POLLSTERS REPORT ON AMERICAN CONSUMERS AND BUSINESSMEN

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-FOURTH CONGRESS

FIRST SESSION

PART 1

PREPARED STATEMENTS
(Hearing day, October 30, 1975)

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CONTENTS

PREPARED STATEMENTS

THURSDAY, OCTOBER 30, 1975

TESTIMONY OF LOUIS HARRIS
PRESIDENT, LOUIS HARRIS AND ASSOCIATES, INC.

Before

Joint Economic Committee

October 30, 1975

Mr. Chairman, it is a singular privilege to appear before this distinguished Committee, the Joint Economic Committee. I am particularly delighted not only to appear here but for the fact that you have called before you those leaders in our discipline. For too long now, the consumer has been viewed by economists and economic policymakers as a veritable automaton: put money in his pockets and he will spend it. And he will spend it on the most obvious kind of material goods which happen to be available. Put another way, if you prime the pump, the consumer out there will do his part by a generous measure of spending.

Well, over the past three years during which we have taken monthly in-depth readings of the consumer mood as part of the Harris Perspective, we have found an increasingly selective, more sophisticated, and less materialistic consumer than I think anyone ever imagined existed before. Simply because Presidents of the United States have said that a recession was over or that inflation's back was broken, or that now consumer demand was going to be strong did not mean by any stretch of the imagination that, much as a flock of sheep, the American people would take the word from on high and behave accordingly.

It has been a fascinating journey, Mr. Chairman, over these past years, month by month watching and observing consumer attitudes, expectations, and behavior. I think I can prove that the days when anyone can assume that that public out there is going to behave in the same rota fashion are over.

Let me get directly in the short time I have available to some key facts as we have found them. First and foremost, for almost three months now, just about every economist and government spokesman has proclaimed that the recession is over. Well, Mr. Chairman, it seems that almost no one out there has yet gotten the word. As of 10 days ago, 81 percent of the American people were convinced that the country was still in a recession. This is up from 79 percent who felt that way in September, and is well above the 69 percent who felt that way a year ago. To be sure, it is below the record high of 88 percent who were convinced we were in a recession just last April, but it is well above the 39 percent who felt we were in a recession in the fall of 1973, the 38 percent who felt that way back in the fall of 1972, the 49 percent who said we were in a recession back in 1971, or the 58 percent who thought we were in a recession back in 1970, when the economists back then also admitted we were.

So a first and important fact is that people still think we are in a recession and the intensiveness of that feeling has not slackened appreciably since last November. To most people when we ask them, a recession means hard times, trouble making ends meet, financial insecurity, a worry that incomes and prices are not keeping pace, a quickened sense of insecurity over jobs.

Now, when we have asked people every month about their expectations about the economy 12 months ahead we find today that 56 percent of the public thinks we will still be in a recession a year from now and only a small 24 percent are convinced we'll be out of it. This is up two points in expectations of a continued recession from September, although it is eight points lower than it was a year ago. But it should be noted that for the past year and a half, with rare exception, majorities of well over 50 percent of the people have expressed a pessimistic view that the economy would be in a recession in the succeeding 12 months.

What has been so painful about the recent economic experience of the American people is that they have had to suffer through both inflation and high unemployment at the same time. This was a condition, the late Lord Keynes had told us, could not happen. But it has, and it has been more than double trouble for our people. Now on inflation, make no mistake about it, people are well aware of the fact that we are no longer in double digit rise in prices. Only a year ago, a nearly unanimous 88 percent of the public felt that the prices it was paying were rising higher than a year ago and an additional 9 percent reported they were rising as rapidly. Today, this has dropped to 49 percent who think prices are rising more rapidly and another 23 percent who say as rapidly as a year ago. That is quite a drop, but then it is true that the rise in inflation has slowed down. When we ask people every month what they anticipate the trend on prices will be a year hence, no more than 25 percent say it will be at a more rapid rate than today's rises and 28 percent say it will be as rapid. Again, it would appear from a surface reading that the public thinks that the price spiral at long last is slowing down.

But this is only a superfiical look at the numbers. Analyzing it only a bit further makes them far more revealing. Back in April of this year, the consumer price index indeed had come down to under 6 percent, and the public reflected it directly. Then, only 37 percent thought prices would be rising more rapidly in a year -- 12 points below today's levels. In other words, over the past six months the American consuming public feels that inflation is creeping up on it again, and not so slowly at that. But the most revealing numbers arise in consumer expectations. Back in March of this year, before the official proclamation of a big slowdown in inflation had been announced, a 52-38 percent majority of the public felt that prices in the next 12 months would be rising at a rate below the then current levels. In April, a 51-53 percent majority still felt the same. But then by August hopes began to slump again. By 52-38 percent, a majority reported that they believed that in the next 12 months prices would be rising as fast or faster again. By September a 52-33 percent majority felt that way, and our latest October reading shows a 53-32 percent majority think the back of inflation simply has not been broken.

So there is a deep suspicion abroad across this land that inflation is making a come-back, that current measures to stem inflation may just not be working, and that even double digit inflation is not so remote.

Let us look at the other side of this blade of economic troubles we have been living through: joblessness. A year ago, 43 percent of the public felt that unemployment around where they live in their community was increasing and only 7 percent said it was decreasing. Now, a year later, 55 percent feel that unemployment is still going up where they live, a rise of 12 points. To be sure, this current 55 percent is well below the record 83 percent who reported joblessness increasing back in March, the 76 percent who felt it was going up in May, or the 67 percent who felt that way in August of this year. So there has been some fall-off in apprehension over unemployment, but not of a major magnitude.

Now, when we get to people's expectations about unemployment, back a year ago, 43 percent were convinced it would be rising in the next 12 months and only 11 percent thought it would be decreasing. By April, when the public felt that recovery was setting in, only 25 percent thought unemployment would increase, but a higher 27 percent thought it would decrease, a significant turnaround on the optimistic side. This situation remained about the same -- a kind of moderate optimism about unemployment -- until September, last month, when 26 percent reported expectation of rising unemployment and no more than 21 percent could say it was going to go down. Now, this month, it is 27-20 percent that joblessness will be rising again in the fall of 1976.

By any measure, Mr. Chairman, this is not a happy nor optimistic mood out there about the economy. It is further reflected in the ratings the public accords President Ford on his handling of the economy. On keeping the economy healthy, he stands at 68-27 percent negative, on handling inflation at 77-18 negative, and on really caring what happens to the unemployed his standing is 58-34 percent negative. These are not all-time lows for Mr. Ford, but they are close to it. What it does add up to is not even a wait and see, skeptical public. It is a people who are close to voting no confidence in this Administration of the economic measures it has taken. On the President's overall economic program, his rating comes up at 68-23 percent negative.

For despite this low confidence and pessimism, we have also observed another phenomenon, a consumer propensity to buy products and services people need ever since last March. On a key question we ask every month, we have been able to trace the extent to which people want to put money away in savings, essentially for a rainy day, the extent to which they want to invest their money, and the degree to which they are disposed to purchase goods and services they need. The big slump in consumer buying intentions we found came in late 1973 and in all of 1974. Then, with the tax rebate and the breaking of double digit inflation, potential buying of goods and services shot up from 20 to 30 percent from November of 1974 to March of 1975. This went up to 36 percent in April, and has essentially remained in the 30 percentile range ever since.

This has been reflected in the past month in turn in some rising expectations of what people intend to purchase in the next six months. Each month, for some 45 key consumer items, we find out what people expect to buy in the next six months. Our results show that we have a remarkably accurate forecast in the aggregate of consumer demand in the next three months, even though people answer to a question asking them their intentions for the next six months.

During the period of the heaviest fall-off of consumer demand, we found that the number of people who said they were putting money away for a rainy day rose from 41 percent in May of 1974 to 52 percent by October of that year to 55 percent by November and stayed at the 50+ mark through March of this year. Then it dropped to 40 percent where it remained on an even keel until this past September and again this month when it went up to 45 percent. This is worrisome, for it means that in a period when we are expecting great things of consumer demand, the public's propensity to be wary and cautious and not to spend is pulling hard at them again. Of course, despite this we do find that what the auto people are finding, the clothing people are finding, the appliance people are finding, and new home people are finding, there is a current surge of specific buying plans, well ahead of last year at this time. The reason, however, is well worth pondering: the main reason people are buying now is that they fear that next year at this time, prices will be even higher.

So we are witnessing, Mr. Chairman, a strange period in American economic history. Here we have the consuming public in a buying mood, but not with strong conviction behind it. This would indicate that it may be entirely necessary to keep the tax rebate passed for this year to stimulate consumer demand, a measure the public favors by a 63-21 percent margin. My reading of the situation is that we will need to keep stimulation going more rather than less. Of course, the risk is always there that inflation will get out of hand again, in which case, this next time, Mr. Chairman, 48-40 percent plurality tells us they would not hesitate to opt for instituting wage and price controls. But we are not at that point yet.

If I might, I would like to dwell in the few remaining minutes on some other and far more radical observations about economic behavior we have been finding over the past year or so that I would feel remiss unless I reported it here today:

-- We find that a significant majority of 67 percent of the public criticizes the leadership of the country for "not understanding that the people do not want more quantity of nearly anything, but want better quality of just about everything they possess." This matter of quality is a crucial one. A majority of 53 percent of the public feels that the quality of most of the products and services it consumers has deteriorated in the past 10 years, as, indeed, has the quality of life, in the minds of the people themselves.

-- This matter of quality rather than quantity is important for it signals the important impact that the energy crunch has had on the American people. For the first time, we have been coming face to face with the reality that the raw materials of this world are finite, that many critical ones such as oil are actually running out. Given this basic fact, we find the American people remarkably willing to undergo some substantial cuts in their expectations of just what physical goods they hope to own. Make no mistake about it, the public is prepared to cutback on a whole host of physical goods which we have automatically assumed everyone wanted in greater and greater quantity. The fact that as 6 percent of the world's population we consume an estimated 40 percent of the world's raw materials is dawning on the American people. I am prepared to say that in the next five years you are going to see a flattening out of absolute demand in this country for the vast majority of physical goods that we have come to depend on for our economic livelihood. This would include washing machines, cars, TV sets, appliances of all kinds, and even housing. I could go down quite a long list on this subject. And if our national leadership would ask people to cut back on short supply items, the public would respond beyond anything anyone in this town would dare imagine. Let me give you a few examples: cut back and not eat meat once a week -- 91 percent would do that; do away with annual styling changes in clothing -- 90 percent would do that; sharply reduce the amount of paper towels, tissues, bags, napkins and other disposables to save energy and to curb pollution -- 92 percent; stop feeding all-beef products to pet animals -- 78 percent.

The point is not to have people stop consumption to make the economy slump even more. The point is that we now live in a service society, where an estimated 61 percent of the labor force works in service trades, not in production of physical goods. This means that our people in the future are going to want to spend their money in a highly selective way, not to buy more physical goods, but to buy more services. And that also makes good sense to them. For the most renewable resource we have is our people themselves. People may get exhausted, but they can come back again, when it is a service they are rendering. But physical resources are finite and can disappear. This has tremendous implications for our economic planners. It means that American aspirations and values are changing. It means that the old American dream of heaping upon your table higher and higher mounds of material possessions is now going straight out the window. The three-car and three-bathtub syndrome is dying if not already dead.

It also means that what is important to people is not any longer going to be material acquisition. It means that when people work in a post-industrial society, as we surely are in, they are not working simply to earn bread alone. For the vast majority, they are striving for a better quality life, and, Mr. Chairman, beleive me that is what they are striving for and working hard for these days. Yet, ironically, nearly every measure we have in our kitbag of economic facts deals with physical output. We do not have any measures of any consequence of productivity, for instance in service trades, where a majority of our people work these days. We are absorbed with employment statistics in the giant physical goods industries, but we overlook consistently the opportunities to grow in the areas of the future -- those of rendering service from one human being to his fellow human beings. And, people will pay for this, even more than they will for physical goods that are suspect for quality, if indeed, say a majority, they do not poison, maim, or kill you.

-- The final point, Mr. Chairman, I would like to emphasize is that our people are far more prepared to change their ways of consumption, to cut down on waste in wholesale quantities, and to be generous with one of the few commodities we are a surplus producer of these days -- food. We asked people recently if they would be willing to go without meat once a week to see that grain went to countries where people were starving. A 76-21 percent majority said they would make this sacrifice. Or take the matter of giving up fertilizer on their front lawn, a precious part of America by any standard. The public would be willing to do this in order to ship fertilizer to countries with hunger problems by a 62-31 percent margin. The only part of government to go up during the year of 1974 in prestige in this country were those governors who had the guts to put in odd-even rationing systems. The public is sick and tired of politicians who promise the world to people in physical goods benefits. First, they don't think they will deliver, and second, if they do, they think they will pay for it five or six times over in higher taxes. The people want to live a highly selective, pluralistic existance, where quality is more important than quantity and where a sense of community of interest prevails over predatory, greedy, partial interest.

I realize that these are quite radical findings I report here today. They are most radical of all because they do not fit the left-right dialogue that so much of our leadership is caught up in these days. Well, Mr. Chairman, the public is fed up with that kind of left-right division as well. They want new solutions to new problems and they don't want the solution spoon-fed to them, either. Rather, they want to participate in making them, are unafraid to receive tough hard truths and bad news. They do not want to be treated as 12-year olds, nor will they behave in the future as 12-year old consumers. There is a whole crisis in the selling area, both in business and in politics. The hard sell, the easy hand-out, the easy appeal to fear, all these are perishing. In this new day, people are going to insist on economic solutions arrived at out in the open and are willing to share in the sacrifices if the upside benefits of a better quality existence are offered to all people everywhere in this land. The issue is not the division of the spoils, but rather how to desperately find ways to stop spoiling the life on this planet. That is a proposition, Mr. Chairman, which both the economics and the politics of the future are going to be all about.

STATEMENT TO THE JOINT ECONOMIC COMMITTEE OF CONGRESS
Washington, October 30, 1975

Fabian Linden, Director of Consumer Research,
The Conference Board, New York

The Conference Board has conducted a bimonthly survey of Consumer Attitudes and Buying Plans since 1967. In each probe a representative sample of 10,000 households are contacted.

Very briefly, the questionnaire requests respondents to indicate whether they consider current business and employment conditions to be better, worse, or the same as compared with six months earlier, and to indicate further whether they now believe conditions will change in the six months ahead. Respondents are also asked to indicate their expectations concerning their own personal financial fortunes.

The second section of the questionnaire concerns intentions to buy cars, homes, major appliances, and vacation plans.

The response to all attitudinal questions concerning business and employment are summed up in The Board's Consumer Confidence Index. Similarly, intentions to purchase are combined in developing the Buying Plans Index.

A copy of the questionnaire employed in the survey program and a technical paper documenting methodology have been submitted to the committee staff.

So much then, in the way of preamble. Here in summary are our findings:

As the accompanying chart (Consumer Confidence and Buying Plans) illustrates, consumer confidence has improved markedly since the beginning of this year -- but it will also be observed that it is still well below the relatively high readings picked up in the late Sixties. Buying plans are also a lot stronger since late last year, and the present level compares not unfavorably with the late ~~last~~ Sixties.

In the current business recession experience both the Confidence and Buying Plans Indexes foreshadowed the actual turndown (October 1973) in business activity by some four to six months, and also signalled the turnaround (April 1975) in the business cycle as defined by the National Bureau, again by some four months.

In the 1970 business recession both series provided early warning signals on the downturn, but they failed to foreshadow the turnaround, although they did stop declining coincidentally with the pickup.

Our experience, of course, is still limited, but from the evidence on hand it would seem that the U.S. consumer is quick to sense a change in our economic tempo. This is hardly an unexpected finding, for as wage-earner he hears the message loud and clear -- for example, in a reduction in overtime as compared to the preceding week's, or more threateningly, a contraction in the size of the plant's work force. The evidence further suggests that as confidence declines the consumer grows a bit more reluctant to spend. Consumer expenditures, particularly for durables, declines with our survey indexes.

At this moment in time, as previously observed, consumer sentiment -- while a lot better than it was last year -- is still not completely reassuring. The following graph (Consumer Confidence: Current Appraisal and Expectations) unscrambles The Board's Consumer Confidence Index into two major components -- the people's view of the present, and their expectations for the future.

In appraising current economic conditions the American people would certainly seem to be very much in touch with reality. As the graph demonstrates, their appears to be rather extensive disenchantment with the present economic situation. The relevant line on the graph is almost at an all-time low, although a trifle higher than in the Spring. But in looking ahead to the future, it would certainly appear that there is more optimism as compared with late last year. The reading here is up sharply.

But let's look a bit more closely at the details. According to our latest reading, about 31% of all those contacted consider current business conditions as bad. This is better than the 40% figure picked up last December, but it is still disconcertingly higher than the 7% recorded in early 1969. Further, some 46% of those contacted complain that jobs are hard to get, only a marginal improvement over the 48% recorded in December. In the Spring of 1969 the related figure was only 13%.

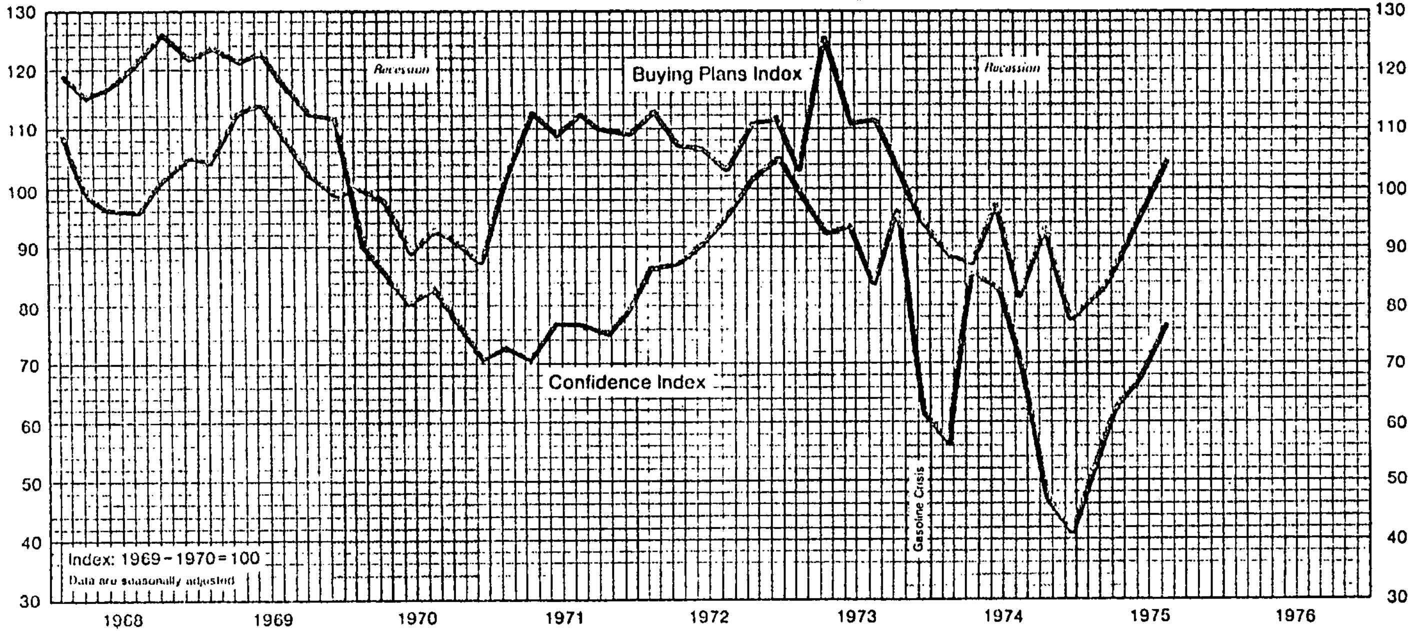
But as suggested, confidence in the future has improved considerably. Late last year about 35% of all those contacted believed that economic conditions would worsen in the months to come, but this August the figure has dropped to less than 10%. Conversely, in the same time interval the number of those that believed business conditions would improve rose from 10% to over 27%. This latter reading compares favorably with the situation preceding the present business turndown.

Similarly, while over 40% of all respondents last winter expressed a fear that the employment situation would deteriorate further in the coming months, the ratio has dropped to only 17%. In fact, one out of every four Americans now believe it will be somewhat easier to find jobs in the near future as compared with only 8% last winter.

Consumers are also more optimistic in appraising their own situation. Last winter less than 20% of all those interviewed expected their earnings to increase, while now about 28% hold that view. The latter figure compares favorably with a near-record 32% reading which was picked up in Spring 1969.

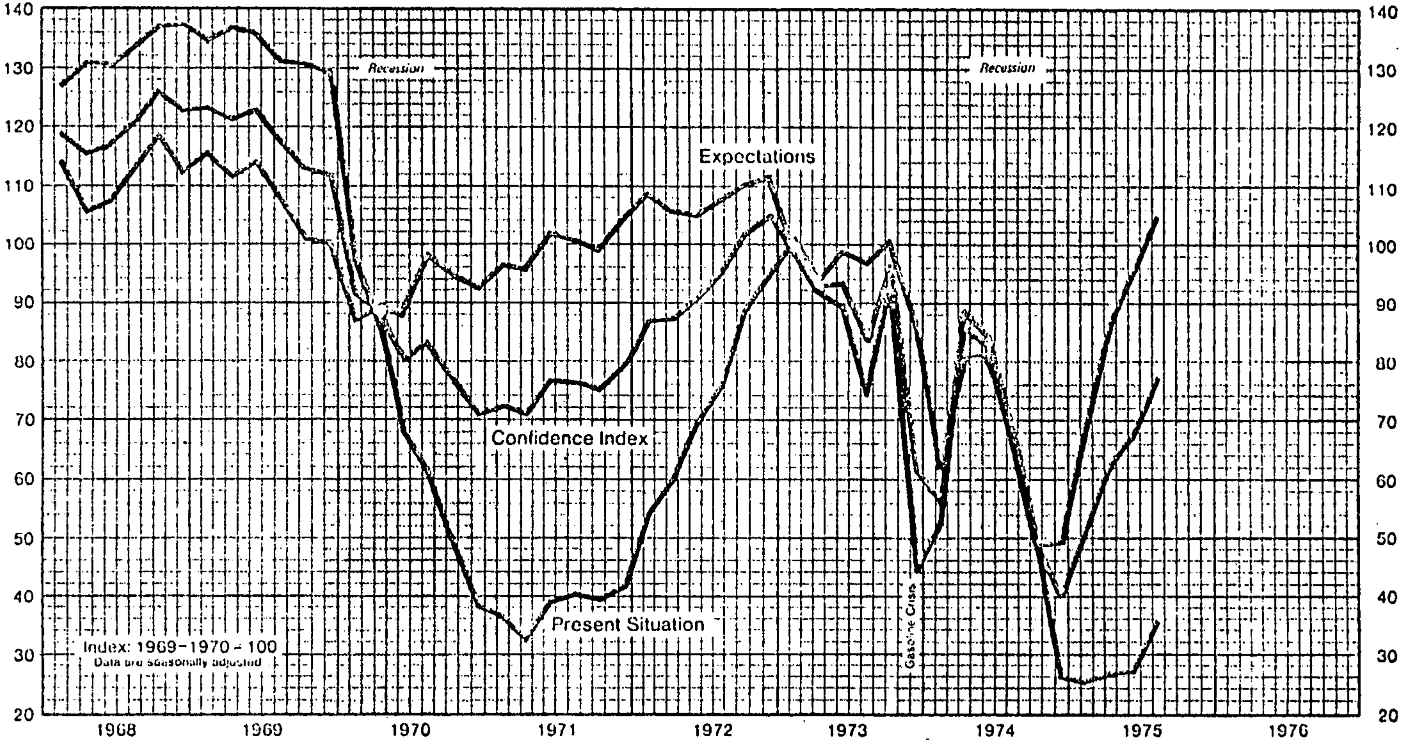
The final chart (Consumer Expectations and Stock Prices) relates consumer expectations as reported in The Board's survey with Standard & Poor's 500 Stock Index. I must confess to some uncertainty as to whether I bring this particular piece of evidence as an economist or as an observer of the human condition. In any event, as will be observed, there is an extraordinary correlation between the sentiments of Main Street and Wall Street, at least in the expectations of what lies ahead for the U.S. economy. I must regretably make the observation that there is no clear cut and consistent time lead-lag relation between the two series.

Consumer Confidence and Buying Intentions



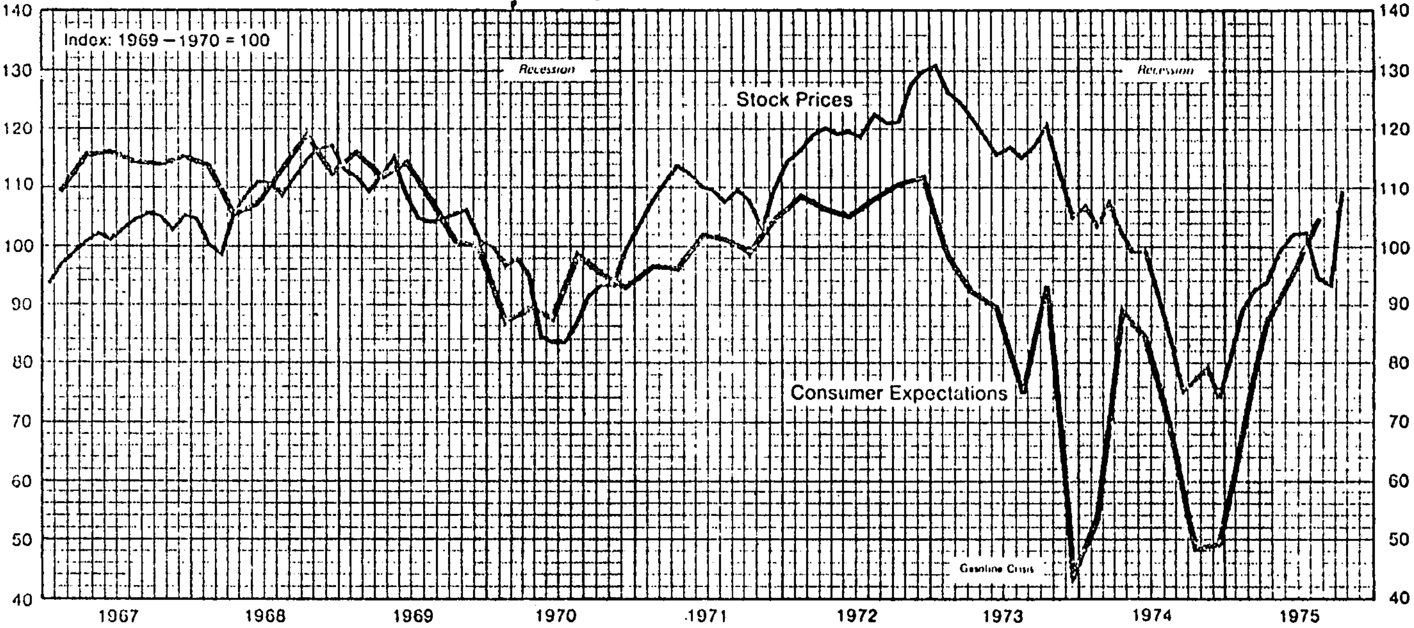
Sources: The Conference Board, National Family Opinion, Inc.

Consumer Confidence
Current Appraisal and Expectations



Sources. The Conference Board, National Family Opinion, Inc.

Consumer Expectations and Stock Prices



Sources: Standard and Poor's Combined Index, 500 Stocks.
The Conference Board Consumer Confidence Index, Expectations Segment.

40031-1

1. How would you rate the present general business conditions in your area?

[ ] GOOD [ ] NORMAL [ ] BAD

a. SIX MONTHS from now do you think they will be:

[ ] BETTER? [ ] SAME? [ ] WORSE?

2. What would you say about available jobs in your area right now?

[ ] PLENTY [ ] NOT SO MANY [ ] HARD TO GET

a. SIX MONTHS from now do you think there will be:

[ ] MORE? [ ] SAME? [ ] FEWER?

3. How would you guess your total family income to be SIX MONTHS from now?

[ ] HIGHER [ ] SAME [ ] LOWER

4. Does anyone in your household plan to buy a house in the next SIX MONTHS?

[ ] YES [ ] NO [ ] MAYBE

a. If YES: [ ] NEW? [ ] LIVED IN? [ ] DON'T KNOW

5. Does anyone in your household plan to buy a car in the next SIX MONTHS?

[ ] YES [ ] NO [ ] MAYBE

a. If YES: [ ] NEW? [ ] USED? [ ] DON'T KNOW

MAKE? ____________________ [ ] DON'T KNOW

BE SURE YOU CAREFULLY READ INSTRUCTIONS ON OTHER SIDE OF CARD BEFORE ANSWERING QUESTIONS

40031-2

1. Please check which, if any, of these items you plan to buy in the next SIX MONTHS, and which brand you are most likely to choose:

		BRAND PREFERENCE
Refrigerator........	[ ]	____________
Washing Machine.....	[ ]	____________
Black/White TV......	[ ]	____________
Color TV...........	[ ]	____________
Vacuum Cleaner......	[ ]	____________
Range..............	[ ]	____________
Clothes Dryer.......	[ ]	____________
Air Conditioner.....	[ ]	____________
Carpet (over 4'x6').	[ ]	____________

[ ] NONE OF THESE

2. Do you plan to take a vacation away from home between NOW and the next SIX MONTHS?

[ ] YES [ ] NO [ ] UNDECIDED

a. Where will you spend the most of your time while on vacation?

[ ] HOME STATE [ ] OTHER STATE(S) [ ] FOREIGN COUNTRY

b. How will you mainly travel?

AIRPLANE	CAR	TRAIN	BOAT	BUS
[ ]	[ ]	[ ]	[ ]	[ ]

Name of Airline ____________

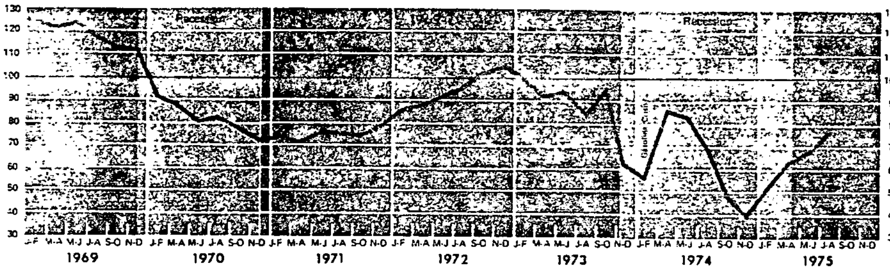
BE SURE YOU CAREFULLY READ INSTRUCTIONS ON OTHER SIDE OF CARD BEFORE ANSWERING QUESTIONS

Consumer Attitudes and Buying Plans

A Bimonthly Report From The Conference Board
Based on a Survey Conducted by National Family Opinion, Inc.

Consumer Confidence Index

September, 1975



The measure of consumer optimism has improved. According to The Conference Board's latest survey, the Consumer Confidence Index (1969-1970=100), registered 77.3 in August, a jump of nine points over the preceding probe. Buying plans are only moderately better, however. The current reading of this series is 104.6, four points ahead of last time.

In the latest survey, as compared with the one prior, consumers expressed more satisfaction with current conditions, but there was only a modest rise in the proportion of those who are optimistic about the future. This is a reversal of the response pattern experienced earlier this year.

Further, while there was a substantial decline in the proportion of those who fear that conditions will deteriorate in the months to come, there was only a modest rise in the proportion who expect improvement. For example, only 24% of those queried feel that the job situation will become easier in the next six months, a gain of only one point. However, the number of those who fear a worsening of employment conditions dropped to 17%, from a prior 22 percent.

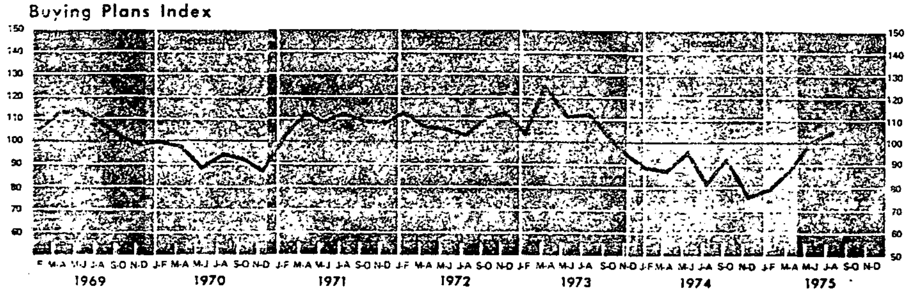
Buying plans range from firm to strong. Intentions to acquire an automobile – new or used – were reported by 8% of those queried, up modestly from last time. This series is now higher than it has been in about two years. Intentions to purchase a home remain unchanged, at about 3 percent. This series, too, is running stronger than in quite some time.

Consumer interest in household appliances continues strong. Some 34% of those queried intend to make a major purchase within the next six months, which is just about the same proportion as picked up in the immediately preceding probe. This series is now higher than it has been in about two years. In the most recent survey, intentions to buy were up for clothes dryers, refrigerators, but down for color TV, vacuum cleaners.

Vacation plans are strong. About 46% of those contacted indicate they will go on holiday in the months ahead, a two-point gain in this seasonally adjusted series. Plans to travel abroad, however, continue to run substantially below the year-ago level. Plans to fly are down, after chalking up a good gain last time.

Fabian Linden

Buying Plans Index



Consumer Expectations and Intentions
Based on surveys conducted by National Family Opinion, Inc.
Percentage of all households unless otherwise indicated (see note below.)

All series seasonally adjusted

	1974			1975			
	July-August	*September-October*	*November-December*	*January-February*	*March-April*	*May-June*	*July-August*
				Composite Series: 1969-1970=100*			
Consumer Confidence Index	69.1	48.9	39.9	50.3	62.5	68.0	77.3
Buying Plans Index	81.1	93.6	76.3	30.0	89.0	100.3	104.5
				Appraisal of Present Situation			
Business Conditions							
Good	17.8	15.7	10.3	11.7	11.9	12.1	14.7
Bad	19.3	28.9	40.5	39.8	37.6	36.5	30.8
Normal	62.9	55.4	49.2	48.5	50.5	51.4	54.5
Employment							
Jobs plentiful	14.4	11.0	5.8	4.6	4.3	4.3	5.8
Jobs not so plentiful	58.4	52.9	46.2	45.3	45.9	46.0	48.5
Jobs hard to get	27.2	36.1	48.0	49.6	49.8	49.7	45.7
				Expectations for Six Months Hence			
Business Conditions							
Better	13.0	10.1	12.0	18.4	23.6	27.8	27.3
Worse	19.5	34.4	35.9	23.8	17.3	13.0	9.6
Same	67.5	55.5	52.1	57.8	59.1	59.2	63.1
Employment							
More jobs	10.8	8.0	10.8	16.2	21.6	22.7	23.8
Fewer jobs	26.5	42.5	43.2	29.1	25.4	22.2	16.9
Same	62.7	49.5	46.0	54.7	53.0	55.1	59.3
Income							
Increase	25.3	22.3	29.4	19.8	25.1	25.0	28.0
Decrease	8.6	11.1	13.4	14.4	10.1	9.2	8.2
Same	66.1	66.6	67.2	65.8	64.8	65.8	63.8
				Plans to Buy Within Six Months			
Automobile							
Yes	5.6	6.1	5.2	5.5	6.1	7.6	8.0
New	3.1	2.2	1.9	2.9	2.6	3.4	4.1
Used	2.1	3.6	3.1	2.2	3.2	3.8	3.4
Uncertain	0.4	0.3	0.2	0.4	0.3	0.4	0.5
Home							
Yes	2.2	2.9	2.2	2.0	2.4	2.9	3.0
New	0.7	1.1	0.4	1.0	0.6	0.9	0.8
Lived in	0.9	1.6	1.0	0.6	1.3	1.3	1.5
Uncertain	0.6	0.2	0.8	0.4	0.5	0.7	0.7
Major appliances							
Total plans	26.5	32.9	26.5	29.5	30.4	34.2	34.0
Refrigerator	4.0	4.8	3.8	4.1	4.0	4.6	5.0
Washing machine	3.6	5.1	3.7	4.9	4.5	4.9	4.5
Black and white TV	1.5	2.0	1.7	1.8	1.6	1.9	2.1
Color TV	4.6	6.2	5.0	5.3	6.1	7.1	6.2
Vacuum cleaner	4.9	6.0	4.4	5.2	5.5	6.8	6.2
Range	3.2	3.5	3.4	2.8	2.8	3.2	2.9
Clothes dryer	3.0	3.4	3.1	3.6	4.1	3.9	4.1
Air conditioner	1.7	1.9	1.4	1.8	1.8	1.8	3.0
Carpet	9.0	8.6	7.3	9.0	9.7	8.3	9.7
				Vacation Intended Within Six Months: Destination and Means of Travel			
Vacation Intended	42.8	42.9	38.3	38.8	43.7	43.9	46.1
Destination							
Home state	11.2	10.7	10.6	10.6	11.7	10.8	12.7
Other states	28.8	28.7	26.1	25.6	29.4	30.7	30.7
Foreign country	4.2	3.6	2.9	3.4	3.5	3.6	3.4
Means of Travel							
Automobile	32.9	32.7	30.9	30.4	33.6	33.2	36.1
Airplane	9.7	8.8	6.8	7.3	9.3	10.7	9.1
Other	2.4	2.9	2.2	2.3	2.2	2.6	2.6

Note: Appliance figures denote buying plans per 100 households. Replies under destination and means of travel may not add to total vacation plans because of multiple replies.

*Confidence Index measures consumer optimism in appraising economic conditions. Buying Plans Index is based on intentions to purchase cars, homes, appliances. A description of indexes appeared in The Conference Board RECORD, September 1973 issue.

THE CONFERENCE BOARD, 845 THIRD AVENUE, NEW YORK, N.Y. 10022

PUBLIC ATTITUDES RELATED TO

THE STATE OF THE U.S. ECONOMY

Prepared for:
JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

October 30, 1975

by
Dr. Irving Crespi
Executive Vice President
The Gallup Organization, Inc.

The fact that the state of the national economy has been a top priority concern of Americans for the past year is hardly surprising. However, it is important to appreciate the fact that this concern is not merely a reaction to the sharp downturn the economy took in 1974. The fact is that Americans had been worried about the direction in which the economy was moving for some time prior to that downturn.

The long term focus of worry has been on inflation, with unemployment a secondary concern except in those segments of the population that have been hard hit in the past year. No one can escape the precipitous rise in living costs that has occurred in the past eight years, a rise that the Gallup Poll has charted by asking the public its estimate of the minimum weekly amount needed by a family of four to make ends meet. From 1967 to 1975 this estimate has risen 60% -- from $101 to $161.

Unemployment, on the other hand, has hit certain segments of the population very hard, while leaving most relatively unscathed.

As of now, the combined impact of double digit inflation and increased unemployment is having a corrosive effect on American confidence that our economy can continue to provide the good life. A further note is that the public is sorely divided as to what the nation's priorities should be - combatting inflation or unemployment. It may be that this is a Hobson's choice that few can make easily. Between the Charybdis of inflation and the Scylla of unemployment there is little to choose.

The Trend in Public Concerns

A brief review of the trend in public concerns over the past few years helps put the character of public concerns about the economy in focus.

To go back only as far as the fall and winter of 1971-72, public concern over inflation was already high and rising. During the three month period from October to January, the proportion anticipating higher prices rose from 63% to 75%. Many were also concerned about unemployment, but this concern was less widespread and was not then on the increase. In January 1972 41% were anticipating an increase in unemployment, compared with 45% in the previous October.

All during 1972, inflation was in a virtual tie with Vietnam in the public's thinking as the most important problem facing the nation. By the year's end, almost half (47%) anticipated that 1973 would be a year of economic difficulty. Also, while few named unemployment as the nation's most important problem at that time, the concern that the economy was heading for a difficult time was reflected in a nagging fear that this would inevitably lead to unemployment. Thus, 43% anticipated that 1973 would be a year characterized by rising unemployment.

In fact, 1973 was characterized by an increasingly widespread belief that inflation was one of the nation's top problems, so that by September of that year it was one of the top two national concerns of almost all Americans. This, it should be emphasized, antedated the Arab oil embargo and its inflationary impact.

Employment levels held up during 1973, so the saliency of unemployment as a national concern waned as the year wore on. Nonetheless, by the year's end - perhaps as a result of the energy shortage of that winter - almost everyone anticipated that 1974 would be characterized by rising unemployment. In a similar vein, the virtually unanimous fear was that 1974 would be a year of economic difficulty.

Despite the universal expectation that 1974 would be a difficult year economically, it was not until mid year that as much as half referred to the economy when asked to name the nation's one most important problem. By year's end, however, eight out of every ten were convinced that the top priority concern facing the nation was its economy. And just about everyone expected 1975 would be a year of rising prices, with the proportion expecting increased unemployment almost as high.

Pessimism about economic trends was at a high point all through the last half of 1974. However, by February 1975, there was some upturn in public optimism, with one third expecting that the next six months would see an improvement in the economic conditions. Even then, half of all Americans were still expecting a further worsening.

Although concern over economic conditions was widespread, the public's assessment of the state of the economy in mid winter 1975 was balanced. Alarmist fears of a serious depression were not common. At the same time, a clear majority felt the country was in real difficulty -- either a serious recession or a mild depression.

It is important to note that there was a sharp difference by family income in how the state of the economy was described. This is indicative of the selective way in which the economic dislocation was affecting different segments of the population. At the higher income levels, the overwhelming majority described the economy as being in a recession. In contrast, half of those in the lowest income bracket said we were in a depression.

The selective nature in which the nation was affected by last winter's economic downturn is evident in other attitudes we have investigated. Manual worker households were hit harder by the 1975 mid winter recession than were business and professional households, as testified to by the fact that the former were the more likely to describe business conditions negatively. However, equivalent majorities of both groups were pessimistic about the six month forecast.

Inflation vs. Unemployment

Concern over unemployment, while common since the beginning of 1973, has lagged behind concern over inflation. Thus, initially inflation had undisputed saliency over unemployment as the nation's most important problem. Not until the winter of 1975 did a sizable proportion name unemployment as the nation's most important problem. And, as unemployment became the nation's top priority for about one-fifth of Americans, the proportion for whom inflation was the top priority receded from a high of 81% in September 1974 down to 51% in July 1975.

Direct personal concern about the likelihood of losing one's job, even in the winter of 1975, was experienced by only a minority of one in seven of those with jobs. And, by spring the extent of such concern had eased off somewhat.

Personal fear of unemployment in April was largely confined to certain pockets of the labor force -- particularly in the Northeast and West Coasts, in the nation's largest cities, and in the low middle and low income branches. Compared with January, concern had abated primarily in the upper middle income brackets, in smaller communities, and in the Midwest.

Although as of now, the overwhelming majority of employed adults feel their jobs are safe, concern over losing one's job persists in sizable pockets of the labor force, particularly among lower income households and among manual workers.

Half of those who are now fearful of losing their jobs expect that if this happens they will have difficulty in finding a new job. Even among those who are confident about their current jobs, an appreciable proportion are pessimistic about their prospects if the unexpected were to occur.

Preferred Government Policies

Even though inflation has remained the more salient concern than inflation, there appears to be a persistent underlying fear that unemployment may not remain confined to a few pockets of the economy. This would explain why the public has been divided in its judgment as to which - inflation or unemployment - should have a higher priority in the development of economic policies and actions

As the recession deepened in mid winter of 1975, opinion was divided as to whether inflation or unemployment should receive greater government attention. The tendency was for those of higher socio-economic status to be somewhat more concerned about inflation, and those of lower status about unemployment.

As the summer ended there was still a sharp cleavage of opinion as to whether economic policy should aim at balancing the budget or stimulating the economy. In a recent survey, almost equal proportions would vote for a candidate who favors a policy of stimulating the economy, as compared with one favoring a balanced budget.

It is pertinent to note that there are differences by family income on this issue -- differences that parallel concern over the likelihood that one may lose his job. The higher one's income, the more likely he is to favor a policy of balancing the budget. The lower one's income, the more likely he is to favor a policy of stimulating the economy.

Confidence for the Future

The economic difficulties that the nation has been undergoing during the past two years appear to have contributed to a decline in the confidence of Americans that their personal lives will improve.

As we all know, the late 1960's and early 1970's were characterized by an erosion of confidence in the nation's major institutions, including but not restricted to all three branches of the Federal government -- and in fact, the future of the nation itself. Nonetheless, throughout this period

61-335 O - 75 - 3

there was no erosion in how Americans rated the quality of their personal lives, nor in their tendency to believe that the future would lead to an improvement in their personal lives.

However, in a study we have just completed for the New York Times, we find - for the first time in a series of measurements started in 1959 - a significant decline in the way Americans rate the quality of their own lives, and in their expectations of the future. If this trend persists, it is within the realm of possibility that the United States will in the near future experience its greatest crisis in confidence since 1933.

Table 1

Most Important Problem
Facing the Nation

High Cost of Living	Vietnam	
26%	29%	in April 1972
27%	27%	in September 1972

Table 2

Two Most Important Problems
Facing Nation

High Cost of Living	Unemploy-ment	
59%	16%	in February 1973
62%	9%	in May 1973
89%	5%	in September 1973

Table 3

Anticipations of Economic Trends

43% anticipated 1973 would be a year of rising unemployment.
84% anticipated 1974 would be a year of rising unemployment.
87% anticipated 1975 would be a year of rising unemployment.

95% anticipated 1975 would be a year of rising prices

47% anticipated 1973 would be a year of economic difficulty.
85% anticipated 1974 would be a year of economic difficulty.

Table 4

Expect Economic Conditions in Next Six Months to Get:		
Better	Worse	
40%	39%	in August 1975
42%	36%	in May 1975
35%	50%	in March 1975
30%	56%	in February 1975
16%	71%	in November 1974
13%	68%	in August 1974

Table 5

Expect Economic Conditions In Next Six Months to Get:
(as of March 1975)

Better	Worse	
48%	40%	of those with family incomes of $20,000 or more
34%	50%	of those with family incomes of $15,000 - $19,999
37%	47%	of those with family incomes of $10,000 - $14,999
30%	54%	of those with family incomes of $5,000 - $9,999
29%	55%	of those with family incomes under $5,000

Table 6

Described Country's Economic Situation As:

19%	Mild recession
44%	Serious recession
21%	Mild depression
12%	Serious depression
1%	None of these
3%	Don't know
100%	

Table 7

Economic Situation Is		
Recession (Mild/Serious)	Depression (Mild/Serious)	
76%	22%	of those with family incomes of $20,000 or more
71%	28%	of those with family incomes of $15,000 - $19,999
68%	31%	of those with family incomes of $10,000 - $14,999
62%	34%	of those with family incomes of $5,000 - $9,999
44%	49%	of those with family incomes under $5,000

Table 8

Current (Jan. 1975) Business Conditions not too good or bad	In Six Months Business Conditions will be not too good or bad	
47%	55%	of those in professional or business households
61%	53%	of those in semi and non-skilled manual worker households

Table 9

Most Important Problem Facing Nation

	High Cost of Living	Unemployment
July 1975	51%	21%
Feb.-March 1975	60%	20%
September 1974	81%	1%
May-June 1974	48%	2%
January 1974	25%	5%

Table 10

Likelihood of Losing Job or Being Laid Off
(Among Employed Adults Only)

	In January 1975	In April 1975
Very or fairly likely	15%	12%
Not too likely	27%	22%
Not at all likely	54%	63%
Couldn't say	4%	3%
	100%	100%

Table 11

Very or Fairly Likely to Lose Job or be Laid Off
(Employed Adults)

January 1975	April 1975	
20%	19%	in the East
14%	16%	in the West
17%	10%	in the Midwest
11%	6%	in the South
21%	19%	in metropolitan areas of 1,000,000 or more
11%	13%	in metropolitan areas of 5000,000 - 999,999
14%	9%	in metropolitan areas of 50,000 - 499,999
18%	9%	in cities and towns of 2,500 - 49,999
14%	10%	in rural communities
5%	8%	of those with family incomes of $20,000 or more
17%	9%	of those with family incomes of $15,000 - $19,999
20%	13%	of those with family incomes of $10,000 - $14,999
15%	17%	of those with family incomes of $5,000 - $9,999
21%	14%	of those with family incomes under $5,000

Table 12

Believe There is Chance of Becoming Unemployed
(Employed Adults in Sept. 1975)

18%	of all employed adults
14%	of those with family incomes of $20,000 or more
17%	of those with family incomes of $15,000 - $19,999
16%	of those with family incomes of $10,000 - $14,999
23%	of those with family incomes of $5,000 - $9,999
25%	of those with family incomes of under $5,000

Table 13

Expect to Have Difficulty in Finding New Job

51% of those who believe there is chance of becoming unemployed

25% of those who do not believe there is

Table 14

Government Should Pay More Attention to:		
Curb Inflation	Reduce Unemployment	
46%	44%	of all adults
58%	35%	of those in professional and business households
39%	51%	of those in semi and non-skilled manual worker households

Table 15

Would Vote:

46% for a candidate who says the government should spend more money to create employment and spur public buying

42% for a candidate who says we should cut government spending on social programs and try harder to balance the U.S. budget

12% undecided

100%

Table 16

Would Vote for Candidate Favoring Policy of		
Balancing Budget	Stimulating Economy	
51%	43%	of those with family incomes of $20,000 or more
51%	40%	of those with family imcomes of $15,000 - $19,999
46%	44%	of those with family incomes of $10,000 - $14,999
35%	51%	of those with family incomes of $5,000 - $9,999
31%	51%	of those with family incomes under $5,000

Table 17

Average Rating of Quality of Personal Life*		
As It Is Now	Expectations Five Years From Now	
6.6	8.8	In 1959
6.9	7.9	In 1964
6.6	7.5	In 1971
6.4	7.6	In 1972
6.6	7.4	In 1974
6.1	6.7	In 1975

* Ten is the highest possible rating, and zero the lowest.

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DRAFT TESTIMONY OF PETER D. HART, APPEARING BEFORE THE JOINT ECONOMIC COMMITTEE, OCTOBER 30, 1975

Mr. Chairman and Members of the Committee:

This morning, I should like to address my remarks to three questions of historic importance for this Committee, the Congress, and most certainly, the American people.

First, what are the public's attitudes toward the performance of the American economy and how the Government and the private sector interact?

Second, what are the underlying economic forces which provide the impetus for those attitudes, and what tack are they likely to take in the months ahead?

Third and most significant, what kinds of institutional change do the American people support in order to get our economy moving?

Attitudes Toward the Performance and Institutional Basis of the American Economy

In July of this year, our firm conducted a national survey of public attitudes toward the performance and institutional basis of the economy. This study was conducted on behalf of the Peoples Bicentennial Commission, and it surveyed by telephone the opinions of a cross-section of 1237 adult respondents across the nation.

To summarize our findings on the first key question I have posed here, public attitudes concerning the economy, I would say to you simply that the American public is deeply dissatisfied with the current performance of the economy; that there is a widespread disbelief in the ability of the"fine-tuning" approach which currently dominates official policy to produce a real and viable recovery; and, most important, that the public has come to doubt and mistrust the basic institutional arrangement between the government and the private sector which has shaped the face of our economic system for the last forty years. Having said this, let me briefly recapitulate for the Committee the highlights of our findings.

When asked to rate the health of the American economy, fully 55 percent of the public rated the performance of the economy as below average or poor, while a scant 10 percent evaluated the economy's present performance as either above average or excellent. Significantly, this negativism was not confined to lower income citizens. Indeed, individuals coming from the highest income groups were no more likely to give the economy a clean bill of health than were those from the lowest stratum.

Even more critical is the fact that the public does not expect any substantial improvement in economic conditions in the foreseeable future. We have consistently found -- typically by margins of five to three -- that most people feel that the country's worst economic times lie ahead of us, not behind us. Thus, despite the so-called objective indicators which the Administration so cheerfully cites as evidence that this Great Recession has bottomed out, the public believes that the current respite from the severe difficulties of a year ago is nothing more than the calm before the storm.

All of the President's statistics and all of the President's men cannot put confidence back together again. To expect some spontaneous turn-about in public attitudes without a fundamental shift in who decides economic policy and who benefits from it is to seriously misunderstand the mood of the nation.

This lack of confidence regarding prospects for a full recovery stems from the public's fundamental conviction that neither the close relationship between the federal government and the nation's big corporations, nor the leadership of the government and corporations, any longer works to protect the economic interests of average people. Again, let me cite just a few figures which demonstrate these observations.

- Fully 58 percent of the public feels that "public officials in Washington are dominated by the country's big corporations."

- Anti-trust laws, a major weapon in the public's arsenal against imperfections in the private sector, are regarded by almost two-thirds of the people as doing an inadequate job. Less than a third feel that anti-trust laws will be even somewhat effective in dealing with anti-competitive practices in the future.

• By a margin of 57 to 35 percent, a majority of the public agrees that "both the Democratic and the Republican parties are more in favor of big business than the average worker."

Thus, both government and the political parties are more than a little suspect; and this suspicion, we find, is even more pronounced when we turn to an examination of public attitudes toward the leadership being put forth by the private sector. Here we find:

• By a margin of 72 to 24 percent, the public feels that "profits are the major goal of business even if it means unemployment and inflation."

• Sixty-one percent of our citizens are of the opinion that "there is a conspiracy among big corporations to set prices as high as possible."

• Just one American in four gives business positive marks insofar as "really caring about the individual" is concerned.

• By a margin of 54 to 31 percent, the public believes that an American multi-national corporation, given a choice to sign a contract with a foreign country which would be profitable for the corporation but harmful to the interests of the United States, would sign such a contract.

Economic Forces Underlying the Crisis in Confidence

How then, are we to explain these attitudes? Here, let us turn momentarily to just a few figures which indicate what the effect of the economic policies of the recent past has been on the American people.

First, we note that between 10 and 11 million Americans have lost their jobs since the present recession began. Second, in the past two years alone, real spendable income has declined by close to 10 percent. Third, the rate of inflation has soared to the point where the average American family is no better off than it was a decade ago.

Given these hard facts, can we fail to understand how and why we have come to this unprecedented low in public confidence and support for the present relationship between government and business? I think not.

The economic forces which have produced these deeply negative and suspicious feelings, are, like the attitudes they have spawned, both long-term and deep-seated. Figures provided by the Federal Reserve Board reveal that no appreciable progress has been made in the last thirty years in providing a more equitable distribution of either wealth or income in this country. Thus, when the absolute short-term deterioration in the economic security of America's families is coupled with the long-term inability of the present close relationship between government and business to broaden the base of meaningful economic participation, can there be any wonder at the fact that a plurality of our citizens are now calling for major changes in the relationships which have dominated our economic life for 25 years or more? I think not.

The American people are willing to go a lot farther than any of their leaders have been willing to take them. When asked whether they favored "keeping the economic system as it is and allowing it to straighten itself out," "making a minor adjustment to correct for current problems," or "making a major adjustment to try things which have not been tried before," a 41 percent plurality said they favored "making major adjustments to try things which have not been tried before," while just 37 percent said they favored the "minor adjustments" approach and only 17 percent expressed the opinion that the system ought to be allowed to straighten itself out. Clearly, this is not a ringing endorsement for the piecemeal tinkering which has passed for comprehensive economic policy in recent years. The sentiment for a major new initiative is most clearly present. Even more important, the public has a clear idea of what kind of changes it wants.

Public Attitudes Toward Institutional Change

Perhaps the most significant finding of our July survey was that some 66 percent of the American public feel that a program in which employees would own a majority of the stock in the companies for which they work would do more good than harm, while just 25 percent feel that such a program would do more harm than good.

Indeed, two-thirds of the American people said that, given the choice, they would prefer working in a "company in which the stock is owned by the employees, who appoint their own management to run the company's operations." Only eight percent of the public say they would want to work for a company "owned and managed by the government," while just 20 percent, if given the choice, would choose to work for the now-dominant form of economic organization in our society, the investor-owned and managed corporation.

Significantly, half of the people -- 50 percent -- feel that a program of employee ownership and self-management would act to improve economic conditions in general, while just 14 percent of them feel that the institution of such a program would worsen the condition of the economy.

Even more striking is the finding that, when asked how they would react to a Presidential candidate who advocated employee ownership and control of major American businesses, a working majority -- some 56 percent -- said they would definitely or probably support such a candidate, while just 26 percent said that they would probably or definitely not support a candidate taking that position.

Other institutional changes regarded as basically positive by the public include:

- Instituting a plan whereby consumers in local communities are represented on the boards of companies operating in their regions. Here, 74 percent felt that this proposal would do more good than harm, while just 17 percent said such a plan would do more harm than good.

- Instituting a plan in which employees determine broad company policy, for which 52 percent predicted more good than harm and 38 percent anticipated more harm than good.

Equally important is what the public feels would not be beneficial:

- Fully 81 percent see as more harmful than beneficial the idea of "government ownership of all major companies."

- Some 59 percent feel that limiting all inheritances to $100,000 would do more harm than good. Less than half that proportion -- 27 percent -- feel that such a proposal would do more good than harm.

61-335 O - 75 - 4

To summarize these key findings, I believe the evidence overwhelmingly supports the conclusion that the American people are prepared to accept new initiatives much more fundamental and bold than those currently being advocated by most of the nation's political and business leadership.

Indeed, it seems clear that, unless new leadership is forthcoming, the American people are collectively ready to force the necessary changes themselves. As we have noted, a 57-to-35 percent majority already agrees that both major political parties are more in favor of big business than the average working family; moreover, almost half -- 49 percent -- feel that "developing a new political movement to challenge the influence of big business" would do more good than harm, significantly more than the 39 percent who feel that such a change would do more harm than good.

In considering this legislation, I urge the members of this committee to reject the illusion that the American people must be dealt with cautiously, that they are not to be introduced too quickly to anything new or innovative representing a fundamental departure from the policies of the past. The question is not, "how much change are the American people willing to tolerate?" but rather, "does America's political leadership have the courage and determination to make the changes which the public demands of it?"

Clearly, the willingness to accept fundamentally new approaches toward the goal of restoring equity in the nation's economic life exists. And, I submit, so does the willingness to sacrifice in the interests of the nation as a whole, as well as the fortitude to stand behind those with the courage to put to work in the economic sector the democratic political values which have made this nation great. As you consider the Balanced Growth and Economic Planning Act of 1975, I urge you to give the public's views on these issues the weight which they so clearly deserve.

ORAL STATEMENT

Mr. Chairman, Members of the Committee, distinguished colleagues, ladies and gentlemen.

I would like to express my appreciation to the Chairman and the Committee for inviting me to testify here today.

In connection with the Committee's continuous efforts in the economic area, I would like to offer my observations on a number of points concerning the American people and their economic attitudes and behavior.

As Americans, we have always believed that the office of the Presidency was one of moral leadership. We may have disagreed with a President's decisions, but we never believed the President would desecrate the Constitution.

But then we had Watergate.

And as Americans, we have always believed that we were a nation "of the ballot, not the bullet". And today that faith has been replaced by fear - our fear that it may be the other way around!

Following the great depression, we were told and came to believe, and accept that we had learned to "control" our nation's economy. And even though there might be occasional fluctuations, we would <u>never</u>, ever again experience sustained economic bad times.

Yet, just look at what we have been experiencing - we have had the severe shock of double digit inflation coupled with near double digit unemployment! The faith that we once had that we knew how to "control the economy" has been shattered!

Every 90 days, Cambridge Reports, Incorporated interviews 2,000 people natiowide to assess their views on the American economy, as well as to explore their opinions and attitudes on numerous political, social and cultural issues.

Each interview consists of 500 or more questions, and generally lasts two hours. From this enormous amount of data, we are able to accurately compute and accurately track American public opinion.

At the outset, let me say, that America is now reaping the harvest of a decade of psychological trauma.

As a nation, and as a people, we have undergone experiences which have not only been arduous, but far more importantly, which have undermined many of our basic beliefs concerning our country and our institutions.

As Americans, we have always believed that we <u>only</u> fought just and righteous wars - and that we always emerged from them triumphant, victorious, and with our heads held high.

And then we had Vietnam.

Most importantly, the overall attitude of American optimism is changing.

We have always believed that today was better than yesterday, and that tomorrow would be even better. That belief is currently shifting.

To the people who once believed themselves a special people with a special mission, has come uncertainty.

To a nation that once believed there was nothing it could not accomplish, that events could be bent to its will, has come doubt.

So, if we attempt to explore and examine the attitudes of Americans on the economy, or any other specific subject, we must first recognize and understand the impact that events of the past decade have had on our national psyche and on the basic attitude structures of the American people.

Experience changes each of us.

And in America, in the past decade, experience has brought forth a different voter, and a different consumer.

Politics has become a spectator sport. Only a third of those who <u>do</u> vote believe the basic act of political participation to be important, significant, or likely to have import.

Confidence in all institutions has declined, and it is no wonder. Let me give you a dramatic example - look around this room and mentally pick out ten people. The odds are that nearly seven out of those ten people agree with the following statement:

"Over the past ten years, America's leaders have <u>consistently lied</u> to the American people."

Our surveys show that 68% of the American people agree with the statement. <u>Only 26% disagree</u>!

Ideology, as we have come to define it, has little relevance to the American people. On question after question, no matter how "liberal" or "conservative" the question, the differences in opinions of those who call themselves liberals or conservatives rarely differ more than ten percent. Indeed there appear to be two main impulses running throughout the country.

On the one hand, a desire for real and substantial changes in the society - born more out of a pragmatic reaction that things aren't working well - than of any ideology. On the other hand, there is a strong instinct for preservation and restoration of those basic values which Americans believe were the essence of our national greatness. Throughout our data, in every area, we find the flow of those two themes.

When we explore long-term framework attitudes, the way Americans view progress whether as individuals or a nation, or its economic structure, we find the perception of decline with only a cautious belief in future recovery. On our national "ladder scales" developed by Lloyd Free and the late Hadley Cantril, we find that a large majority of Americans believe that the country has declined in position from five years ago to the present and that 31% - almost one out of every 3 people - believe that not only has the country declined but that it will decline further in the next five years. Only 21% - one out of five - believe the country has improved over the last five years and will continue to improve in the next five years. While Americans see their own lives in somewhat better terms than the country, the unfounded optimism about individual progress has been tempered. Less than half the people believe their own personal situation has improved over the past five years, and that it will continue to improve over the next five years. Approximately one out of every four Americans believe that their own lives have declined over the past five years, and that in five years it will be even worse. These long-term attitudes are important as we look at the more immediate specific economic questions, for they suggest that the dynamics of more short-term specific issues are played in an environment of long-term pessimism.

Such long-term pessimism has and still hampers the efficacy of any short-term recovery in consumer confidence.

When we discuss short-term consumer confidence in a 12 month time horizon, we view it as an indication within each person which reflects the various signals that a person is picking up, both from the market place, specifically, and from the economic environment in general. Consumer confidence for us is a purely passive measurement which summarixes many of the signals, particularly income experiences and expectations, that people obtain from the general economic atmosphere. Additionally, it provides insights into how these signals will be translated into economic behavior. To that end, we are concerned with the degree of confidence people have and its relationship to expectation and behavior.

Since the inception of The Cambridge Report program, we have attempted to determine the importance of various signals on shaping consumer confidence has correlated most closely to the perception of inflation, particularly food prices, and to the perception of income keeping pace with inflation. The greater the perception of food price inflation, the lower the degree of confidence. In the spring we reinterviewed 500 respondents that we had surveyed only three months earlier in an effort to not only measure distribution change - that is, the change in overall numbers - but also why individual respondents had changed their attitudes. We the spring. Now when they looked ahead, they expected little future improvement either in personal financial life or in overall business conditions.

A close analysis of the data shows that the change of mood we saw in the summer was directly related to perceptions of inflation - particularly food and fuel inflation. Last spring many Americans saw food prices fall or stabilize, and some even saw prices in general stabilize. Over the summer, however, people quite correctly perceived an upward turn in prices. We found almost total unanimity among consumers that the prices they were paying were going up, particularly in the food store. Thus, for the first time in three quarters, we found the estimate of the inflation rate rising. Not only this, but we saw evidence that consumers are beginning to give up hope of a halt in inflation. Larger numbers than ever before agree with the idea that we may have to "learn to live with inflation". These perceptions of inflation dampened confidence, caused curtailed spending, and fueled even more consumer anger.

It has been suggested that the inflation increase, particularly in food was only a temporary aberation. If the public has perceived some stabilization in inflation, particularly in the food sector, confidence should again begin to increase and increases in spending will follow. However, in order to have a real consumer recovery the news of decreasing or stabilized prices must be constant and sustained. Signals of inflation one day rising and one day falling will do nothing but reinforce consumer caution. I should also point out that over half of the population believes that the worst economic times are still to come and that 62% of the American people currently disagree with the idea that the recession is over.

Over the past year, we have reported a steady desire to save and a real hesitation to spend, particularly on large items such as autos, housing or large durables. The summer statistics now show some evidence that the desire to save is abating, but no great desire to spend has emerged. Because of the harsh experiences people have had with inflation and their cautious feelings about the future, we expect saving levels to remain fairly high for some time to come. In absolute terms, the proportion of people willing to buy large items has barely reached the levels we saw in the fall of 1974 as the recession began.

Auto purchase intentions have remained constant since last spring. While this would be bad enough in terms of the industry's long-term outlook, a number of factors indicate the market is even softer than it appears. First, we find that the potential impact of price increases on automobile sales is quite great. When we looked into the relationship between the energy crisis and auto purchase plans, we found that many people who had planned to replace automobiles held back specifically because of high gasoline prices. Indeed, in what are only preliminary results we found that there has been a three percent <u>decline</u> in those owning two cars a year ago. This decline, coupled with the finding that almost 46% of the adult population says they will buy cars less frequently in the future than they have in the past, cuts directly into the replacement rate and thus threatens the long-term health of the industry.

Another indication of the softness of the automobile market is the continuing shift to smaller or medium size cars and foreign cars. Higher income and better educated respondents - the ones most likely to be able to buy the car they want - are most inclined to purchase smaller cars and foreign cars. Younger people also fall into this category. On the other hand, lower income and less educated respondents, who lack the means to make a purchase for the most part, are inclined to buy larger, domestic automobiles. This indicates that sales of larger cars will increase only if recovery catches on strongly and lower income people begin purchasing again, it also points to the durability of the long-term trend toward smaller cars. In short, it appears that the American automobile industry is going to be sick for some time, caught between economic pressures and changing consumer tastes.

The desire to purchase new housing and large household durables has been slack as well. Even those who feel that now may be a good time to purchase and are most confident are in no rush to do so.

There is a caution born of experience and the lack of consistently good economic signals, particularly as regards food prices. I think that it is sufficient to say that a consumer recovery will not be led by autos, large durables or housing.

One area we have seen increased desire to spend money has been in the leisure and entertainment field, particularly among younger, better educated, upwardly mobile consumers. Indeed, we are exploring the possibility that there are some secular changes in the economy - that at least some consumers are willing to "trade up" in leisure goods, while at the same time trading down, trading even or deferring purchases of durable items. If such changes continue - a topic we are watching closely - then we may well find some alteration in the importance or status assigned to large material goods and in the end, perhaps important and significant changes in consumer spending habits.

Turning to government policy we find few clear signals from the public. It is safe to say they want deficits reduced and spending increased. In ideological terms, the public wants any economic policy that works. While they see unemployment and inflation as almost equally important issues they oppose by a 53% to 19% margin large deficit spending to curb unemployment if it means the prospect of increased inflation. The public wants the economy to move, but their apprehension about increased prices, particularly food prices, makes them quite nervous about large deficits. One specific cure is favored - 73% of the American public favors a guaranteed federal job program. We find that 40% of the public favors "complete government control of wages and prices if it would be successful at holding down inflation", yet we find only 20% favor the statement "complete government control of wages and prices" without the inclusion of the phrase "if it would be successful".

Although the public opposes larger deficits, of the 60% who are aware of President Ford's vetoes, they oppose those vetoes by a 40% to 37% margin. When we ask the public which of 27 programs they favor increased spending on, and which they favor cuts on, we find an interesting list of priorities. Health care is the first choice of the public for an increase, favored by 46%. Second is aid to the elderly, favored by 43%.

It is also interesting to note that when we ask respondents to choose from a list of health care alternatives only 13% favor keeping things as they are today, 23% favor a catastrophic illness plan that would guarantee health care for the poor and protect everyone from catastrophic illness, 35% favor a system that guarantees everyone as much health care as he or she needs, and 23% favor a plan where the government not only guarantees everyone as much health care as he or she needs, but where the government also would nationalize the system, taking over hospitals, regulating doctors and setting prices, etc.

Turning to the area of cuts in spending the first choice of the American people was military spending, mentioned by 34%, followed by foreign aid and space exploration. When we added first, second and third choices for cuts, foreign aid and space exploration actually exceed the total for military spending (51%) but at the moment neither of these represents a large enough share of the budget to make cutting it a real factor.

As Lou Harris has repeatedly shown, confidence in almost all institutions have declined dramatically and our figures support his. The only government or economic institution that receives over a 30% confidence rating in our surveys are banks with 46%.

When we explore the question of government involvement in the economy, we can start with the finding that business, particularly big business, is quite unpopular. On the other hand, government does not fare much better. Not only is the government, in general, seen as inefficient and ineffective, but when we measure job performance we see that both President Ford and the Congress, specifically, receive only fair or poor ratings. Although many non-economic factors contribute to these ratings, the principle cause is clearly the perception that neither is taking sufficiently strong and active steps to deal with the nation's economic problems - inflation and unemployment - or its energy problems, supply and price.

Furthermore, when we explore questions about the government's role in the economy, we find that Americans are at least as skeptical about the ability of government to manage as they are mistrustful of business. They may be uncomfortable in the frying pan but they are wary of jumping into the fire. While the public supports short-term changes in the government's role in the economy and some restructuring of the economy, we find that the public resists government management or any move that violates basic values they hold about the economy.

For example, when we asked people whether they felt a free market economy was a necessary condition for personal liberty and democracy we found 54% who said that a free market economy was essential to freedom while only 19% felt it was not. Twenty-seven percent were undecided. When we tested the proposition that "Experience has taught us that the unseen magic of the so-called free market does not work" only 27% agreed and 44% disagreed.

An example of this phenomenon can be seen in regard to profits. We found that 54% of the public felt business profits were too high, 29% felt they were about right, and 7% too low. We also found that the public estimated that 25 to 30 cents out of every dollar of business sales was pure profit. But when we asked whether respondents would favor or oppose government controls on how much profit a company can make, we found only 33% favored controls and 55% opposed them. Yet, 61% agree that the way business is behaving, we need the government to keep an eye on them, while only 28% disagreed.

When we asked Americans about the key question facing this committee - government planning and/or management of the economy - we found mixed opinions. A majority of Americans favored a government planning council that would set generalized goals for the economy. An equally large majority opposed a Government management council that would take active roles in the management of firms. And - as a side issue - a majority of Americans worried that the planning council would turn into the management council if it was ever actually established.

Thus the Committee, in bringing its proposals to the American people, is confronted with the most difficult of situations. The American people are deeply troubled and disturbed by the economy; they are crying out for action; but their suspicion of government makes them wary of most of the proposed forms of change and reluctant to take the risks that many of the proposals require.

Some people have noted the rise of citizen anger with the hope that it will provide support for their cause or their own pet revolution. Yet time and time again, as we look at the data, we found the American people demanding a restorative revolution rather than an ideological change. Most citizens believe that we have already had the good society and we need merely stop those who would seek to destroy it.

WRITTEN STATEMENT

Mr. Chairman, members of the committee, distinguished colleagues, ladies and gentlemen:

I would like to thank you for inviting me here to testify in connection with the Committee's debate on the proposed bill to establish the Office of Balanced Growth and Economic Planning.

In thinking about the questions posed by the chairman in his letter inviting me to appear, I found a number of points can be easily made:

1. The American people have been deeply scarred by the impact of double digit inflation; despite signs of recovery they remain wary of over-extending themselves.
2. While Americans favor a great number of pragmatic programs for dealing with economic problems their lack of confidence in institutions and their deep suspicion of government make them reluctant to support many forms of economic planning.
3. At the same time, antagonism to business is high with most Americans believing that many businesses are making excess profits at their expense and generally violating the spirit of our society. This is, of course, particularly true of their attitudes toward the major oil companies where around a third of the people

support the ultimate form of government planning-nationalization.

Before we look at specific issue positions however, let us look briefly at the overall mood of the American people and their general attitudes toward the economy. All of the data comes from our regular Cambridge Report national survey conducted with a representative sample of 2,000 adult Americans at the beginning of each quarter.

I. General Attitudes Toward the Economy

We use a number of different measurements to monitor the American people's economic attitudes. To begin with, we present four questions to gauge short-term personal economic expectations, or "consumer confidence." To develop this measure we took the results of four questions and combined them into a single scale.

The first question measures satisfaction with current income.

In general, would you say you are pretty well satisfied with your family's present financial situation, more or less satisfied, or not satisfied at all?	Pretty well satisfied	More or less satisfied	Not at all satisfied	Don't know
Summer 1975	33%	37	29	1
Spring 1975	35%	32	33	--
Winter 1975	31%	39	29	1
Fall 1974	35%	37	27	1

The highest level of satisfaction was reached last fall and a half-year later in the spring. Discontent with present financial situations was greatest in the spring. However, on the whole changes over the course of the last year have been small.

The next question we ask compares present financial states to a year ago.

We are interested in how people are getting along financially these days. Would you say you are better off or worse off financially than you were a year ago?

	Better	Same	Worse	Don't Know
Summer 1975	31%	36	32	1
Spring 1975	21%	35	43	1
Winter 1975	25%	33	40	1
Fall 1974	38%	35	27	1

These data point out that while last fall nearly four out of ten people felt they were doing better than a year before, there was a steady decline in this group which bottomed out this past spring. There was a concurrent rise in the number of respondents who felt they were worse off which reached a pinnacle of 43% in the spring. The summer survey recorded an 11% decline in the number who felt they were worse off than a year earlier, while those who estimated they were doing better increased by 10% to a total of 31%.

The third question that makes up the consumer confidence scale inquires about future prospects.

Looking ahead--do you think a year from now you will be better off financially, worse off, or just about the same as now?	Better	Same	Worse	Don't Know
Summer 1975	30%	44	15	11
Spring 1975	31%	43	16	10
Winter 1975	20%	43	27	10
Fall 1974	31%	47	13	9

Future expectations dipped by nine percentage points in the winter, so that only one out of five people anticipated to be better off a year later. At that same time, those who expected to be worse off doubled from the previous quarter to 27%. However, since the spring recovery from the winter's low levels, future expectations have leveled off, indicating a "wait-and-see" attitude.

The final question probes attitudes towards future business conditions in the country a year ahead.

Turning to business conditions in the country as a whole, do you think that during the next twelve months we'll have good times, financially, bad times or what?

	Good times	Uncer-tainty	Bad times	Don't know
Summer 1975	23%	38	29	9
Spring 1975	31%	27	36	6
Winter 1975	6%	28	61	5
Fall 1974	14%	42	36	8

with 61% of the sample predicting that the next year would yield bad times for business. By spring, these negative feelings dropped to the Fall 1974 level of 36%, while the number of people who expected good times bounced back from 6% to 31%. However, between last spring and summer there was an increasing sense of uncertainty. The number of respondents who were not sure how national business conditions would fare increased from 27% to 38%.

Answers to these four questions are combined into a single scale to develope our overall measure of consumer confidence. The scale is then broken down into five major attitudinal groups:

- Highly confident respondents--those who take a positive or optimistic position on all questions
- The confident--those who take mostly positive or optimistic positions

/_7 Neutral respondents--those who take approximately equal numbers of positive and negative positions

/_7 The unconfident--those who take negative or pessimistic positions

/_7 Highly unconfident respondents--those who take entirely negative or pessimistic positions on all questions.

The following table delineates the various shifts in consumer confidence over the last year.

Consumer confidence scale

	Highly Confident	Confident	Neutral	Unconfident	Highly Unconfident
Summer 1975	11.5%	31.9	20.9	24.6	11.1
Spring 1975	11.6%	30.8	17.6	29.6	10.4
Winter 1975	4.3%	36.9	16.5	33.8	8.5
Fall 1974	9.2	37.4	15.3	28.8	9.3

The next scale breaks these categories into three groups: "confident," "neutral" and "unconfident."

<u>Consumer confidence scale</u>

	Confident	Neutral	Unconfident
Summer 1975	43%	21	36
Spring 1975	42%	18	40
Winter 1975	41%	17	42
Fall 1974	47%	15	38

These figures indicated that although consumer confidence has shown a steady increase from the low of last winter, it is not rebounding quickly. There was a significant increase in worry about the future in the last quarter as well.

<u>What factors are affecting confidence?</u>

A common debate among everyone from newspaper commentators to economists centers on the question of what produces these changes in consumer confidence. Some programs of the administration have seemed to indicate that they believe consumer confidence can be improved by pep rallies and buttons; on a more serious level debate has centered most on the varying roles assigned to unemployment, inflation, interest rates and so on.

In one recent Cambridge Report survey, we set out to test, as well as we could, the varying impacts of the perceptions of different indicators on consumer confidence.

The central conclusion of our research has been that price changes, inflation, and particularly food and fuel inflation have the most significant impact on changing consumer confidence. Thus it has been particularly unfortunate that the inflation of the past two years has been concentrated, to some extent, in areas such as food.

We can look briefly at the data that supports this conclusion.

Previously, when we talked about consumer confidence "changing" we were referring to the distribution of that change. That is, we were saying that the percentage of people in a particular confidence category had changed. We weren't saying anything about the nature of individual changes. For example, if 47% of the people were confident in the fall (they were) and 47% were confident in the winter (actually, the figure had dropped to 41% by winter), this would not necessarily mean that any of of the same people were confident.

By contrast, we are now referring to individual changes, for example, that have taken place from when we first interviewed Respondent A and when we re-interviewed Respondent A three months later. These change scores are what we call "delta" variables. By comparing different delta variables, we can get a much clearer idea of how changes in one variable might cause changes in another variable.

Now, once we determine the quantitive change in confidence--the dependent variable in this analysis--we can go on to determine what role various other forces or events--such as rising or falling food prices--may have played in this change.

The actual measurement of these relationships is done by using multiple regression analysis to assign a weight to the independent variable that shows the amount of unit change produced in the result by changing a unit of the "cause." Thus, the equation

$Y = .3X = .4Z$

means that if we increase X by 1 unit (1 dollar, 1 gallon, 1 yard or whatever) we alter the value of Y by .3 units. By changing Z one unit, we change Y by .4

To analyze the individual changes we conducted a panel-back survey in the spring of 1975 in which we re-interviewed 500 of the 2,000 people we had questioned the previous quarter. We constructed a scale--the delta consumer confidence scale--that measures the change in confidence of individual consumers over time. Five categories were drawn up to reflect different degrees of change between the winter and the spring.

- Major increase in confidence--this category contains those respondents whose confidence increased more than a full category on the regular consumer confidence scale.
- Increased confidence--this category contains those whose confidence rose even if that rise was not great enough to be reflected by a change in position on the regular consumer confidence scale.
- Unchanged confidence--these people's scores showed no change from the winter to the spring.
- Decreased confidence--this category contains those whose confidence fell even if that fall was not great enough to be reflected in a change in position on the regular consumer confidence scale.
- Major decrease in confidence--this category contains those whose confidence decreased by more than a full category on the regular consumer confidence scale.

Here are the results we got from this scale:

3% Major increase in confidence

19% Increased confidence

31% Unchanged confidence

42% Decreased confidence

5% Major decrease in confidence

Thus, 47% of the people we re-interviewed this spring experienced an actual if slight decline in confidence over the period, while only 22% experienced an increase.

What role did the persistent, but moderating inflation we have experienced play in changing the confidence of individual consumers? What about lower interest rates?

We developed several different measures to determine the relationship between inflation and consumer confidence. First, in both the winter and spring surveys, we asked people to give estimates of current and expected inflation rates for prices overall and for food prices in particular. Second, we asked respondents whether or not they thought prices--and particularly food prices--were rising or falling in April.

A person might give an estimate of the inflation rate in the spring that is substantially lower than the one he or she gave in the winter without realizing they had made a change, because they don't remember the last estimate they gave. Thus, the second question measures conscious awareness of changes in the inflation rate and also restricts the time frame to the last month.

Since food prices actually fell over the period, we took the response to the questions about food inflation rates, and constructed a scale to see whether individuals had raised or lowered their estimates. When we compared the estimates from the winter and spring surveys, we found that more than one-third of the respondents had lowered their estimate of what $20 of food will cost in a year.

- 37% of respondents gave a lower estimate in the spring than they gave in the winter.
- 36% of respondents gave the same estimate in the spring as they gave in the winter.
- Only 26% of respondents gave a higher estimate in the spring than they gave in the winter.

However, an analysis of the response to this question shows that those who lowered their estimates are no more likely to have increased their confidence than those who raised them.

<u>Among those who gave a lower estimate of inflation</u>:

20% have increased confidence
33% have unchanged confidence
46% have decreased confidence

<u>Among those who have a higher estimate of inflation</u>:

21% have increased confidence
32% have unchanged confidence
46% have decreased confidence

One reason for this is that a lower "rate" of inflation, of prices going up, is not the same as lower prices. Also, as we pointed out above, people are not always aware that they have changed their estimate. Finally, people tend to exaggerate the rate of inflation, partly because they are more sensitive to price increases than to price stability or even decreases. Thus, when we asked our respondents whether food prices had gone up or down in just the past month--a month in which overall statistics show that they did, in fact, fall--we got the following result:

Just in the last month, would you say around here food prices have gone up or down?	
Up	53%
Stayed the same	19
Down	26
Not sure	2

Despite evidence and publicity to the contrary, a majority of consumers estimated that prices had gone up.

However, we drew some encouragement from the fact that 45% of the people felt prices had stabilized or gone down after a year of enormous inflation.

Furthermore, it is clear that there is a relationship to changes in confidence. Those who felt that prices had gone town were more confident:

<u>Among those who feel food prices have declined</u>:

32% have increased confidence
31% have unchanged confidence
31% have decreased confidence

On the other hand, those who believed prices were continuing to rise were clearly less confident:

Among those who feel food prices have continued to increase:

17% have increased confidence
27% have unchanged confidence
56% have decreased confidence

The difference between the two groups is striking. Those who saw prices going down moved slightly toward increased confidence, while those who saw prices still going up moved by a margin of 3-to-1 toward decreased confidence.

Thus, perception of inflation is very closely related to changes in confidence.

We also checked to see how aware our respondents were of the decline in interest rates over that period and how that awareness affected their confidence level.

First of all, it is clear that awareness of interest rates having fallen was fairly high. 39% of the respondents correctly estimated this.

Just in the last month have interest rates on things like home mortgages gone up or down?	
Up	20%
Stayed the same	14
Down	39
Not sure	27

On the other hand, the relationship between this awareness and changes in consumer confidence is much less clear. Both those who saw interest rates falling and those who saw them rising were less confident--although the decrease in confidence is greater for the second group.

The one factor in the economic environment that had clearly gotten worse in the months between our surveys was unemployment. This factor can affect a person in two distinctly different ways. First of all, and most directly, you can lose your own job or someone in your household can lose his or her job. About 5% of the population said they were in this position, and the confidence of this group has decreased sharply.

Among those who have become unemployed or whose
<u>households have experienced unemployment:</u>

18% have increased confidence
20% have unchanged confidence
62% have decreased confidence

Not suprisingly, this decrease in confidence is much greater than the decrease among the overall population. Furthermore, 10% of this group experienced what we defined earlier as a major decrease in confidence--that is, their confidence decreased by more than a full category on our regular consumer confidence scale.

A second way in which unemployment can affect people is simply as an issue of concern. Our panelback survey demonstrates that Americans did sense a massive increase in unemployment.

Just in the last month, has unemployment increased or decreased?	
Increased	72%
Stayed the same	10
Decreased	13
Not sure	5

However, when we looked for a correlation between these perceptions of unemployment and changing confidence levels, we found little or no difference between the groups.

This analysis and other analyses we have done have convinced us of the crucial role of prices in consumer confidence. Thus government policies which seek to control consumption of gasoline through higher prices--as only one example--will almost certainly have disastrous impacts on consumers.

This is particularly clear when we look at the last quarter where consumers again saw food prices and other prices shooting upward. In August we repeated those same indicator questions that we used in the panelback survey and found substantial negative movement.

Just in the last month, would you say food prices have gone up or down?

	Summer 1975	Spring 1975
Up	84%	57%
Stayed the same	10	24
Down	5	17
Not sure	2	2

Have prices in general gone up or down?

	Summer 1975	Spring 1975
Up	90%	71%
Stayed the same	7	16
Down	2	11
Not sure	1	2

Have interest rates on things like home mortgages gone up or down?

	Summer 1975	Spring 1975
Up	43%	28%
Stayed the same	15	15
Down	11	33
Not sure	31	24

Has unemployment increased or decreased?

	Summer 1975	Spring 1975
Up	62%	69%
Stayed the same	13	20
Down	19	8
Not sure	6	3

Inflation Psychology?

Having seen the crucial relationship between inflation and consumer confidence, it is important to recognize two additional points about American reactions to inflation. The first of these is that there is little or no evidence to suggest the growth of an inflation psychology: a "spend now before the money loses its value" type of thinking. Every indication is that Americans react conservatively to inflation and pull back their spending plans rather than increase them.

Furthermore, there is considerable evidence that Americans overestimate inflation's impact in a serious fashion. When we have asked for estimates of the rate of inflation we have found that Americans consistently give estimates far above "official" figures. While these estimates are "wrong" they do respond to the real figures--going up and down with the actual inflation rate.

Other economic indicators

We asked respondents a number of other questions to measure their attitudes towards the economy.

To begin with, we inquired as to how people think the recovery from the recession is going.

Would you agree or disagree with the statement being made that the recession is over and we are now recovering?	
Agree	27%
Don't know	13
Disagree	60

When we asked those who do not see recovery why they don't, 38% cited continuing or renewed inflation as the major reason, while 29% cited continuing high unemployment. Others gave more general reasons or said they just didn't see any "signs" of recovery.

Indeed, there is some fear that the worst is still ahead. This came through unmistakably when we asked people directly where they thought we were in the recession.

Do you think the worst of economic bad times are behind us or are they still ahead of us?	
Behind us	36%
Not sure	11
Ahead of us	52

Furthermore, when we asked respondents to track the change in their real income, only 23% said theirs had increased, while 35% indicated that they had lost ground.

Just in the last few months, do you think your real income has increased, decreased or stayed about the same?	
Increased	23%
Stayed the same	41
Decreased	35
Don't know	1

Despite the long, hard pull over the last 12 months, it seems clear that the future of the recovery is tenuous indeed.

Purchase plans

All of these general attitudes of different kinds would be merely interesting if they did not have a direct impact on the economy through changes in the consumers plans to purchase housing, automobiles and durable goods. It has been documented by everyone who employs measures of consumer attitudes that the American people do plan their purchases on the basis of their perceptions of the general economy.

We have noted that consumer confidence showed some slackening in the last quarter in response to renewed inflation. Not surprisingly, purchase plans in every area levelled off or declined. The tables below show figures for the last year for housing, automobiles and a list of specivic durable goods.

Do you plan to buy or build a house for year-round use during the next 12 months?

	Yes	Not sure	No
Summer 1975	6%	4	90
Spring 1975	7%	4	89
Winter 1975	4%	4	92
Fall 1974	6%	3	91

Do you plan to buy a car in the next 12 months?

	Summer 1975	Spring 1975	Winter 1975	Fall 1974
Certain	8%	7%	6%	11%
Probable	5	6	5	6
Better than even	2	4	2	2
Even	3	3	3	3
Less than even	2	2	3	2
Probably not/ very unlikely	79	76	80	74
Not sure	1	3	2	2

Percentage who feel it is certain or probable they will make product purchases

	Summer 1975	Spring 1975	Winter 1975	Fall 1974
Television (b/w)	2.4%	4.1%	3.4%	2.9%
Television (color)	5.9	7.8	5.7	7.2
Refrigerator	5.6	6.3	4.7	6.1
Washing machine	4.7	6.0	5.5	4.7
Clothes dryer	4.3	4.8	4.0	4.0
Stereo, hi-fi	4.3	5.4	3.6	5.6
Oven, range	4.4	5.4	3.6	5.6
Air conditioner	3.0	3.6	2.4	4.2
Dishwasher	2.3	3.7	2.5	3.0
Other furniture	13.0	15.1	12.8	14.2

Are you planning in the next 12 months to buy any large household items?

	Yes	Not sure	No
Summer 1975	17%	6	77
Spring 1975	18%	6	76
Winter 1975	14%	5	81
Fall 1974	20%	6	74

The alternative to buying is, of course, saving. Over the last year we saw a great desire by most Americans to increase their savings. At least part of this desire was motivated by a fear of total collapse and the desire to have a nest egg saved up against calamity. As we predicted in the spring a relatively large proportion of the tax rebates were initially saved by many consumers.

Over the course of the last quarter we have seen desire for continued savings accumulation begin to abate, which is a positive indication that consumers are willing to pick up their spending. The results of one question show this clearly. We asked people where they would increase their spending if their personal economic situations improved. The results are shown below:

If your personal economic situation improves, where will you increase spending?

	Summer 1975	Spring 1975	Winter 1975	Fall 1974
Housing	22%	21%	27%	23%
Food	33	31	35	36
Car/transportation	24	24	24	21
Clothing/personal	49	46	45	47
Entertainment/travel/ leisure	59	56	42	50
Savings	59	66	68	70
Insurance	5	8	7	8
Debt repayment	15	16	21	15
Taxes	2	1	1	2
Other/don't know	9	7	11	5

An interesting trend in the data is the fact that willingness to spend for entertainment and has risen steadily over the period we have examined. This may represent a permanent change toward a pattern with greater emphasis on personal entertainment and leisure spending.

Looking back at the auto purchase intentions, by the way, it is notable that a number of factors indicate the market is even softer than it appears. For example, we tested in August before the price increases were announced, the potential impact of price increases on automobile sales, and found that respondents would cut their auto purchases almost in half in the event of a 10% increase. The auto companies appear to be keeping price increases small this year, primarily by making formerly standard equipment optional. Nonetheless, it is clear that the market responds to the least bit of bad news.

We saw some more bad news when we looked into the relationship between the energy crisis and auto purchase plans. We found that many people who had failed to replace automobiles--that is, people who had two cars a year ago and now have one--held back specifically because of high gasoline prices. Such action cuts directly into the replacement rate and thus threatens the long-term health of the industry and thereby the economy.

So summing up general attitudes, we are drawn to the not very surprising conclusions that Americans are deeply disturbed and worried about the economic future of the country. They are afraid of further inflation and are reluctant to commit themselves to economic activity until that doubt is resolved.

Let us now move on to an examination of citizen attitudes toward institutions and courses of action: What is to be done?

Long-term attitudes

In order to discern the citizen expectations, we present interviewees with a ladder-scale on which there are eleven rungs numbered zero through ten. The top of the ladder (number 10) represents the best possible state of affairs while the bottom of the ladder (number zero) represents the worst possible state of affairs. Respondents are then asked to place the nation, the national economy and their personal lives on the scale as they were five years ago, as they are at the present time and as they expect them to be five years from now.

Long-term personal expectations

The figures below show that ever since last winter, there has been a tendency to idealize the past, though this abated somewhat during the summer. Present personal assessments have remained consistent since the winter. Future expectations were more optimistic in the spring, though this too has leveled off. The following table presents the tabulations we've accumulated for personal expectations as well as comparative figures for 1972 and 1959 — the last comparable recession — from work by William Watts, Lloyd Free and Hadley Cantrill.

	5 years ago	Present	5 years from today
Summer 1975	6.0	6.3	7.1
Spring 1975	6.1	6.3	7.3
Winter 1975	6.1	6.3	7.0
Fall 1974	5.6	6.1	7.0
1972	5.5	6.4	7.6
1959	5.9	6.6	7.8

The meaning of these measures becomes clear when, on the basis of these scales, we divide the people into four attitudinal groups:

/_/ Optimists — those who see the present as better than the past and see a still better future ahead.

/_/ Steady-staters — those who essentially see no change across different times.

/_/ Temporary crisis types — those who see affairs at a temporary low from which recovery will take place.

/_/ Pessimists — those who see the past as better than the present and expect a still worse future.

Looking at these four attitudinal groupings over the course of the past year we can see that in the winter there was a sharp decline in the proportion of optimists and a concurrent influx of temporary crisis types and pessimists. Additionally, this summer there was an increase in the number of people who were pessimistic about their long-term personal expectations.

Long-term personal expectations

	Optimists	Steady-staters	Temporary crisis types	Pessimists
Summer 1975	43%	13	21	23
Spring 1975	45%	13	23	18
Winter 1975	41%	12	23	25
Fall 1974	48%	14	16	22

Long-term attitudes toward the country

A similar small increase in pessimism is evident when we turn to long-term attitudes toward the nation as a whole. Ratings for the present are actually up from their spring and winter lows, but expectations for the future are down.

Just as the current inflation seems to be sapping people's optimism about their personal lives, it is apparently depressing expectations for the country as a whole. Figures for 1972 on America's attitude toward the country have been drawn from State of the Nation, by William Watts and Lloyd Free. These figures provide an interesting comparison.

Long-term attitudes toward the country

	Past	Present	Future
Summer 1975	6.1	4.6	5.6
Spring 1975	6.2	4.3	5.9
Winter 1975	6.4	4.3	5.4
1972	5.6	5.5	6.1

When we break these ratings down by attitudinal groups, we find that the number of optimists has actually increased, but the number of pessimists is up much more. Although the majority view is still that we are in a temporary crisis, pessimists far outnumber optimists. In fact, the distribution is essentially the same as it was last fall.

	Optimists	Steady-staters	Temporary crisis types	Pessimists
Summer 1975	21%	5	43	31
Spring 1975	18%	3	56	22
Winter 1975	12%	3	55	30
Fall 1974	20%	5	45	30

Long-term attitudes towards the national economy

When we examine how the respondents rated the national economy on the ladder-scale over the past twelve months we see that while the past remains fairly steady, appraisal of the present state of the economy has declined in every quarter except the most recent. Attitudes about the future of the economy have fluctuated from one quarter to the next, as can be seen in the following chart.

Long-term attitudes towards the national economy

	Past	Present	Future
Summer 1975	6.5	4.2	5.5
Spring 1975	6.6	4.0	5.8
Winter 1975	6.6	4.2	5.2
Fall 1974	6.1	4.6	5.6

When we break these ladder scores into attitudinal groups, as the following table shows, the most striking fact is the dramatic decline in optimists from Fall 1974 to Winter 1975. As well, the Spring 1975 survey recorded an 11% increase in temporary crisis types drawn mainly from those who had previously been pessimistic. In all likelihood this was due to the potential to mend economic ills that many people hoped for in the government's tax-cut and rebate program. However, in the next quarter the proportion of pessimists increased back to 28%. Thus the course of recovery is clouded by consumer doubt.

Long-term attitudes toward the national economy

	Optimists	Steady-staters	Temporary crisis types	Pessimists
Summer 1975	9%	3	60	28
Spring 1975	8%	3	70	19
Winter 1975	6%	3	59	32
Fall 1974	16%	6	50	28

II. What is to be done? Americans look at the policy options

The question of what can be done about the economy can be answered in many different ways. In the common political debate the different proposals are frequently ranged along ideological lines; liberal propositions to moderate ones; Keynsian propositions to monetarist proposals. The American people are both flexible and practical--they reject choosing their policies on the grounds of ideology. Instead, when pressed most Americans opt for trying anything that looks like it might work; and if it doesn't they opt for trying something else.

This attitude can be seen again and again in the data. We have broken our presentation into three major areas:

A. Attitudes toward possible changes in government spending and monetary policy.

B. Attitudes toward business and government regulations of business, and finally,

C. Attitudes toward national planning in its various forms.

As we will see, the American people exhibit not consistency but pragmatic opportunism in choosing what they will and will not support.

Government spending

Several broad questions asked in April of this year asked Americans to approach the question of priorities. This is a particularly crucial area since President Ford and others have demanded major cuts in the Federal budget. We decided to find out where the American people want those cuts and where they want spending expanded.

Areas that Americans approve for budget increases are first of all, health education and aid to the elderly, as the following table shows.

I'd like you to tell me in which three areas you would most like to see government spending increased.

	First response	Second response	Third response	Total
Military spending and national defense	7%	2%	2%	11%
Health care	26	12	8	46
Aid to the elderly	18	17	8	43
Aid to veterans	3	5	4	12
Education	11	11	10	32
Scientific research	3	6	5	14
Space exploration	1	1	1	3
Social Security	6	9	10	25
Welfare	2	3	3	8
Aid to business	1	1	2	4
Foreign aid	--	--	--	--
Aid to cities	2	2	2	6
Roads and transportation	1	3	2	6
Controlling air and water pollution	4	5	6	15

(Government spending question continued)

	First response	Second response	Third response	Total
Housing construction	3	3	4	10
Parks and recreation	--	2	2	4
Aid to minority groups	1	2	3	6
Aid to the handicapped	2	5	7	14
Crime and drug abuse prevention	6	7	15	28

The prevention of crime and drug abuse ranks next with over a quarter of all respondents suggesting increases in these areas. Significantly, only 11% of the population favor expansion of the military or defense budget. Additionally, less than one-half of all Americans suggest an increase in foreign aid.

On the other side of the coin, using the same list we presented respondents for the previous question, we asked them where they would like most to see government spending decreases.

I'd like you to tell me in which three areas you would most like to see government spending decreased?

	First response	Second response	Third response	Total
Military spending and national defense	34%	8%	9%	51%
Health care	--	1	--	1
Aid to the elderly	--	--	--	--
Aid to veterans	1	1	1	3

(Government spending
question continued)

	First response	Second response	Third response	Total
Education	1%	1%	1%	3%
Scientific research	2	4	3	9
Space exploration	17	25	14	56
Social Security	--	1	1	2
Welfare	12	9	6	27
Aid to business	3	6	7	16
Aid to farmers	1	2	2	5
Foreign aid	19	25	21	64
Aid to cities	1	2	4	7
Roads and transportation	1	2	4	7
Controlling air and water pollution	1	2	3	6
Housing construction	1	2	3	6
Parks and recreation	1	4	5	10
Aid to minority groups	3	4	11	18
Aid to the handicapped	--	--	--	--
Crime and drug abuse prevention	1	1	2	4

The most obvious response in that 51% of Americans are willing to cut military and defense spending.

Actually, foreign aid tops the list of areas to cut back, followed by space exploration; but at the moment, neither of these represents a large enough share of the budget to make cutting a real factor. That is to say, when the government spends fifty times as much on one program or another, a 2% cut on the first is equal to totally eliminating the second. Thus, the sheer size of defense--along with the social welfare programs, the other big piece of the federal budget--makes sentiment to cut it particularly meaningful.

After these first three big cuts, welfare aid and aid to minority groups are the next targets for the Congressional cleaver. In some ways, what is remarkable about these figures is the strength of opinion in both directions. The desire to expand health and education services here at home--despite all the problems these programs have encountered--cuts far across any partisan or liberal-conservative lines. At the same time, the desire to cut foreign aid is equally strong and a majority supports cuts in defense spending as well.

Turning to governmental policies, we can see some of the most critical questions facing the country today revolve around monetary and tax policy and the steps government should take in these areas.

First of all, a slim plurality of Americans favor extending the current tax cut even if it means a larger federal deficit.

Do you favor or oppose extending the current tax cut into next year even if it means a large federal budget deficit?	
Favor	44%
Not sure	23
Oppose	33

However, support for this is far from overwhelming. Indeed, there is considerable evidence that fear of inflation is causing considerable fear of a deficit.

Some people say that we ought to run up large federal deficits and expand spending to solve unemployment. Other people say we should not run up deficits which might fuel inflation. Which is closer to your view?

Run up large deficits	18%
Not sure	30
Deficits might fuel inflation	53

Thus in contemplating new policies it is vital that we do not fuel additional fear of inflation.

However, we found one of numerous contradictions when we asked about President Ford's attempts to hold down spending by vetoing programs. One would assume from the response to the last question, that there would be substantial support for the President's actions. However, when we asked the 59% of our sample that had heard of the President's vetoes whether they favored or opposed them, opinion was extremely mixed.

Do you generally support President Ford's vetoes or do you oppose the vetoes?

Support	37%
Not sure	23
Oppose	40

A slim plurality of Americans thus reject the vetoes that President Ford argues would keep down the deficit which Americans don't like.

The problem for the Congress is to find an economic path that meets the different goals of reordering priorities and, at the same time, calming the fear of inflation.

Business and Regulation

In August, we asked a number of questions to determine how people feel about business. As the response to the first question shows, a majority of those interviewed agreed that the business community in general puts more value on making a dollar than morality

Any businessman, big or small, puts making a dollar ahead of morality.	
Agree	51%
Don't know	8
Disagree	41

In fact, nearly eight out of ten people agreed with the disparaging statement that big business doesn't care about them.

Big business doesn't care whether I live or die, only that somebody buys what they have to sell.	
Agree	79%
Don't know	5
Disagree	15

In order to put attitude towards business in its proper perspective, we asked survey participants to tell us how much confidence they have in a whole range of political social and economic institutions. The following table shows the percentages for each institution on the list.

How much confidence do you have in these institutions?

	Great deal	Only some	Hardly any	Not sure
The Presidency	29%	48%	20%	3%
The Congress	26	56	14	3
AFL-CIO	12	41	32	15
Major oil companies	5	32	56	7
Chamber of Commerce	27	44	17	12
Retail merchants	23	57	14	6
National Association of Manufacturers	11	44	17	28
Business in general	22	56	15	7
Banks	47	43	7	3
Utility companies	27	44	25	4
Labor unions in general	16	43	30	11
Common Cause	17	33	11	38
The Democratic Party	24	49	20	7
The Republican Party	12	42	38	8

As with any measurement, the question arises whether X% is a lot or a little. Relatively speaking, only banks score high in confidence among the institutions tested. Oil companies, the AFL-CIO and the Republican Party get the lowest scores. Business in general and individual business entities come out somewhere in the middle, along with the bulk of American institutions. Thus, on the whole, business does not score notably worse today than politics or organized labor.

These confidence ratings illustrate an irony in present public opinion. We saw earlier that Americans express skepticism about the general intentions of the business community. Indeed, we are not the only ones to report this finding. A recent highly publicized survey showed that the anger at big business is pervasive throughout

American. However, there is one key fact that was overlooked in that survey, but which our confidence ratings hint at, and which the responses to the following questions will more fully detail: namely, Americans are as unconvinced of the government's ability to handle the economy as they are mistrustful of big business. As the response to the following question exemplifies, despite their anti-business posture, the public is just as adamantly opposed to the government running things.

The way business is run, we would be better of nationalizing industry and letting the government run it.	
Agree	14%
Don't know	13
Disagree	73

Anger at big business is exemplified in the response to a question about the price rises the oil companies announced prior to the Fourth of July weekend. Nearly eight out of ten people agreed that the increase proved the oil companies are a conspiracy.

As you may know, the oil companies raised prices before the Fourth of July weekend. Some people say it was a justified price increase. Other people say it just proves the oil companies are in a conspiracy. Which is closer to your view?	
Justified	10%
Don't know	12
conspiracy	78

In addition when we asked respondents whether they favored nationalization of all the big oil companies, 35% of the sample favored such a move, and only 48% were opposed--very different from the response for industry in general.

How do the people feel big companies should be handled. Should the government step in with greater regulation? We offered the sample a question on whether big companies should be broken up or whether the government should exercize stronger regulatory powers. The response shown was evenly divided.

> Some people say the economy would run better and consumers would get a better break if the big companies were all broken up and in their place many smaller companies existed and competed. For example, instead of three or four auto companies there would be maybe eight or ten. Others say consumers are best served if the large companies are allowed to stay as they are, but under stronger government regulation and control to see that the public interest is protected. Which of these two general positions do you tend to favor?

Break up large companies	37%
Don't know	21
Keep system with government regulation	41

However, one sentiment does remain clear. The people want the views of the consumer to play a greater part in directing big companies.

Every big corporation ought to have at least one consumer on its board of director to represent the public.

Agree	85%
Don't know	7
Disagree	8

Now let us turn our attention to the question of long range national planning.

National Planning

Having seen that Americans are unhappy--a surprise to no one--and also having seen the attitudes they hold toward business and business regulation--some of which may have been surprising--we come to the fundamental question confronting this committee: whether or not the American people support some form of long-range planning for the economy and, if so, what kind?

Throughout this presentation we have stressed the relationship between short-term attitudes and the views of the population. When they are unhappy they cast about for solutions; if the solution works, they support it, however much it contradicts their ideology.

In the question of national planning we see not only this phenomenon but we also find the American people in midst of another dilemma: However much they dislike and mistrust business, they are at least as unconfident about the ability of government to solve their problems.

The implications of this can be clearly seen in two questions. The first simply proposes a council that sets "goals" and it wins strong support; the second proposes government planning and is strongly rejected.

Some people have proposed a national economic planning council that would look at the economy and at our resources and would set general "goals" for the economy but would not try to actually manage or run any business. Would you favor or oppose such a council?

Favor	58%
Not sure	18
Oppose	24

Some people say the government should become more involved in planning and managing the economy. Other people say the government doesn't do a very good job of managing anything right now and would only make the economy worse. Do you favor or oppose more government planning and management of the economy?

Favor	32%
Not sure	17
Oppose	51

Indeed, when we presented people with a list of possible meanings for government planning, we found a wide variation in support--with three quarters of America enclosing the setting of general goals while almost as many reject the regulation of individual firms. [Of course; it might be considered startling that a full quarter of America actually endorses government management of firms].

I'm going to read some different kinds of possible government "planning" that might take place and I'd like you to tell me whether you favor or oppose each one.

	Favor	Not sure	Oppose
Setting general goals for the economy and suggesting ways of achieving these goals.	78%	11%	12%
Using taxes to give people more or less money to keep spending levels constant.	39	18	43
Setting quotas for the use of natural resources such as	56	15	30

	Favor	Not sure	Oppose
Adjusting taxes to encourage people to save and invest rather than to spend and consume.	54%	17	30
Regulating individual firms as to what they can produce, how much they can charge, how much they can pay, and so on.	24	14	63

One factor clearly influencing attitudes on this question is that people do accept the idea that a link exists between the free market economy and their own personal freedom.

Some people say that a free market economy is necessary for personal liberty and democracy and that if you take away the free market, we will lose liberty. Other people say that the two aren't really related and we can be free and democratic in any kind of economy. Is a free market economy essential to freedom?

Yes	54%
Not sure	27
No	19

III Conclusions

The natural question is what all this means for the economy. In the next few months it is likely that some additional elements of government energy policy will emerge. Furthermore, the impact on food prices of Russian wheat sales and other farm policies will be apparent. And we already know that some policy options have been rejected. For example, it appears there will be no short-term attempt to drive food and fuel prices down, which would certainly increase consumer confidence. Given this background, we see two possible scenarios for the economy.

If prices stabilize, it is likely that consumer confidence will resume it's upward march. In this scenario, the rise in confidence would gradually encourage Americans to bring their savings out and risk incurring additional debt. This would result, of course, in increased durable sales and some strength in the auto market. The share of larger cars would increase slightly as formerly lower confidence people re-entered the market. The net effect would be a renewed recovery, and the more optimistic expectations of some would be realized.

The second possibility is a cyclical scenario: each renewed burst of consumer confidence would be met by a renewed burst of inflation. Whenever people thought about increasing their spending, more inflation would force them to revise their plans. Spending and borrowing in all areas of the consumer sector would remain weak, and the country would be trapped in another period of stag-flation. (We saw, for example, how sensitive auto sales were to price increases.)

If these conditions persisted long enough, we might finally see a shift toward an "inflation-psychology" type of anticipatory spending in this country. Such anticipatory spending would put an even greater strain on the nation's credit supply, but it might end with either a renewed burst of inflation or another plunge into recession that would, in fact, wipe out inflation for a while.

On the other hand, a very different outcome of the second scenario is possible. If stag-flation were allowed to persist, the kinds of government intervention in the economy that the majority of Americans now reject might very well come to look more appealing than the _status quo_. Popular pressure might build for changes that would radically alter the structure of business. This is not so far-fetched. The oil companies have already pushed the public to the brink of tolerance. Other industries may be more popular than oil, but, as we have seen, many are not significantly more popular.

Still another outcome of the stag-flation scenario represents more of a middle-ground. In the course of an election year, the political necessity of giving people what they want could take precedence over other possible determinants of economic policy. For example, President Ford recently proposed a $100 billion energy development corporation.

Who could oppose such a plan? It is vigorous; it promises action rather than more talk or higher gas prices; it is just the kind of developmental solution that we have seen Americans favor in the energy area. This and other measures like it fall short of comprehensive government planning and control, but can anyone doubt that such massive efforts would not reshape the sectors of the economy they were designed to aid?

For those who follow the current controversies in business and economic literature, there is an interesting side issue. That is whether a "capital shortage" exists. Although there may be disagreement about the extent or even the reality of the problem, a number of business economists have speculated that we need to raise enormous amounts of capital in the next decade. Yet investment in capital resources necessarily means a redistribution of resources within the economy--toward capital formation and away from consumption.

The government might bring about a solution to the capital shortage problem by legislative fiat--for example, through massive loans for plant construction, or credit allocation rules imposed on banks and other financial institutions. Or the price mechanism could solve the problem unless prevented from doing so by public policy--for example, credit allocation rules that encourage consumption. A price mechanism solution would involve higher prices for capital to encourage investment--e.g., higher interest rates--and corresponding penalities for consumption--e.g., higher prices for consumer goods. Ironically, in many ways, the stag-flation scenario, rather than the scenario of a renewed recovery, provides these essential conditions of capital formation.

In looking for an answer to our initial question "Where are we going?" --we are drawn back to the essential conclusion of all our studies. Consumers have been badly scarred by inflation; even the brief return bout the economy takes depends, to a large extent, on whether inflation can be brought sufficiently under control to reassure consumers.

There are times, for example the late summer of 1974, when it is terribly important to pay attention to changes in general measures of consumer confidence. In August-September 1974, the great majority of the American people expected bad times ahead, with perhaps one-third expecting a serious recession or even a depression. At that time, most economists expected rather good times, as evidenced by, for example, the testimony at the President's Economic Summit Conference in late September, 1974. The point is this: Under these circumstances, the economists may be right, but they are probably wrong, because the people have the ability to make <u>their</u> forecast come true, by cutting down on their spending.

By the end of 1974, consumers were in utter despair because: 1) they were very much aware of the fast fall in the economy, which they had expected, 2) most consumers still expected a high rate of inflation to continue, and 3) there was great upset with the government for not doing anything about the recession. At that time, you will remember, the latest word from government was about a tax <u>increase</u>, let alone a tax decrease.

This brief period has to be recognized for what it was: a very unusual period when a number of factors combined to produce a level of consumer attitudes and of consumer spending which was substantially lower than was justified by the underlying economic circumstances. In part, I believe that some of the recovery we have witnessed thus far is simply a rebound from those unusually low levels of confidence and spending.

During the first nine months of 1975, we have measured a rather strong recovery in consumer confidence -- to a very low level. Only in the latest survey, in August-September, did our Index of Consumer Sentiment manage to climb back above the level which had been the previous record low prior to the current recession.

The primary reason for the recovery in sentiment is good news about a recovery in the economy. The latest survey found 35 percent of respondents saying that the recovery had already begun, with a clear majority saying either that or expecting the recovery to begin within a few months.

In August-September, for the first time since 1972, there were more respondents mentioning having heard good news about the economy than bad news. Best of all, there was a nice increase in the proportion saying that they had not heard any news about the economy. (Chart 2)

At the same time, the latest survey showed some evidence of an increase in inflationary expectations, although these attitudes remained much less intense than they had been in 1973 and 1974. (Chart 3)

There are three reasons for the increase in inflationary expectations:

1) Consumers experienced several months of double-digit inflation during the summer.

2) In May, the majority of respondents expected the recession to continue, and many said that because of the recession one could get good buys as businessmen tried to reduce their inventories. In August-September, the majority anticipated recovery, and so fewer mentioned the recession as a reason for expecting inflation to be restrained.

3) Consumer expectations about interest rates have changed dramatically this year. Early in 1975, the majority expected interest rates to go down, because of the recession. In the latest survey, 38 percent expected rates to go up while only 15 percent expected them to go down. Not only did people see rates in fact rising, but also numerous statements from Washington said that this would have to happen.

Survey data have consistently shown a significant relationship between expectations about interest rates and expectations about general inflation. Looked at purely from the consumer's viewpoint, an increase in the price of credit _is_ inflation, in the same way that an increase in the price of any other consumer expenditure is inflation. Therefore, the marked shift toward expecting higher interest rates has contributed to increased expectations of inflation generally.

Consistently during the first three quarters of this year, the survey data have indicated three reasons why the recovery in consumer spending is somewhat slower than it might otherwise have been:

1) Many consumers are in a financial hole. Last February, there were 32 percent of consumers who said that they were worse off financially than they had been five years earlier. There were 44 percent who said that they were worse off than one year earlier. In both respects, these figures are about ten points worse than at the depths of the 1958 recession. Incidentally, this is perhaps the best single measure of the fact that the current recession is the worst since World War II. Just as a businessman wants to get his balance sheet back into shape before resuming normal spending, so it is with consumers.

2) People tell us this year that it is terribly important for them to try to add to their savings. It is not that consumers are especially dissatisfied with their savings; in fact, many have had considerable success in adding to savings recently. Still, the shock and trauma of several years of inflation and recession have left many people in a financially conservative mood. Altogether in August-September, 64 percent of consumers could be classified as "saving-minded," compared to 38 percent in late 1972. (Chart 4)

3) Very few Americans have confidence in their government's economic policy. In the latest survey, only 8 percent said that the government is doing a "good job" in this respect, up from 5 percent early this year. (Chart 5) These attitudes have been, and still are, strongly related to expectations about whether we will have good or bad times during the next five years. In other words, relatively few people believe that the government's economic policy will improve, and this contributes to general pessimism about the economy, and incidentally, to pessimism about inflation.

In addition, special factors influencing the demand for houses and cars have suggested that these two industries will not make as strong a contribution to recovery in consumer spending as is usually the case coming out of a deep recession. These industries will probably continue to recover rather slowly.

If the outlook has been for a rather slow recovery in consumer demand this year, there are several reasons for expecting a somewhat faster recovery next year;

1) Past experience suggests that as the recovery matures, more and more consumers will become convinced that the recovery is taking place and has amounted to something. This will improve confidence and spending, and the recovery should gain momentum.

2) Surveys conducted since World War II have consistently shown an increase in the first quarter of election years in the proportion of people saying that we will have good times simply because it is an election year, and government will take steps to improve the economy in order to have good times before the election.

In my opinion, both the recovery itself and the recovery in consumer attitudes now have sufficient momentum that it is rather unlikely that the upward trend will be soon reversed. However, that would not be impossible. The combination of higher income tax rates, fast rises in some prices (especially fuel and utilities which are closely watched by consumers), high and rising interest rates, pessimistic statements about these things coming out of Washington, and New York City going bankrupt might do it.

I believe, however, that the most important question now is how to prolong the period of prosperity after recovery is achieved. There are a number of reasons why, as things now stand, the most likely outlook is for renewed inflation followed by recession.

My reasons for expecting renewed inflation have little to do with survey findings, so I will not dwell on it except to say that I believe that our long-term problem with inflation is made much worse by a lack of productivity gains and a too-low rate of business investment. If that is true, then I suggest that it is folly to try to fight that kind of inflation with recession, because recession lessens both productivity gains and business investment, in both the short and long term. The best we can do for either is to have a healthy economy, neither over-heated as in early 1973, nor in recession as has been too often the case in recent years.

Lack of confidence in government makes both inflation and recession more likely. In 1974, for example, most people believed that the government would not be successful in reducing the rate of inflation. When we asked why, there were more people talking about problems of the government than about problems of inflation or the economy. In other words, lack of confidence in government heightened inflationary expectations, which in fact made it more difficult to solve the problem of inflation.

Similarly, when people lack confidence in the government's ability to prevent recession, that heightens people's expectations of recession, which in turn makes the decline in confidence going into a recession more rapid, which in turn makes the recession more severe. Clearly, this process contributed to the fast decline in the economy in 1974.

I earnestly believe that it should be a top priority of government to rebuild consumer confidence. Just as it has been proposed that there should be an "impact study" to determine the effect of each government action on inflation, so I believe there should be an impact study to determine the impact of government actions on consumer confidence.

It is a strange thing that such vast amounts of money are spent on marketing research in this country to find out what kinds of products will cause what kinds of changes in consumer buying behavior, but there is pitifully little research to find out what kinds of government policies will cause what kinds of changes in consumer attitudes and consumer spending and saving behavior.

There are a number of reasons for expecting recession to follow closely on the heels of recovery, if that recovery includes a resurgence of inflation:

1) A glance of Chart 1 indicates clearly that consumer attitudes have become more volatile in recent years. It is not that sentiment changes are more frequent; that would be an odd conclusion to reach after the longest sentiment decline since World War II. Rather, swings in confidence tend to have greater amplitude.

2) Consumers have increasing sophistication, and have been trained by dramatic economic events to pay close attention to economic matters, especially inflation.

3) Recent history suggests that if we again have prosperity with inflation, we will try to fight that inflation with recession.

An additional reason for concern about recession is the seeming inability of economics to forecast accurately at times when the economy heads downward. Policies designed to slow the economy, without sufficient attention paid to the effect of the policies on consumer and business confidence, are likely to succeed all too well. In 1969, the government aimed to slow the economy gradually. A recession resulted. In 1973 and 1974, the government aimed at a mild recession. A serious recession resulted.

A second top priority of government should be to improve economic forecasting. One ingredient of that improvement should surely be greater attention to the attitudes and expectations of the American people.

I do not believe that the American Dream is dead. Most Americans still have a great deal of confidence in their ability to improve their standard of living over the long run. What is lacking is confidence in the government's ability to achieve a healthy economy.

Chart 1

INDEX OF CONSUMER SENTIMENT
ALL FAMILIES
(FEB. 1966 = 100)

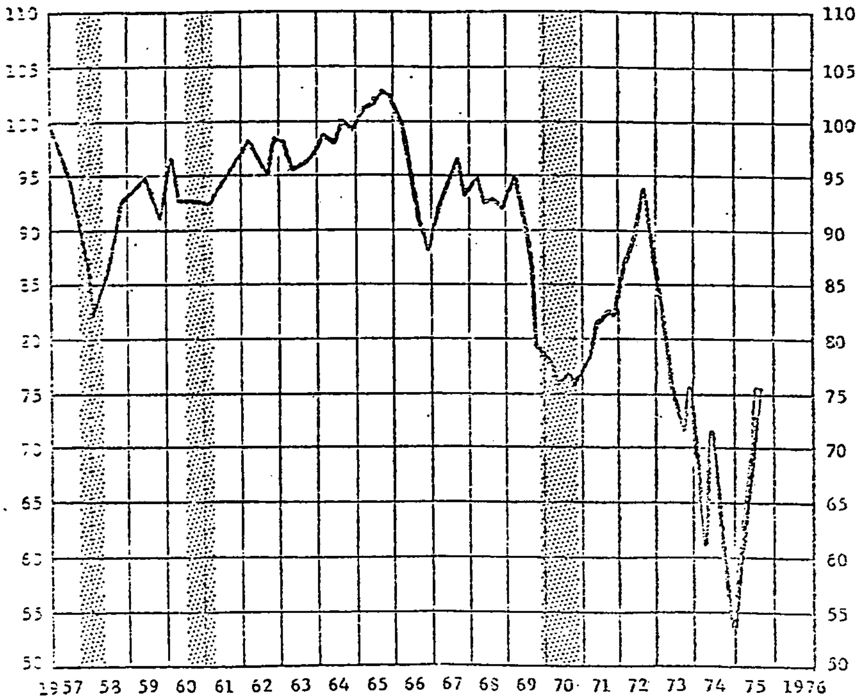


Chart 2

NEWS HEARD ABOUT BUSINESS CONDITIONS

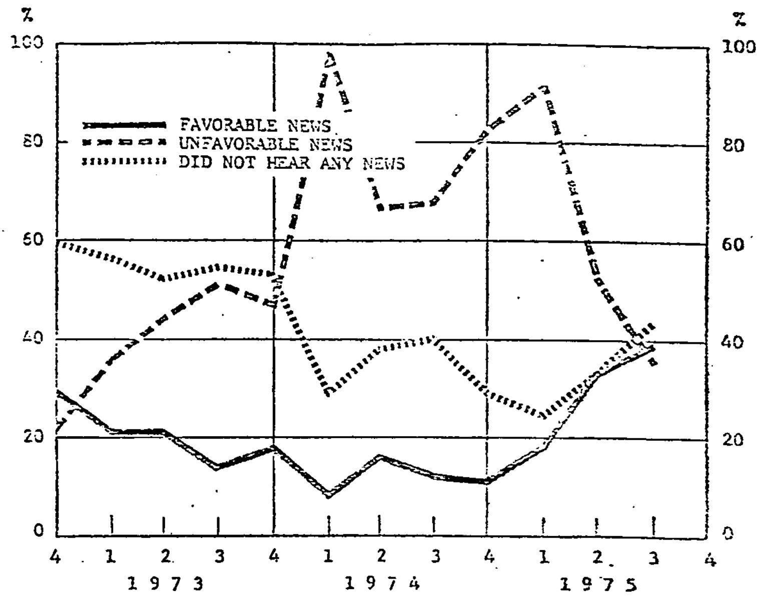
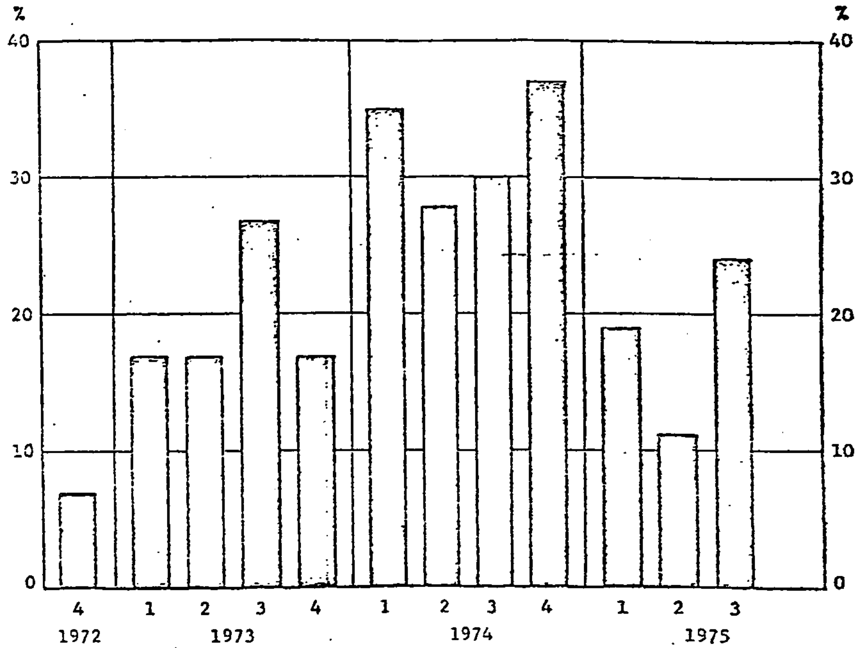


Chart 3

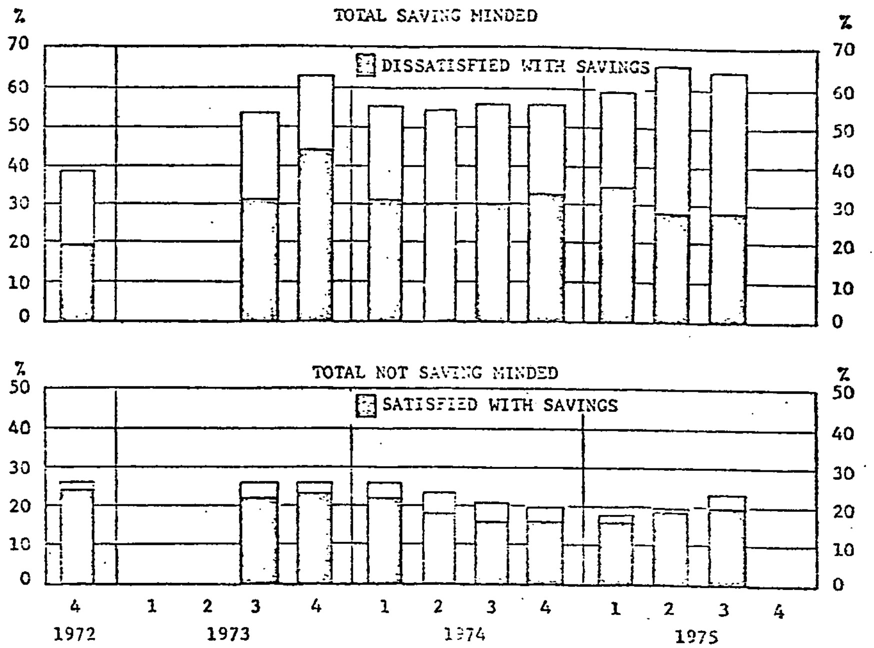
INFLATIONARY EXPECTATIONS



Percent expecting prices to go up by more than 5% during the next 12 months

Chart 4

ATTITUDE TOWARD SAVINGS



Data not available for 1st and 2nd quarters of 1973.

Chart 5

OPINIONS ABOUT GOVERNMENT ECONOMIC POLICY