of the industrial type of construction, is down by about 10 percent from 1973, and may remain somewhat depressed or suppressed due to slower growth in the electric power demand now foreseen for the long terms. Also, it will be somewhat delayed due to environmental problems.

Public investment in educational facilities is down because of the declining school-age population. We all know the sad story of residential construction. Yet the current period probably offers the lowest interest rates of this business cycle; that is, the most capable conditions for construction that are now foreseeable. Despite all of this, we have a construction recession.

Mr. HYMANS. In the residential area, Senator, a lot of the problem is still centered in the multiunit starts.

Chairman HUMPHREY. Yes.

Mr. HYMANS. Single-family starts have recovered very nicely. It is the multiunit starts, some of which have to do with perhaps the road construction industry, or with the shopping centers, and with overbuilding and the financing problems. REIT's and so on, when that is going to end and how soon is going to be very hard to predict. But that is a big chunk of it, the multiunit starts. That is where the depressed state still exists.

Chairman HUMPHREY. I think this is an area where our experts, such as yourselves, should try to give more attention. Don't misunderstand me. I know it is a sticky or difficult area. But it is understandable that if you are going to get absorption of the semiskilled and the unskilled worker, much of it has got to come in the construction industry. There won't be a full recovery in the country without a tremendous rebound in construction. This gets right at our center cities where you see such massive deterioration. It gets at the needs of our water and sewer programs and our network of highways. We have contented ourselves with a very big Interstate Highway System. In my State, the current program for highway construction will eliminate 15,000 miles of county highways from Federal assistance. You know, everybody cannot live on the interstate highways.

Mr. HYMANS. As I look around Michigan, Senator, it seems quite obvious that there is a tremendous improvement in the rail bed that would have very important positive social consequences.

Chairman HUMPHREY. I think it is just a matter of getting our thinking straightened around as to what the role of the private and the public sector is in these areas.

Gentlemen, I have to go cast a vote. I would like to spend more time with you, but I cannot.

I want to thank you very, very much on behalf of the Congress. I want you to know that your testimony will be widely circulated among our Members. I believe that what you have had to say is vitally important for the Committees on the Budget of the House and the Senate. I also think it is important for our Banking Committees. This committee is one that seeks to draw the information together. We are shoppers in a sense, distributors of information. You have helped us. I was very pleased with the content and the quality of your testimony.

Thank you very much.

Mr. GROVE. Thank you very much, Senator.

Mr. HYMANS. Thank you.

[Whereupon, at 12:10 p.m., the committee adjourned, subject to the call of the Chair.]

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