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THE ECONOMIC SITUATION

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

NINETY-FOURTH CONGRESS

FIRST SESSION

MAY 2, 1975

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FRIDAY, MAY 2, 1975

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

The committee met, pursuant to notice, at 10 a.m., in room 318, Russell Senate Office Building, Hon. Hubert H. Humphrey (chairman of the committee) presiding.

Present: Senators Humphrey, Proxmire, Bentsen, and Percy; and Representatives Hamilton, Brown of Ohio, and Brown of Michigan.

Also present: John R. Stark, executive director, Loughlin F. McHugh, Courtenay M. Slater, William A. Cox, Lucy A. Falcone, Robert D. Hamrin, Jerry J. Jasinowski, L. Douglas Lee, and Carl V. Sears, professional staff members; Richard F. Kaufman, general counsel; Michael J. Runde, administrative assistant; Leslie J. Bander, minority economist; and George D. Krumbhaar, Jr., minority counsel.

OPENING STATEMENT OF CHAIRMAN HUMPHREY

Chairman HUMPHREY. We will now convene for a hearing before the Joint Economic Committee.

Mr. Greenspan, we want to thank you very much for joining us again, today. I believe it was just about 3 months ago that we had the benefit of your testimony and of our discussion.

Several of my colleagues will be here very shortly, and I shall utilize some of the early time by reading my opening statement.

I understand you have a prepared statement, doctor.

Mr. GREENSPAN. Yes, Mr. Chairman.

Chairman HUMPHREY. Then, we will proceed on that basis.

This morning, the Chairman of the Council of Economic Advisers appears before this committee for the first time since the President presented his economic report to the Congress. At that time, the unemployment rate was 8.2 percent; in April unemployment rose to 8.9 percent.

In spite of the fact that unemployment today is higher than it has been since the Great Depression, spokesmen for the administration have consistently minimized its severity, and the administration has failed to propose a program designed to restore full employment.

How can unemployment be the focus of administration policy when the President of the United States says—

> Unemployment is the biggest concern of the 8.2 percent of American workers temporarily out of work. But inflation is the universal enemy of 100 percent of our people in America today.

On this matter I take issue with the President. The 8 million or more workers who are unemployed today represent only a fraction of those who will directly, or indirectly, suffer the effects of unemployment during 1975. If our past experience is any guide, the number of people who will be unemployed at some time during the year, or who live in a household with an unemployed worker, will total over 70 million in 1975.

During the last recession year, 1971, when the monthly unemployment rate averaged 5.9 percent, 16.3 percent of the work force experienced a spell of unemployment some time during the year. If a similar relationship holds in 1975, almost 25 percent—one out of four—of the U.S. labor force will suffer unemployment at some time during 1975. This means 24 million workers and their families could be affected, or a total of over 70 million persons.

Twenty-four million workers and their families affected by loss of income, loss of earning power, loss of purchasing power. These are the numbers the President and his advisors should be studying—that one-third of the population will be directly affected by unemployment this year.

Millions of others, the underemployed, the part-time employed, the businessman will suffer indirectly through shorter work, hours, smaller take-home pay, and lower sales and profits. In fact, unemployment is like an infection that spreads universally through the economy, striking down some, causing discomfort to many.

This week, Congress for the first time has been concretely expressing its own economic program through action on concurrent budget resolutions. These resolutions reflect Congress' rejection of the incredibly slow path which the administration recommended—back to full employment. Yet, the economy has fallen so far and so quickly during this recession, that even the congressional program implies unemployment rates above 7 percent throughout next year. It was for this reason that I joined my colleague, Senator Mondale, in asking for an additional amount in our budget of some $9 billion.

I want to express here this morning my personal view, as a result of extensive hearings before this committee, that the present budget as a fiscal stimulus, and the tax reduction as a fiscal stimulus, are inadequate to meet the severity of the recession. It is unacceptable to me, and I hope it is to the country, that we tolerate a rate of unemployment above 7 percent throughout next year. The incredible loss of income, production and revenues that that entails is nothing short of a national disaster.

The Federal budget does not operate in a vacuum. Even if the outlays recommended by Congress take place, the strength of our economic recovery vitally depends on the cooperation of the Federal Reserve in supporting budget policy. I said, during the time of the budget debate, that all of the work that the Budget Committee seeks to undertake, all the actions that Congress may take, can all be vitiated by an inadequate response by the Federal Reserve System.

In testimony before this committee last week, Franco Modigliani reiterated that:

> Congress has cut taxes not for the purpose of having no deficit; not for the purpose of "crowding out" things; not for the purpose of raising interest rates, but for the explicit purpose of expanding real and money income. Real and money income cannot expand properly unless money supply grows with it.
>
> Therefore, if the Federal Reserve is to respect the will of the Congress it must make sure that in the initial phase, as the tax cut has its effect on aggregate demand, interest rates are kept constant and the money supply is increased as needed to maintain interest rates constant.

That is the expressed testimony of one of our most distinguished economists who has a rather good record in forecasting.

I maintain that in his testimony before the Congress yesterday, Arthur Burns expressed his intention not to respect the will of Congress. According to Mr. Burns, the Fed will aim in the next year to increase the money supply between 5 percent and 7½ percent.

It has been the almost unanimous opinion of economists testifying before this committee that the money supply should expand at least 8 to 10 percent, and perhaps as much as 12 percent, during the year if the economy is to be restored to a path of sustainable growth. Without such support from the Federal Reserve, we could well experience again the short-lived recovery of 1958.

I think it is important that we recall during the recovery of 1958 the Federal Reserve did approximately what it is suggesting that it will do now—a minor, modest increase in the money supply. A recovery started to take place, and the Fed backed off right away, only to precipitate the country into another recession in 1960.

Congress has and will provide stimulus to economic growth in the form of a tax cut and higher Government spending. But, as in 1958, the Federal Reserve apparently intends to restrain the forces of recovery that have already been set in motion.

Let me say, in reference to the Federal Reserve, at least we were able to get from Mr. Burns a money supply increase. Up until now that has literally been impossible. Now, at least, we have some indication that it will run between 5 percent and 7½ percent for the balance of the year, which, of course, gives our business communities some opportunity to make judgments on the availability of money and credit.

By law, of course, the Federal Reserve is a creature of the Congress. Yet in the policy expressed by the distinguished Chairman, Mr. Burns, yesterday, it is clear that the Fed expects to follow its own independent economic program. So we have three programs before the country—the President's program, Congress' program, and the Federal Reserve program. I said at the beginning of my chairmanship of the Joint Economic Committee that what is most important is that we all get aboard the same train, the same plane.

Today's Congress is more aware than ever of the crucial supportive role that the Fed must play, and it will not permit the aborting of a still tenuous recovery. There are some signs that give us some hope, but it would be really a singular economic tragedy if these signs were again obliterated by the lack of proper action at this time by the three pillars on economic recovery—the executive branch; its policies. The Congress; its fiscal and tax policies. And the Federal Reserve with its monetary policies.

This morning, we welcome Mr. Alan Greenspan, who is the Chairman of the Council of Economic Advisors. I want to say to you that we have always found you to be very candid and open in your comments. For this we are most grateful, and you have been cooperative with this committee. I hope you will be ready to give us an updated estimate of the administration's forecast on the time path of the recovery, as you see it Mr. Greenspan, and that you will comment on the policies needed to support the tax and spending stimuli which we hope have set that recovery in motion.

Let me conclude by saying that, again, I believe that the tax and spending stimuli of the Congress and the administration can all be negated, vitiated, destroyed, unless there is that cooperative relationship that is necessary by the Federal Reserve system itself. That is why the testimony yesterday of Mr. Burns was so important.

At least we have now had a dialogue with the distinguished chairman of the Federal Reserve; we received some indication as to what the rate of money supply growth will be. It is just the view of one member of this committee, after listening to at least 50 witnesses from all parts of our economy, that that rate of growth that was expressed yesterday is inadequate. The question of how long it will be sustained is of vital importance.

Mr. Greenspan, you have been kind enough to listen to my expression. Now, let me listen to yours.

STATEMENT OF HON. ALAN GREENSPAN, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

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

There are some distinctly hopeful indications to be found in the recent statistics. This evidence suggests that the recession is coming to an end, and pretty much on the schedule which we suggested in the economic report. The evidence is still tentative, but it tends to support the view that the economy will stabilize to a very large degree during the second quarter of the year.

At the same time, the price statistics for the past several months have confirmed the distinct and significant abatement of inflationary pressures. Although production of real GNP is estimated to have declined at a 10.4-percent seasonably adjusted annual rate during the first quarter, the performance of final sales was quite encouraging; in fact, somewhat better than we had anticipated.

Following the collapse of late 1974, final sales, in real terms, held even in the first quarter, compared with an 11.7-percent annual rate of decline in the fourth quarter of last year. With sales holding up and production down sharply, a very large volume of inventories was worked off.

In real terms, total business inventories are estimated to have declined at an $11 billion annual rate in the first quarter, compared with the large involuntary $10.9 billion rate of accumulation in the final quarter of 1974.

QUARTERLY CHANGES IN REAL GROSS NATIONAL PRODUCT, INVENTORY INVESTMENT AND FINAL DEMAND

[Seasonally adjusted annual rate]

	Gross national product		Inventory change (billions of 1958 dollars)	Final demand	
	Billions of 1958 dollars	Percent change		Billions of 1958 dollars	Percent change
1973:					
I	832.8	9.5	7.3	825.5	10.4
II	837.4	2.2	7.8	829.6	2.0
III	840.8	1.6	8.0	832.7	1.5
IV	845.7	2.3	20.0	825.7	−3.3
1974:					
I	830.5	−7.0	10.6	819.9	−2.8
II	827.1	−1.6	8.2	818.9	−.5
III	823.1	−1.9	5.0	818.1	−.4
IV	804.0	−9.0	10.9	793.1	−11.7
1975: I	782.3	−10.4	−11.0	793.3	.1

Consumer expenditures were the key to the first quarter developments. Retail sales, in current dollars, rose during the first 3 months of the year, and the preliminary weekly estimates suggest that April sales held even with those of March. It is not that the increases have been all that impressive. In real terms, consumer outlays in the first quarter rose at an annual rate of only 3.1 percent.

What is impressive is that the collapse of late 1974 bottomed out sooner and more decisively than we had any reason to expect. The tax reduction will begin to lift consumer incomes during May and June, and we expect this to reinforce the recovery in retail sales.

If final demand holds up during the second quarter, as it appears to be doing, we must anticipate another large volume of inventory liquidation. While there is some evidence that the decline in production is coming to an end, second quarter real GNP is still likely to average less than the average for the first quarter.

This development will help reduce the inventory overhang and greatly strengthen the prospects for a significant degree of stabilization in the period immediately ahead. The inventory liquidation is a prerequisite for a turnaround in production. As the rate of inventory decline begins to slow, production will have to rise to meet the level of final demand.

There are hopeful signs beginning to appear which suggest we are getting close to the bottom of the decline in production and employment. While the decline is still continuing in a number of areas, the worst does appear to be behind us. Industrial production declined by 1 percent in March, the smallest monthly decline since last October. On the basis of fragmentary data, it appears that production levels in April were close to those of March.

The expected patterns for consumer demand and inventory investment point to an early turn and recovery in the months ahead. But the extent of the rise during the second half of this year will depend upon capital goods and residential construction. So far there is no evidence that the decline in capital goods is abating.

The 2.3-percent decrease in business equipment production during March was larger than the February decline, and new orders for capital goods have now declined by 25 percent from the July peak of last year. Order backlogs are still in good shape in a few sectors, but the trend is down. Both the unfavorable trend of new orders for equipment and the leadtime of 6 to 9 months between orders and shipments makes a quick turnaround in output in this sector unlikely.

About the best that we should hope for is that further large-scale cancellations and deferrals of capital expansion and modernization programs will be avoided. The wide margins of excess capacity, the profit squeeze, and the financial strains which have accumulated in recent years, will probably tend to offset much of the cushioning effect of the increase in the investment tax credit, at least for the balance of this year.

Housing starts during March were at an annual rate of 980,000—seasonally adjusted annual rate—approximately the same as during the previous 2 months. Starts of single-family dwellings are rising, but starts of multifamily units are still declining.

Housing permits, although down slightly from the upward revised level of February, have increased on average during the past 2 months.

The basic factors affecting the housing outlook have improved, and even though there is still no compelling evidence to indicate that the housing pickup which we have projected is getting underway, we expect to see such evidence soon.

Consumer prices rose 0.3 percent in March, the smallest monthly increase since July 1973. There has been a very significant reduction in the rate of increase in consumer prices since last autumn. During the past 3 months consumer prices have risen at a seasonally adjusted rate of 6.6 percent, much less than the 12.2-percent rate of increase during the last half of 1974. The deceleration in consumer prices has been widespread.

PERCENT CHANGES IN CONSUMER PRICE INDEX AND COMPONENTS

[Seasonally adjusted annual rates]

Group	December 1974 to March 1975	June 1974 to December 1975
All items	6.6	12.2
Commodities	5.9	12.1
Nondurables	3.1	11.1
Food	1.4	13.4
Apparel	0	7.2
Other nondurables	8.5	9.9
Durables	12.4	15.4
Household durables	6.9	13.4
New cars	8.7	12.3
Used cars	−8.7	28.3
Other durables	20.8	11.1
Services	8.2	12.4

The March price deceleration is extremely encouraging. However, I do not believe that it indicates a large enduring reduction in the rate of inflation. With farm prices markedly higher in April, an increase in the total wholesale price index is likely to be reported next week.

The upward pressure on food prices has diminished, but further declines in retail food prices on the order of the drop reported for last month—which are quite substantial—are doubtful. The downward pressure on industrial prices as a consequence of inventory liquidation is most intense now.

These factors suggest that the pace of consumer price increases in the months ahead is more likely to approximate the 6- to 7-percent rate of the past several months, rather than the less than 4-percent rate recorded for March. With the recession drawing to an end, and the strengthened prospects for a solid recovering getting underway during the second half of the year, we have all the more reason to carefully consider our economic policies.

The Congress and the President have enacted a large tax reduction. The expenditure side of the Federal budget has crept upward from the $350 billion level proposed in the budget. The President has recognized this and has said that increases in outlays that would carry the budget deficit beyond $60 billion would be unacceptable to him.

A further enlargement in the Federal deficit would rather clearly add to the risks of reigniting inflationary forces by 1976 or 1977. I believe that the stakes are too high for us to rush headlong into the uncharted waters of even greater stimulus during the coming year.

Chairman HUMPHREY. Thank you very much, Mr. Greenspan.

Your final paragraph in your statement expresses a note of optimism which I hope that we can all embrace. But I have been looking over the economic indicators for April 1975, and also have paid very close attention to what you have had to say in some of the portions of your statement. Your main note, the main basis for your limited note of optimism on the recovery in the second quarter, is the liquidation of inventory. Is that not essentially so?

Mr. GREENSPAN. Yes, sir.

Chairman HUMPHREY. Yet you have to stack that against what you also have noted; that housing starts are not up. You hope they will be. I think your language is quite interesting here. You said, "There is no compelling evidence to indicate that the housing pickup which we had projected is getting underway. We expect to see such evidence soon". Might I most respectfully suggest that we have had no encouragement from the administration in the housing field that would help the Congress in any program of housing financing, the easing of mortgage money, the lowering of interest rates, that would propel a resurgence of housing. Building permits are down slightly. Is that right?

Mr. GREENSPAN. I would characterize them as depressed, Mr. Chairman.

Chairman HUMPHREY. Depressed?

Mr. GREENSPAN. Yes.

Chairman HUMPHREY. Fixed investment: According to what you have had to say here, capital outlays are down. I believe that your language is quite interesting when you point out that there is no evidence that the decline in capital goods spending is abating; the 2.3-percent decrease in business equipment production during March was larger than the February decline, and new orders for capital goods have now declined by 25 percent from the July peak of last year. The unfavorable trend of new orders for equipment and the leadtime of 6 to 9 months between orders and shipments make a quick turnaround in output of this sector unlikely.

You speak of overall production. On the basis of fragmentary data, it appears that the production levels in April were close to those of March. Industrial production declined by 1 percent in March, the smallest monthly decline since last October. However, there does not seem to be any real pickup.

It is contrary to my inborn nature to be a pessimist. I realize your statement has been very carefully measured, and a very cautious statement. But it is this concern that bothers me, this caution that bothers me. The unemployment rate is up. I would be very interested to see the other statistics as to part-time employment, the hours of the workweek and so forth. They are even sometimes more telling than whether the unemployment rate is up another two-tenths of 1 percent.

What I am concerned about is whether or not in advising the President you would be recommending the kind of economic medicine that this rather ill economy requires. Therefore, I am going to point a couple of questions to you that may relate somewhat to something outside of your official control, but surely relates to the economy.

In its action on the tax cut—speaking now of Congress—and the budget resolutions, the Congress has made its determination, or will soon when the conference on that budget resolution is completed—on what the fiscal policy ought to be. This is the first time that a Congress has ever done anything like this, and I think that it is a very healthy development. The congressional view is that the fiscal policy ought to be sufficiently stimulating to spark a fairly vigorous recovery, and to bring the unemployment rate at least down to 7½ percent by the end of next year. I have got to repeat again that, myself—speaking for myself—I do not call that a very vigorous recovery, and I would have preferred a more stimulating policy.

Now, as I indicated in my opening statement, Mr. Burns announced that the Federal Reserve was aiming at an expansion of the money supply between 5 and 7½ percent during the next 12 months. Again, I want to repeat that the fact that he has stated what the money supply rate will be, and what its duration will be, ought to be of some help. I think that it gives at least some firm guidelines for economic planning on the part of the business community. I do not think it is large enough. My question is, Is that monetary policy going to be consistent with the fiscal policy the Congress has specified? Will it accommodate those Federal and private borrowing needs without pushing interest rates to levels which would interfere with recovery? I have to note that almost all of the private witnesses—a number of private experts to whom we have written recently, have urged a more expansive monetary policy. I have a whole list of them, and we have a number of statements on monetary policy that I could refer you to. They come from a broad spectrum, from the Committee for Economic Development, from the Brookings Institution, from the Schroeder Capitol Corp.

Mr. Otto Eckstein at Harvard University, for example. He says the money supply should grow at least at an 8-percent rate over the next 18 months. Edward M. Gramley, senior fellow at Brookings, feels it ought to be 10 to 12 percent. Frank Schiff the chief economist for the Committee for Economic Development, estimates that "At least over some periods, the rate of expansion in the money supply may have to exceed an annual rate of 10 percent."

I know you personally may feel that a more cautious recovery is appropriate, as you have indicated in your statement, and that the fiscal policy being pursued by Congress is too expensive. But Congress has the power under the Constitution to set the policy, and I thought that we also were going to be able to get the Federal Reserve to join the team, instead of sitting in the bleachers or occasionally just moving down on the field to get a closer look at the plays. Do you have any suggestions, Mr. Greenspan, since you are the chief advisor on the economy to this Government, on how the Federal Reserve may be made more responsive to what is now the expressed will of the Congress on the economic policy, and the rate of the economic growth?

Mr. GREENSPAN. Mr. Chairman, first of all, I would like to associate myself with the remarks you made with respect to the importance of the new Congressional Budget Committee. I think that this is a landmark change in the way fiscal policy is administered in this country. For reasons we have all expressed on numerous occasions, and in the past year and a half, I think that very substantial progress has been made, and I was delighted to see that these committees are functioning and are endeavoring to come to grips with what is a very severe fiscal problem in this country.

Let me just start—incidentally, in coming up to your basic question, to indicate that there are a number of additional subsidiary elements that do suggest that the economy is flattening out. We are finally beginning to see the data on initial claims for insured unemployment decline very credibly. I do not want to talk about the general levels of unemployment until a little later, but we are now beginning to see similar evidence emerging in both Japan and Germany. Many of our problems which are clearly international in scope are beginning to be resolved in a way that, I think, suggests that instead of just an aberration we are looking at the beginning of a process that does indicate a clear bottoming. And I think that is what is emerging. At this stage, the question is largely the extent of the recovery, and, as I understand it, Mr. Chairman, that is what essentially you are addressing yourself to.

Chairman HUMPHREY. And the role of monetary policy——

Mr. GREENSPAN. I will attempt to avoid that until the last minute.

Chairman HUMPHREY. I do not want you to avoid that too long. That is the heart of the question, Mr. Greenspan.

Mr. GREENSPAN. As you know, in the past, that this issue has come up, and I have indicated to you that I do not think it is appropriate for the Council of Economic Advisors to be commenting specifically on monetary policy.

Chairman HUMPHREY. Let me interrupt to say that this is what bothers me. I am not trying to be personal with you, sir, because I have a high regard for you personally. But how can we talk economic policy, and how can the man who is the chief advisor to the President of the United States, and who is responsible for reports such as we receive here, our monthly economic indicators reports—how can you avoid your expression of what an adequate monetary policy should be? You cannot set it.

Mr. GREENSPAN. I cannot set it. Let me suggest this; I will describe the major characteristics that I think are appropriate for monetary policy.

At this point, I think we should be aware of the fact that there is no programed rate of economic activity which is the basis of economic policy. I think there has been a tendency in this country to think in terms of goals, and what fiscal and monetary policy should be in order to achieve those goals. I think that is a mistake. Frankly, Mr. Chairman, I would very much like to see the unemployment rate lower than you have suggested by the end of next year.

Chairman HUMPHREY. I want it much lower.

Mr. GREENSPAN. Let me tell you why: I think that in setting policies we implicitly ask ourselves, Is such an unemployment rate acceptable? Is such a rate of inflation acceptable? I do not think we should focus our policies in that respect. I think that we should endeavor to set in motion those combinations of policies which create the maximum rate of growth which is sustainable over the long run. I think this argument between inflation on one hand and unemployment on the other is actually a little off focus; because what we are essentially trying to do is to maintain the maximum increase in the standards of living of all the American people over the longer term future, not just immediately in the short run. We have all lived over a longer period of time, and the policies which we should focus on should essentially be those which lead us to a balanced, long-term prosperity.

Now, having said that, I would suggest that we fail to recognize the extraordinary dynamism of the private sector of our economy, and we tend to believe, largely as the result of the way we set up our econometric models, that governmental economic policy is the only strong force that generates and galvanizes economic activity in this country. I think that we overlook the extraordinary dynamism of our private enterprise system, and that it does not require continuous injections of stimulus just to keep it going. I think that we have seen an inflation-ridden economy in recent years, that has had very grave difficulties in maintaining the type of stability that I think we want for the American people.

So, I think that it is important not to focus just on what our econometric models say is happening. I think we should look at policies that are essentially in line with what has happened, and sufficiently balanced to give us stability not only in the short run, but in the long run. As a consequence of that, my view is that monetary policy should be one which produces a balanced, stable expansion of the money supply. What the particular numbers are, at any point in time, really depends on a lot of technical factors. I would think that a high degree of volatility is one of the things that we must avoid. In many respects, this has been caused largely by very heavy Treasury borrowings. I do not believe that monetary policy can be independent of fiscal policy.

So, what I am suggesting, Mr. Chairman, is not a specific monetary goal. I am not commenting specifically on what Mr. Burns said yesterday, but I do think that the main thing we should strive for in whatever we do, is stability.

Chairman HUMPHREY. Mr. Greenspan, I do not deny the vitality of this economy, and its ability to have a remarkable recovery. I understand that. But I also understand that government can either be an impediment or it can be a stimulant, and when the best news you have given us is somehow or another we have flattened out, flattening out is not to me very good news. It is better than continuing to go into a deeper ditch. The question is, after you have flattened, when do you start moving up? That is where the monetary and fiscal stimuli come into play, and the numbers may not be so important. But the fact is, as of now, there is no real specific indication that anything better has happened than a slowing down of the precipitous decline. Everyone knows that once that happens, the big problem is how do you crawl out of the ditch? It does not take a great deal of planning to be able to fall into the ditch, but it does take a good deal of coordinated action, governmental and private, to crawl up the side of the wall of the ditch of economic recession.

This is where the monetary policy all comes in, and I think, my time has run out here, but I want to come back to you and talk to you about what policies you feel that we should have at a governmental level that can be a working partner with the private economy to get growth and development.

What policies do you advocate in housing? What policies do we advocate to get over this continuing rise in unemployment? Even though inventories are being liquidated, unemployment continues to rise. What policies do we have to put people back to work, and once we are all through—you know, with reciting your hopes and dreams—then I think it comes down to specifics. Now, let me yield to Mr. Hamilton.

Representative Hamilton. Thank you, Mr. Chairman.

Mr. Greenspan, when do you expect a decline in current output to end?

Mr. GREENSPAN. Mr. Hamilton, I think we are very close to that point. I hesitate to call the end of the decline, because we really will not fully know it has occurred until several months after the fact. But we do see the end of the decline as being not terribly far off. I might say, in response to the chairman's question, that the decline must end before the economy turns up, and I think we are seeing a process at this point which suggests that the elements required for an upturn are falling into place.

One of the very important—perhaps the most important—element involved in a recovery in production and employment in the months ahead is the fact that the inventory liquidation cannot persist at the present rates. By that I mean the gap between consumption and production is sufficiently wide—if consumption stays at present levels, production must come up toward the level of consumption. I would suggest that it is turning, and I think that we are creating an underlying momentum which will carry us through the rest of the year.

Representative HAMILTON. Will we have a drop in the real GNP this quarter?

Mr. GREENSPAN. I would think so. It is largely caused by the fact that the March production figures were well below the average for the first quarter. So, even if the figures for April, May, and June were not terribly different from March, you would get a drop in the second quarter. Our estimate is that it is likely that April production will probably be down slightly from March, but that may be the low month for the quarter; although it may occur during May. Our guess at this stage is that there might be a small decrease in the average level for the second quarter.

Representative HAMILTON. What is your judgment about the decline in the unemployment rate? When do you expect a decline in the unemployment rate to begin?

Mr. GREENSPAN. We still expect the unemployment rate to be declining during most of the latter part of 1975 and into 1976.

Representative HAMILTON. When we reach the end of this year, what will the unemployment rate be?

Mr. GREENSPAN. I do not have one at this moment, Mr. Hamilton. We are in the process of reviewing our general outlook, but I would presume that it will be a shade under where we are now. How much under is difficult to say; but let me emphasize that we may be surprised at the rapidity of the recovery, in the same sense that we were quite surprised at the extent and rapidity of the decline. So it may be that the figures will be a bit more optimistic than I am suggesting.

Representative HAMILTON. Do your estimates take into account the probable time lapse between an upturn in output and an upturn in employment?

Mr. GREENSPAN. Yes, sir.

Representative HAMILTON. At the end of the year, do you think it will be a shade under the present rate of 8.7 percent? Did I understand you correctly?

Mr. GREENSPAN. That is not the current figure.

Representative HAMILTON. What is the current figure?

Mr. GREENSPAN. This is a peculiar problem that the chairman mentioned.

Representative HAMILTON. I am not sure how you characterize the recovery, Mr. Greenspan. If you take into consideration all of the factors, as you view them, how would you characterize the recovery in the latter part of this year? Would you call it vigorous? Would you call it moderate, sluggish?

Mr. GREENSPAN. I would say that it is probably a bit better, somewhere between moderate and vigorous. I do not think that we can have a vigorous economy unless the capital goods market starts turning sooner than I anticipate. My suspicion is that the rise, by the end of the year, and in early 1976, probably will be vigorous; but I would hesitate to characterize the early phase of the recovery in those terms.

Representative HAMILTON. I was interested in the article this morning in the paper about the increased estimates of receipts for this current year's budget. The net increase was about $5 billion, I believe. Could you tell us why those estimates were revised, and what causes that increased estimate in income?

Mr. GREENSPAN. Mr. Hamilton, I have requested that information. It is still in the process of being analyzed. They know the estimates are hard, because they have actual data on tax receipts. As of this morning they have not as yet been able to segregate exactly what the change was due to. They had some preliminary notions. So at this moment, I cannot answer that question. But it is not an unusual circumstance in the tax collection period to find that the estimates that are made on the basis of the large numbers of economic assumptions and technical accounting assumptions are quite far from the mark. This is a larger discrepancy than usual, but we have often run into these problems.

Representative HAMILTON. We immediately think what the impact might be on the next year's revenue estimates as well. If the revenue estimates for this year are moving up, may they not move up for the following year?

Mr. GREENSPAN. That was precisely the question I asked, and the answer I got from the Treasury is they know nothing at this stage that changes their estimates for fiscal 1976.

Representative HAMILTON. One final question, Mr. Greesnpan. Many economists now reject the old 4-percent unemployment rate as a target for our economy, a rate that we could have without inflation. What do you set as a target for the economy now? We have apparently abandoned the 4-percent unemployment rate some years ago. There was talk about a 5-percent unemployment rate as the target just a few years ago. Even that seems to be shaky now. Where do you set the target?

Mr. GREENSPAN. Mr. Hamilton, I do not think we should set a target. I think we should engage in the type of policy which leads us to the lowest sustainable long-term level of unemployment, whatever that is. The reason I say you canot set a target is that there is no way, as you proceed towards lower unemployment rates, to grasp all of the complexities that are going on concurrently in the economy. The objective you are pursuing may not be attainable except by incurring large longer-term costs. So I think that you should just continue to try to move in the correct direction but without deciding in advance how far you can get. I do not think that you have enough advance knowledge as to what the characteristics of the economy will be at 5½ percent, 5 percent, 4½ percent or 4 percent unemployment. I think that you try to go as low as you can, with the proviso that that is a rate which is sustainable over the longer term.

Representative HAMILTON. Would you furnish to the committee, when it becomes obtainable, the information on the receipts? Why the receipts have gone up for this current year, and what you anticipate with regard to the impact for next fiscal year?

Mr. GREENSPAN. I shall endeavor, Mr. Hamilton, to get that statement from the Treasury as soon as possible on that question.

Representative HAMILTON. Thank you, Mr. Chairman.

[The following information was subsequently supplied for the record:]

Unified budget receipts for fiscal 1975 are now estimated to be around $282 billion or $7.5 billion above the previous estimate of $274.5 billion. Final payments minus refunds on individual income tax returns filed for 1974 were about $6 billion larger than projected prior to May. While the reasons for the underestimate cannot as yet be identified statistically, it is surmised that higher-than-expected capital gains tax liabilities could account for close to half of the $6 billion increase. Furthermore, the effect of inflation on individual income tax liabilities may have been underestimated to some extent in 1974.

The decline in the rate of inflation since that time has been more rapid than had been anticipated earlier this year. For this reason we would be reluctant to raise the estimate of individual tax receipts substantially for future quarters.

Chairman HUMPHREY. Congressman Garry Brown.

Representative BROWN of Michigan. Mr. Greenspan, you are not very anxious to discuss monetary policy, but could we just expand a little bit on what you said earlier?

Would it be appropriate to ask should monetary policy accommodate or direct activity or fluctuations in the economy?

Mr. GREENSPAN. I would not say that it should do either. I think the question is largely one of trying to maintain a policy stance which keeps the financial system in sufficient balance to support a viable economic growth.

When you get down to the question of accommodation or the issue of active monetary intervention, there is an inevitable tendency to overdo or underdo and I think that is one of the causes of the degree of instability in policy that we have had in the past which, I do not think, has been beneficial.

So I think we should not attempt to push too much or pull back too much, because I think that on balance it turns out to be counterproductive.

Representative BROWN of Michigan. That is why I phrased the question as an accommodation rather than a following, that the monetary issue would follow the economic activity. I think the two extremes are to follow or to initiate and accommodation contemplates, I thought, a little of each.

Our point in reference back at the time of the Johnson surtax the Board felt that the tax would have such a depressive effect on the economy that it liberalized monetary supply and it was a clear act. It was initiatory, I would say, but tending to react to what they thought would be the fiscal impact. Clearly, I think we would agree that that action was wrong and that it contributed to the inflation that we had at that time and the inflation that we have today.

Let us move on. What activities do you see as leading the recovery? Experts recently are saying it certainly will not be the automobile industry. I am sorry for that, being from Michigan. I guess we will have to accept it.

Do you see housing as one of the things that will lead to recovery?

Mr. GREENSPAN. The thing that will be leading the recovery in the short run is the fact that the consumption of goods and services or so-called final demand is well above the level of real GNP or production. And the first turn toward expansion is going to occur largely because the rate of inventory liquidation cannot persist. The need to supply an increasing proportion of existing consumption out of current production will raise production and employment.

After you have got that out of the way the question becomes—what raises consumption or demand further? Here I think we will see significant improvement in housing. There is a tendency to look at housing as being stuck in the mud and I think that while clearly it is extraordinarily depressed in comparison to the peaks of recent years, that we must remember that the level of home building and home completions is well under normal at this stage. In other words, we would project a more or less normal level of housing starts as being closer to 2 million.

The very fact that we are so far under is going to pull up the starts really because you have demolitions and replacement and a variety of other things, So we do think we are going to see homebuilding really start to emerge, not immediately but as this year progresses, quite impressively.

There has been talk, I might say, that the housing industry has not recovered. It is certainly true in the seasonally adjusted data.

One thing that I think is important is that housing unadjusted for seasonal did recover quite a good deal in March. We are involved now in the normal spring rise and there has been a good pickup in existing home sales and there are a number of other financial things that I think lead us to the forecast that housing will be a major element of support in the economy.

Representative BROWN of Michigan. I tend to concur with your latter remarks. It seems to me that we are impatient to see positive and concrete reflections of what we do. For instance, the stimuli that the Government has provided in the Ginny Mae tandem plan, the below-market interest plan or subsidized housing section 8 program. Both of those, it seems to me, are going to have a significant impact but could not have an impact until the second quarter due to the fact that rules and regulations were not promulgated under the section 8 program. Just now it is beginning to take hold. It is anticipated that, instead of 40,000 in the first 6 months of 1975 as anticipated, there will be 100,000 in the second 6 months. The commitments of the Ginny Mae money, secondary mortgage money, was pretty much taken up but they have not reflected themselves in units yet.

So I think that things do look much better on the housing side. Do you see any other activities that would particularly stand out as we are moving to the second quarter?

Mr. GREENSPAN. Well, actually, I think the key to the major issue is going to be largely consumer expenditures because that, as you know, Mr. Brown, is a big chunk of what our economy is.

I indicated earlier that the initial claims for insured employment is falling. This is seasonally adjusted data as of fairly late in the month of April. This suggests that the layoff rate in industry is not finally going definitely downward.

Inflation induces difficulty in making ends meet. People's fixed commitments become uncertain and they tend to pull back because they want to save in order to enable themselves to meet expenditures in the future. Secondarily and often at the same time there is a fear of job loss that clearly has very much the same effect. So that the combination of very strong inflationary pressures late last year, coupled with the extraordinary high rate of layoffs, just about undercut any semblance of consumer confidence that had existed earlier in the year.

I believe that this is one of the reasons we have seen sales performed so poorly late last year and why sales in real terms, held up better than we expected early this year even though they are still clearly suppressed. The rate of inflation has come down some even though it may wobble around for a bit. We think we are now on a trend toward a lower rate of layoffs; and this will reduce the concern of those who are employed about becoming unemployed. I think that we will find that retail sales in the consumer sector begin to take on a good deal more vitality later in the year. That would probably be by far the most important factor in increasing total consumption for final sales late this year and into 1976.

Representative BROWN of Michigan. Thank you; my time has expired. Thank you, Mr. Chairman.

Chairman HUMPHREY. Before I call on our distinguished former chairman of this committee, I want to compliment him on the headlines I saw this morning. The headline says "A Historic Break with Tradition." Federal Reserve Board Chairman Arthur Burns revealed yesterday that the Central Bank is now trying to promote a moderate growth of 5 to 7½ percent in the money supply to finance vigorous economic recovery.

I commend the distinguished chairman of the Senate Banking Committee, Senator Proxmire, on achieving one of the breakthroughs of the last quarter of the 20th century.

And now the Senator from Wisconsin.

Senator PROXMIRE. Thank you, Mr. Chairman, for the understatement. I do think that this has been underestimated, its impact. It is good to have the Federal Reserve now telling us what their future plans are, not just looking behind where we have been but looking ahead where we are going to go.

Yesterday, Mr. Burns did that.

Now, Mr. Greenspan, you come before us I think at a remarkable time. We now have before us rather clearly the economic policy actions that the Government is likely to take in the coming year. We are not sure they can change but we are about as sure, now, as we are likely to be at any time. We know what the tax situation is. We have passed the tax reduction—unlikely to change in the next year. We know what our budget is likely to be or at least the House and Senate are fairly close together. We may change that. But it is doubtful if we are going to come to a time when we are much more certain. We do know what the plans are this morning for monetary policy. Under these circumstances I think that we are in the best position to make whatever projections we can make as to what is going to happen to growth, unemployment, and prices.

Can you tell us on the basis of your best judgment what you expect our growth to be under these circumstances for the next year?

I think you are dead right in saying that Government does not determine everything in this free society of ours, but it has a profound influence; and under these circumstances can you just tell us what the range is you would expect in the first place for growth?

Mr. GREENSPAN. Let me just have a minor caveat to this question of forecasting, to recall the extraordinary accuracy of everyone's economic forecast in the last year and couch my statements within that context.

I think, Senator, as I indicated, that we are approaching the end of the recession. We may well sort of wobble on the bottom for awhile and then I think we will start upwards. I think it is pressing the state of of our knowledge to know just when the real first strong turn will occur and basically what the level of activity will be.

Without getting into any great detail I feel comfortable, with a forecast somewhere in the area of 7 percent growth in real GNP; maybe a little more towards the end of this year and carrying into 1976.

Senator PROXMIRE. You say 7 percent. Let us start with that.

As I understand the arithmetic of this, correct me if I am wrong, in a recovery period, productivity, labor productivity increases at a more than normal rate. Normally it is increased over the years—3, 4 percent. You might expect it to increase 6, 7 percent.

Is that wrong or right in a recovery period?

Mr. GREENSPAN. It tends to do that in the very early stages of a recovery as the hiring practices tend to be restrained because people are not certain the turn has occurred.

Senator PROXMIRE. People are not working full time now. They are sitting around because they do not have the work to do; and when we recover, they are put to work and produce more.

Mr. GREENSPAN. That is correct.

Senator PROXMIRE. Under the circumstances, say we get a 4-percent increase in productivity—that would be very modest for a recovery period, but extending over a 12-month period, maybe it will be that low.

Mr. GREENSPAN. Excuse me, Senator—in the context of what we have observed in recent years, I would consider that is not a low number.

Senator PROXMIRE. In a recovery period?

Mr. GREENSPAN. It depends on how long a period we are looking at.

Senator PROXMIRE. A full month coming from this very low figure.

Mr. GREENSPAN. I would be surprised if it is less than that.

Senator PROXMIRE. It should be at least that.

Mr. GREENSPAN. Yes.

Senator PROXMIRE. This 7-percent growth that you project would give us no more than a diminution of unemployment, say, from a 9-percent level to an 8-percent level in the course of the year if you agree with Okun's law that you need 3-percent growth above the productivity increase in order to get a 1-percent decrease in unemployment.

Mr. GREENSPAN. That is correct.

Senator PROXMIRE. You would foresee with this production, with everything in place, we would be likely to have unemployment still close to 8 percent, a little above, a little below, after 12 months.

Mr. GREENSPAN. That is the type of estimate that one sort of puts on the back of an envelope or obtains through a computer.

Senator PROXMIRE. Mr. Greenspan, we have to know where we are going or otherwise economic policy is really groping in the dark.

Mr. GREENSPAN. I certainly understand the question you are raising Senator. I would say that we are now becoming ever more confident that we are turning and getting ready to move in the right direction. There are wide ranges in the estimates of the rate of increase. I could be substantially underestimating the degree of real GNP growth, as I indicated earlier. It is quite possible that just as we grossly estimated the extent of the decline, we will find ourselves in precisely the same position.

Senator PROXMIRE. Let me interrupt to say why I think that is most unlikely.

You also indicated that the long-range indications in two areas at least may not be so promising. One is capital goods, where you indicated that they are likely to be below what they were last year.

I quote you from your prepared statement with respect to business investment: "The best we can hope for is further large-scale cancellations and deferral of capital expansion and modernization programs will be avoided."

Now, this means that either you expect business fixed investments to hold steady, in real terms, on the first quarter level—if so it would be down 10 percent by the 1974 average—or you would expect it to hold steady in dollar terms, in which case the real drop would be much more than 10 percent. At any rate, it would be a very sharp drop in the part of the economy that you have come to refer to as the accelerator, so important in stimulating economic activity.

Mr. GREENSPAN. Let me say this. The estimates I gave you are at this moment my best guess based upon what I perceive as the most reasonable set of circumstances at the moment. I just want to emphasize that there are very significant ranges of error and I think that policy must clearly focus on the question of what the risks are as well as the best estimate.

Senator PROXMIRE. Now we move into housing. The difficulty most of us feel, and correct me if you think this is wrong, is that interest rates on mortgages have just been to high. As long as interest rates are in the 9-percent area, the national average, it is going to be extremely hard to get housing moving. Every housing economist, every homebuilding expert I talk to, says this is a tough stumbling block. Indications are the administration may veto the emergency housing bill that the House and Senate have passed. Under those circumstances we have to rely on the impact of interest rates.

I cannot see anything in the Burns' proposal, monetary policy proposal, to suggest that long-term interest rates are going to come down—mortgage rates are going to come down. At best they may remain the same. But the opinions I have read are that they are likely to rise.

Under those circumstances, will not housing be likely to continue as a basket case, having around a million housing starts with very, very high unemployment in that sector?

Mr. GREENSPAN. I would certainly agree with you that mortgage interest rates are a critical question in the demand for homes. However, I think that we have to recognize that we are at an exceptionally low level. Even at these rates I think we will find the normal forces of the market are going to push us above present levels largely because a million starts is just too abnormally low.

You may then say even if we got up to annual rates of 1.3 or to 1.5 million units, that that is still inadequate and that is a policy judgment. But I would certainly expect a recovery to those levels, even with what I would agree are high mortgage interest rates.

Senator PROXMIRE. Is there any time in our history when we have had a growth in housing starts with mortgage rates anything like this level? They have never been at this level before. It is hard for me to conceive how a family making an income of less than $15,000 a year—70 percent of our families can not afford to buy a house as long as interest rates are 9 percent.

Mr. GREENSPAN. Let us examine where the problem lies. The problem is not basically in single family units. Certainly they are depressed. But there has, as you know, Senator, been some revival there. But the large apartment units are the real problem in housing starts numbers; they are in very serious difficulty. Starts are down very sharply. Permits are down. And there still is a large number of uncompleted units that have not come on the market.

Senator PROXMIRE. I agree with that, Mr. Greenspan. Whether you are talking about separate residences or whether you are talking about condominiums, or whether you are talking about mobile homes, it is the level of interest rates, the cost of credit which is holding down the market and making it impossible for people to meet those monthly payments.

Mr. GREENSPAN. I do not disagree. What I am really saying is this. Because of the extraordinary glut of apartment units, under construction, starts are below where they would normally be, even at these interest rates or financial conditions.

So I am saying that even if nothing happens to interest rates, and I certainly hope they go down, we would still get a rebound in housing starts as we unwind this very large overhang of units which are either under construction or already for sale.

Senator PROXMIRE. My time is up, Mr. Chairman, but I would like to finish by pleading with Mr. Greenspan to take a look at that emergency housing bill. It is really a conservative bill. It is triggered out as the economy gets moving. When we get housing starts above 1.5 million and it cuts off, it provides for a flexible mortgage rate so that they go up after 3 years to the market. So the impact on the budget is very limited. In fact, it is our estimate that it will have a favorable effect on the deficit. It will reduce the deficit because it will increase business activity by $12 billion, increase revenues by $2 billion, and cost about $1 billion. The President may veto that. I hope and pray he does not. I hope that you will study it and perhaps talk to him about it.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Congressman Brown.

Representative BROWN of Ohio. I yield.

Representative BROWN of Michigan. I thank the gentleman for yielding.

As I recall, I do not remember the exact words, in the 1972 period when we had housing starts at 2.3 million, or 2.2 million, the effective interest at that time was 7.54 to 7.69 percent. If we can get interest rates down—I think we cannot say that interest rates, per se, constitute the problem.

Senator PROXMIRE. Interest rates were what?

Representative BROWN of Ohio. I would rather have the debate continue on someone else's time.

Mr. Greenspan, let me give you at least one element of good news, if I may. In the report of Mr. Shiskin, the Commissioner of Labor Statistics, who said in his statement this morning, to which you may not be privy but we now are, that almost all of the employment indicators that tend to move early around business cycle troughs improved in April. The Bureau of Labor Statistics diffusion index of employment in 172 industries rose in the second month in a row. The workweek rose slightly. The factory ascension rate has risen 4 months in a row, factory layoff rates declined for 2 months in a row. Initial claims for unemployment insurance were well below levels in January and February. Only overtime hours in these statistics continued to decline. There was a modest decline from 2.3 to 2.2 percent.

It goes on to say 1 or 2 months rarely is decisive and these are not good figures in aggregate but the trend is apparently improved or at least moderated to indicate the possibility of troughing out.

I recall that the President's proposed investment tax credit increased from 7 to 12 percent for all industries, from 4 to 12 percent for utilities to take effect as of the first of this year in his economic message, and the Congress in the tax bill that we passed increased that investment tax credit only to 10 percent. And that action was taken in March.

When will that stimulation take hold in the capital goods markets and do you think that is sufficient stimulation in that legislation?

Mr. GREENSPAN. First of all, the investment tax credit is effectively a reduction in the cost of capital equipment. It tends by its nature to be most stimulative of the types of projects that we characterize as modernization and replacement as distinct from expansion. It tends to improve productivity. The items that are involved tend to be shorter lived or tend to take less time to order and put into place than the large, new capacity expansion-type facilities.

So what we are probably seeing now with the increase in the investment tax credit is a reevaluation by company appropriations committees of the types of equipment which they will be ordering.

I would think that we probably are now beginning to get the first orders coming in that are based upon that type of tax change. The effect, however, on production and shipments is probably not going to occur in any major way until late this year.

Representative BROWN of Ohio. In capital goods expansion the stimulation that that was to presume has only just begun and perhaps has not quite begun as yet.

Mr. GREENSPAN. It is hard to judge, as you know. You do not know to what extent actions are taken in anticipation. We do know that the orders have been down sharply in January and February. There has been some stabilization in here, up and down, and we are clearly bottoming out. So we can presume that there is some effect coming in now. But it is very difficult to disentangle those orders which are placed because of the investment tax credit increase and those which are not.

Past studies show fairly conclusively, in my judgment, that that does have a very marked impact on capital expenditures.

Representative BROWN of Ohio. Mr. Greenspan, can you give me the specific actions the Congress has taken since this recession began? I was looking at the charts. I am not sure that we could get agreement even at this point when the recession began. Some indications are it began maybe the early part of 1974. Some of the sharper drops later in the year. Clearly the bottom began to drop out in the last quarter of 1974.

What specific actions that the Congress has taken in terms of legislative initiatives since the recession began, say, in early to mid-1974 have had an impact on recovery at this point?

Mr. GREENSPAN. At this point, the main action by the Congress and the President which has already gone into effect is the expansion and extension of unemployment benefits. This has been very substantial, as you know.

Representative BROWN of Ohio. Both supportive in terms of the human element, but also stimulative in spending?

Mr. GREENSPAN. It supports consumer expenditures. Aside from that, the turn in the economy at this stage is being generated largely in the private sector.

Representative BROWN of Ohio. What other actions has Congress taken that have yet to take effect? We discussed the investment tax credit.

Mr. GREENSPAN. As of May 1, the tax withholding schedules were reduced as a consequence of the 1975 tax reductions. In addition the 1974 tax rebate checks will be mailed out in May and June and if past experience is any guide, I would presume that they have a bolstering effect on retail sales. There are obviously a vast number of things that the President and the Congress do that affect the economy, both plus and minus, in a positive and a negative direction, but I do not know what particular things you want me to comment on.

Representative BROWN of Ohio. What I am anxious to get your response to is whether these things that have been done in response to the economic cycle have really had an impact yet on the economic cycle. What we have discovered, hearing your comments, are that what has happened in the bottoming out—if that is, in effect, where we are—has been a result more of developments within the private market than as a result of current Federal actions in response to the recession; that now we are at the edge of many of those Federal actions in response to the recession beginning to take hold and make their impact. Is that a fair statement?

Mr. GREENSPAN. I would say that is a fair statement.

Representative BROWN of Ohio. Let me ask one other area before I get to the fiscal. We have avoided, apparently, some dangers in the most critical phase of recession, the beginning phases of recession. We had a couple of banks get in trouble. Is there anything in that area on the horizon, either in banks or major industries that would seem to be in trouble, that might push this thing further down if we had some kind of collapse?

Mr. GREENSPAN. I was concerned throughout much of last year, not only with respect to the United States, but also with respect to the financial system of the world as a whole; specifically the Eurocurrency markets. I must say I am quite pleased that many of my concerns have diminished substantially. I do not say we are out of the woods or that there are no difficult financial problems or situations. Of course there are. But I would characterize them as significantly less today than at the beginning of this year. I am not aware of any particular problem, which by itself, could abort the recovery that we see emerging.

Representative BROWN of Ohio. The letdown, although painful—at least to the degree that has occurred—has avoided catastrophic occurrences or sharp collapses that might have been more painful.

Finally, let me ask this question. In the fiscal aspect of what the Congress may do over the next few months, some concern has been expressed by articles that have appeared in the Wall Street Journal; one most recently on April 28, which says rather dramatically that the credit panic is on. One on April 3, in the same vein, said that the corporate bond market may be on the verge of collapse. And I am concerned about that situation with reference to the congressional fiscal action over the next few months. It seems to me, in this delicate stage of recovery, that timing is very important. In politics, humor, love, and economics, timing is very important. What would be your advice in the fiscal sense for us at this point, to avoid what the Wall Street Journal refers to as the credit panic or the collapse in the corporate bond market?

Mr. GREENSPAN. As I recall those articles the Wall Street Journal was merely quoting people in the money market. Journalists tend to look for extreme statements that, on occasion, I think do not appropriately reflect what is going on. There is no doubt that there are difficulties in the financial market. There are obviously difficulties where you have very substantial borrowing requirements from the Treasury of the size we are contemplating in the period ahead. My view is that we have a tendency to think of expansionary governmental policies by definition as leading to increased physical production and jobs. I think that we should recognize that there are points beyond which further expansionary forces generated by Government are not productive in increasing employment, but in fact work to the contrary. While I do not see it at the moment; this can be seen when you get into the situation where you overload markets—if in effect, we are unable to constrain the expansion of the deficit as it is emerging on the horizon.

I think that one can think in terms of the types of deficits which we were concerned about a number of weeks ago, when we started adding up the expenditures which would result from some of the programs emerging in the Congress. One could think in terms of those deficits as reaching a point beyond which fiscal stimulus becomes, in fact, counter productive. I think we must try to find an appropriate balance, so that we do not arrive at the point where the deficits become a force for higher unemployment, at least in the longer run, not lower.

Chairman HUMPHREY. Thank you, Mr. Greenspan. I think the work of the Congress is going to help take care of that feeling that you might have expressed there.

Senator Bentsen.

Senator BENTSEN. Thank you very much, Mr. Chairman.

Mr. Greenspan, unemployment in this country is extremely serious. We are talking right now about 8.7 percent. And in the report to be released today, I would guess it probably will go even higher.

Mr. GREENSPAN. Senator, actually it has been released, and it is 8.9 percent.

Senator BENTSEN. 8.9 percent. There is nothing more discouraging to an individual than to be told that society has no productive role for him to fulfill. I cannot accept the idea that we have to have unemployment rates of 8 percent for another couple of years. When these unemployment rates were presented to us in the Budget, they caused considerable controversy in our hearings with administration witnesses, who said that these were not targets. Of the highest priority should be getting people on payrolls, back to work again. It seems to me that the time to stimulate the economy is now—we are using 60 to 65 percent of our productive capacity in this country; we are seeing the consumer confidence index down, we are seeing capital spending down on the part of business. As I recall, last fall you were talking about capital spending in rather encouraging terms for 1975. But when you talk about a board of directors looking at people not buying a product they manufacture, you have a lot of water in those capital spending funds; they grnerally set them aside, and wait for the economy to turn around, or for people to start buying their products again.

With capital spending down and private borrowing down, it seems to me that the only way to handle the Federal deficit is by the stimulative actions that the Congress has taken. I also think that the administration should choose some targets for unemployment; some objectives. Today, you were talking about not having a target for unemployment—not choosing a number. But that should be of the highest priority. We had Mr. Tobin testifying before this committee, congratulating this committee on setting some specific objectives in terms that were undesirable. I would like to see those kinds of objectives, in terms that we can understand, from the administration, particularly on unemployment. Would you care to comment on this?

Mr. GREENSPAN. Certainly, Senator. First of all, let me just say that we have not significantly revised plant and equipment spending up or down. We did not look at it as a buoyant part of the economy last fall. We do not look at it as a buoyant part now and I do think that clearly it is exerting some drag, as we expected and as you indicated.

At this point, I think that we do know that many of the items you pointed out certainly indicate where we stand—we are in a recession. We have to ask ourselves, basically, what is the best we can do? Now clearly if there were some mechanism by which government could turn a few dials and generate huge sustainable increases in employment without inflation, without distorting our institutions, and without changing the nature of the way our society functions; one would want to do just that. I think we have to ask ourselves, in reality, what should we be doing? What we should be doing is the best we can.

Now why? I suggest——

Senator BENTSEN. Let me interrupt on that. Should we not be striving for a vigorous recovery? As I understood your statement, you do not want that. When we are in the worst recession we have been in since 1937, and have the highest unemployment in over 30 years, should we not be trying for a vigorous recovery?

Mr. GREENSPAN. I would say that we should be striving for a vigorous recovery, immediately. The only problem is that one has to ask, is it feasible? If actions taken by the Federal Government endeavoring to do that will have counterproductive effects at a later date—and by a later date, I do not mean 5 years down the road, I mean 18 months—what then? Unless we come to grips with this issue I think we are doing a disservice to the American people. I think that we have to recognize that we have engaged in sets of policies in recent years that have led us to a highly unstable economy. I think we should recognize that and endeavor to get back to a position as quickly as we possibly can where we have a sustainable noninflationary type of system.

Obviously, I could very easily say I would like to see us get to a 4-percent unemployment rate, or something like that, in the next 6 months, and I could set a goal which is totally unrealistic.

Senator BENTSEN. Mr. Greenspan, I do not think anyone is asking for that kind of goal, and I would agree that it is unrealistic. But it is of concern to me that we would accept anything in the order of 8 percent. We ought to be trying to increase our growth faster than that, putting people back to work.

Mr. GREENSPAN. It really gets down to the question of what governmental actions could be employed which would do that, without undercutting the level of real growth or creating a lot more inflation in 1977, just to choose a year. From what we can judge at this stage, the type of expansionary policy already in place skirts on the edge of the area where significant additional stimulus very markedly increases the risk of engendering a new surge of inflationary forces in 1977; perhaps late 1976. And I think we are fairly well convinced, having looked at the inflationary process throughout the world in the last 2 or 3 years, that inflation itself is one of the major contributors to unemployment.

Senator BENTSEN. I agree with that, and I would also reiterate what Senator Proximire has said: "When you come out of the recession, productivity increases and you spread your costs of operations over more units of production, so you can dampen inflation to a degree as you're coming out." The problem is continuing to stimulate beyond that point after you have recovered.

Mr. GREENSPAN. I think we have to look at the time frame over which the actions we take will have their impact upon the economy. When you begin to talk in terms of actions, say, implemented at the current period, I think there are very long delays. Even with a tax reduction the full impact does not occur for 6 months, or 9 months, or a year after the reduction is in effect. Expenditure proposals have much longer lags—extending out even 1 or 2 years beyond and even longer, as a number of studies have documented.

Senator BENTSEN. Can you think of a higher objective than getting people back on payrolls again, where they are in the position to meet mortgage payments on the house, car payments—should that not be a targeted objective of an administration?

Mr. GREENSPAN. Of course.

Senator BENTSEN. Rather than say it is going to be a fortuitous result of these other things that we are describing?

Mr. GREENSPAN. Senator, I indicated before that I think governmental policies can be negative as well as positive, and it is quite conceivable to me that we can implement a plan of governmental policies which actually could inhibit our reaching the types of goals that we want. I am certainly not saying that the present situation is one with which we can in any way be pleased. Clearly, it is an extraordinarily deep recession that we have been in, and as a consequence there is great tragedy for large numbers of the American people.

Senator BENTSEN. We are going to have all kinds of young people graduating from school, from colleges, who are going to find that there is no productive role for them in society? I think that is a very long-term, serious economic and social consequence.

Mr. GREENSPAN. What we must be aware of is the fact that as bad as things are today, we can make them worse, and I think that would be an inconceivable tragedy. If we could implement what I consider a responsible policy action which could make the situation——

Senator BENTSEN. My concern, Mr. Greenspan, is that we have had some actions in the past that have led us into this situation, and I am striving to find some corrective action. When you talk about a sustainable rate of growth in the area of 4 percent, if we follow that, what would the unemployment rate be in 1980?

Mr. GREENSPAN. I am not suggesting that and we do not expect that. The 4-percent growth rate has been measured as the longer term growth potential of our economy after we have restored ourselves to close to full employment. But between now and when we arrive at that point, I expect that growth or recovery will be substantially in excess of the 4½-percent rate.

Senator BENTSEN. Thank you, Mr. Greenspan. Mr. Chairman, I see my time has expired.

Chairman HUMPHREY. Senator Percy.

Senator PERCY. Mr. Greenspan, I just attended a meeting of 150 officers of the UAW this morning; most of them are presidents of their respective unions. I have never been with so many presidents myself, other than the hopefuls in the Senate. But they were very much more concerned about unemployment than inflation. In an hour of questioning, there was not a single question on inflation. I still, personally, am very worried about it. But in the minds of the workers today, and those who represent them, the fact that 1 out of every 11 are unemployed today, and the fear that 1 out of 7, by surveys, are fearful of their employment opportunities, is a matter of great concern. So that I really think that your opening statement, that the recession is coming to an end, or the evidence suggests that it is coming to an end, will be a tremendously hopeful signal; and I would like to affirm, from every source that is available to me, that that is happening now. Across the business community, I get a greater sense of confidence, and I hope that we can continue that.

I have just doodled here on a chart, because I hear two theories; Theory A would show that we are practically going sideways most of the year, and there just is not an upward turn; or theory B, that we are actually down at the bottom of the dip, and we are going to start to steadily and gradually move up. If you had to guess which of those might be the course of the events during the course of the year, would you say theory A or B?

Mr. GREENSPAN. I hope I have been describing theory B.

Senator PERCY. I hope it is B, also. But do you see enough evidence yet to indicate that it is probably going to be more likely theory B than A?

Mr. GREENSPAN. Yes. You need nothing more than the extraordinary inventory patterns that we have seen in the last few months to conclude that A is a very unlikely scenario.

Senator PERCY. I think that, again, would be a refinement which, could be a hopeful sign.

Our foreign affairs affect, obviously, the confidence people have in the future, and confidence in the future is what determines to a great extent the buying today, and what use people are going to make of the refund checks. The events in Southeast Asia in a sense say to us that war is behind us—and in a sense, we can concentrate more on our own affairs at home. But we are getting increasing danger signals out of the Middle East. Do you think either of these would cause a substantial effect or some effect, or virtually no effect on consumer confidence this year. Do you have any way of judging as to whether it is going to be a factor, that we are going to have to take into account?

Mr. GREENSPAN. I think that there is no scientific way to make that judgment, Senator. But on the basis of what I have seen about the causes of changes in consumer confidence, I am inclined to believe that the vast proportion of people's determination to commit themselves to large consumer purchases, or different changes of residences and the like, is more a consequence of how they perceive their immediate situation, rather than what they envisage the rest of the world is doing. I think the prices they see in the supermarket, and the layoff rate in their factory or their particular profession is by far the overwhelming determinant of the state of consumer confidence.

However, I think it would also be a mistake to presume that the larger issues do not affect people's general attitude of the future. They affect all of us.

And while I do see both of the key economic elements affecting confidence—that is, the rate of inflation and the layoff rate—clearly moving in the right direction, I would not want to conclude unequivocally that consumer confidence will then proceed to soar without any relevance to what else is going on.

Senator PERCY. If in the Middle East we were somehow to bring about a settlement sometime this year in the second quarter, so that we had a sense of confidence that there is not going to be a war and there is not going to be an embargo—would that not do a tremendous amount to stimulate confidence in the economy here at home and the stability of our flow of oil products, and so forth?

Mr. GREENSPAN. Senator, let me expand your question. To raise the issue of confidence, not only in the consumer sector here—but let us go to the business sector, the expectations that affect investment and the financial sector both here and abroad—I think that that would help immeasurably to bolster the types of risk laden investment commitments that have an important impact on both our economy and those of the rest of the world. I have no question that should that very sanguine event occur, that a major element of uncertainty, concern, and fear that overhangs the world economy would be removed.

Senator PERCY. Even more so now that the Arabs—publicly and in my office—continue to warn that oil was going to be used as a weapon, even if there is not a war, and that there could be an embargo if there is not progress in reaching a settlement in the Middle East. So that threat is a very real threat that I hope that we can find a way to remove.

I would like to ask about housing. I was very disturbed when the President released $2 billion in highway funds to expand the economy because road construction has a long lag time. It is putting the emphasis in the wrong area. We have been overemphasizing the automotive means of transportation and underemphasizing mass transit far too long. And yet, the President follows that up by rescinding $264 million of housing money that we had authorized and appropriated to help lower income people buy their own homes, and to stimulate construction of new homes.

Now, the Comptroller General has had to file suit against the President to release those funds. Why is it necessary for us to have a confrontation on a program like that, where the need is so evident to all of us, and the ripple effect on the housing market would be so great as against these long-term highway funds. Sure, there is a highway lobby, and they put a lot of pressure to get those funds used. And you have an $8½-million unspent so-called surplus, but it comes out of the same pot, really. We do not have the money any place. You are going to have to borrow it.

Could you take another look at it in the White House, to see whether or not we have to have that constant confrontation? We could stimulate the housing market with funds that are available—that is, from the authorization and appropriation standpoint—and get some movement in that field, rather than hanging it up for this reason I cannot even understand.

Mr. GREENSPAN. Senator, we are continually evaluating all of the various proposals with respect to housing, because certainly the President, like anyone else who has observed the dismal housing scene, would like to see it revived. I would point out that the major forces affecting the recovery in home building are largely private financial factors and the actions of the private homebuilding sector. There have been considerable numbers of studies that suggest that a lot of the measures which have been taken to expand mortgage credit directly have not worked effectively, in the sense of contributing substantially, on balance, to housing. It is the President's view that the actions taken with respect to housing should be those that we can realistically expect to work. By far, the major thing that would contribute to a viable housing industry is to get interest rates down; and very specifically, to get mortgage rates down. And one of the major dangers to mortgage rates, as it is to interest rates in the long end of the market generally, is excessive governmental spending, larger deficits, and larger Treasury financing.

So there is a problem in here that has to be faced; namely, to try to evaluate the particular proposals that come up both for their inherent efficacy and for their overall financial impact upon the capital market.

Senator PERCY. I concur with all of that. But that does not really come down on this program, because interest costs, if they came from 9 to 7 percent, would not extend to 235 housing. That was in the Housing Act of 1968. It is for people who could never afford to own homes otherwise. They are eligible for public housing. The question is, do we put them in public housing, or do we give them a chance to buy their own homes? That is the kind of people that will never be in the conventional market, and this act has now been tested over a period of years. Why, arbitrarily, does the executive branch simply impound or rescind those funds, refuses to spend them, with the evidence that we have of the soundness of the program overall, and the good it has done overall, I just do not know.

My time is up. But I hope I can leave this thought. I hope you will take another look at that, and just see whether it cannot be a way of cooperating and working together, rather than constantly fussing and feuding over programs that we feel are fundamentally sound, and would help the economy.

Chairman HUMPHREY. Mr. Greenspan, you have been very patient with us, I am going to ask each of the members of the committees here to make a summation statement. When we ask questions, we also have points of view that are expressed in those questions, and you can feel free at the conclusion of these statements to make any response that you would like.

I thought we would just try to get a little change in format here before we have Mr. Shiskin come forth.

First of all, speaking for myself, the one thing that always amazes me when we discuss economic policy is the absolute neglect of the agricultural community by the advisors and the President, except Secretary Butz, and I am afraid he is out there in his own desert by himself. Here is a part of our economy that represents close to a half a trillion dollars; it is a $500 billion asset. Farm income has dropped from $33 billion in 1973; according to Secretary Butz, it will go down to $20 billion this year.

Farm prices are still above target prices and all prices today in the market are above what we would have had in a new farm bill.

But, I want to give you some figures that ought to cause you and this administration to think again as to what can happen. These are not my figures; these are the figures published by what we call the unofficial, but the private enterprise economy publication known as "Feed Stuffs" and it is a respected document. Corn stocks, stocks of corn are down 23 percent from last year; soybeans, down 11 percent from last year. These are as of April 1. Grain sorghum stocks, down 45 percent from last year. Oats down 25 percent from last year.

Barley, 48 percent; wheat stocks, the lowest since 1952; flax seed stocks are down 32 percent from last year; pork supplies: Pork is a poor man's meat ordinarily, pork supplies are the lowest they have been since 1935. Cattle placements in feed lots are 41 percent below what they were last year.

Now, Mr. Chairman, if we should have less than a bumper crop for any reason due to weather or failure of farmers to plant because of the fear of the future prices, we are going to have an economic catastrophy in this country, and I want that spread on this record and I will live by those words, because we are flirting with wild price inflation in food stuffs, and, yet, there was a veto on the bill that would give the farmers some little more assurance so that he could plant and run the risk against weather and low prices due to a bumper crop. Because if you get a bumper crop, all those figures change.

These are some of the calculations that I never see in the economic forecast and, as one who has had a rather long service in the field of agriculture and agriculture policy, I am going to insist that we start to put these calculations in.

I must conclude by saying that the administration has repeatedly denied that the GNP, price, and unemployment estimates that were in the budget were really targets. I am referring to the 5-year forecast.

Last year Mr. James Tobin came before us and said in effect, "I congratulate the committee, speaking of the Joint Economic Committee and staff, for its fiscal policy recommendations and for the procedure stating the objectives, in concrete and economically meaningful terms." Then he says, "I think this committee should insist that the administration and the Federal Reserve do likewise. They should state the recovery pattern that their policies and their recommendations are designed to achieve."

Now, you have indicated today that those figures on employment and GNP in the budget did not represent your targets. I believe that is correct, is it not? The question is, What are they? How much real growth, or real output, is the administration trying to achieve in the second half of 1975? How much do you expect real GNP to grow in 1976? What is the administration's unemployment target for this year?

This goes back to what Senator Proxmire and Senator Bentsen have been talking about. While it is true that Government cannot do everything, you just indicated that Government can injure by going into excessive deficits.

I also want to say if Government policy can impede recovery, and it can, then I think that it is fair to ask what policies are you going to pursue to obtain certain goals? We have a right to expect certain goals, and a 4-percent growth in the GNP, that is treading water. A 9-percent growth in the GNP gives you a chance to get your unemployment figures down somewhat. We have not yet heard anything from the administration as to what its housing starts target is. What should we be shooting for? What kind of policies are we going to pursue to get there? It is not just going to happen. We both know that, despite your very eloquent, sophisticated testimony. The fact is that it is not going to just happen; we are going to have to help make it happen. These interest rates are not going to come down because somebody has decided that they read the 23d Psalm and loved the

Lord; they are going down due to monetary policy and fiscal policy. That is the only way they are going to come down.

These people are not going to be hired and come back on payrolls because you and I like each other. They are going to be put back to work because there are certain stimulating policies that are enacted and make it happen.

I do not see where the administration is coming forth with anything by telling us that we are going too fast, doing too much. It reminds me of what I said one time before, there is sort of a syndrome around this Government that goes, no, no, not now, go slow, veto, and that does not get you off first base; it does not even get you in the game, and I really am disappointed that we do not seem to have a sense of urgency. We are too comfortable in the city. We are just too comfortable.

Those farm figures I gave you are very disturbing, and every country banker knows it and every farmer knows it, and this Government seems to be aware of it. These figures on unemployment—they are not only unacceptable, they represent a tremendous economic loss and social dynamite.

So, I have given my little soliloquy here; now I will let others, then you can have your equal time to respond. Senator Proxmire.

Senator PROXMIRE. Mr. Greenspan, I certainly commend you on your unsually competent and expert testimony, but I am very concerned here at your reaction, that much more stimulus could be inflationary within 18 months or so. I just cannot for the life of me see it. I do not know how we can have an inflation with unemployment at 8 percent or even 7 percent or even 6½ percent.

The fact is that in 1974 we had unemployment of 5.6 percent and very serious inflation, but there is no question in my mind at all, and I doubt if there is much question in yours, that that unemployment was not caused by excessive demand. The fact is that we had a drop, for example, in steel production in 1974, although the prices increased enormously. We had a drop in paperboard production although prices went up. We had a very sharp drop in 1974 in automobile production. We had a drop in construction. We had increasing unemployment, but prices rose. They do not rise because the facilities were too strained or because we had shortages. They rose because of the enormous effect of the increase in international oil prices, because the food prices were highly inflationary.

It seems to me on the basis of the recent record, the past record, that there is no question that we can get unemployment down about to 7 or 6 percent within the next 18 months or so without the inflationary effect from that. Now I would just like to conclude by warmly supporting the chairman of this committee, Senator Humphrey, when he said we need goals from the Federal Reserve and we need goals from the Council of Economic Advisers. Without goals, we just do not know where we are going; we do not know how well we are doing; we do not know how to evaluate the progress we are making, not only in unemployment, we need goals in prices.

The West German Republic, the most successful economy in the world today, has done it. They have not only set a monetary growth goal of 8 percent in the next 6 months, but they say precisely where they think that is likely to take their unemployment and their price level, and they may fail, but they will have a way of judging that and evaluating it. It may not be politically wise, but it is economically very desirable. I hope you will reconsider that.

Thank you, Mr. Chairman.

Chairman HUMPHREY. Congressman Garry Brown.

Representative BROWN of Michigan. Thank you, Mr. Chairman. There is a motto in my undergraduate school that intelligent living is a series of intelligent compromises. From our discussions here, I think we would all have to agree that a sound economy comes from a series of intelligent judgments, judgments with respect to the effect of governmental actions on inflation, recession; judgments as to what should be the public sector's function and the private sector's function, all of these.

What is disturbing to me on occasion is that I find that many who are the champions of the total independence and liberty and participation of the people in political participation are often those who, with respect to economic decisions, call on a much larger role of government. I find that somewhat inconsistent.

I think you are quite right that the way out of our present recession is to apply the philosophy of our political sector to our economic sector; that the private sector is the one that is going to be responsible for their recovery, not the public sector.

I wish to assure you that I, for one at least, do think we have to keep an eye on inflation. I made reference to the period in the late 1960's when, in anticipation of a great impact on the fiscal side by the surcharge, we had the Federal Reserve Board change its monetary policy and we saw what happened. It is the real foundation of our present problem, and I, again, as one at least, concur in the caution that you have expressed. I concur in the fear that you expressed. I concur that it would be much worse; things could be much worse today, or if not today, a few months down the road, if we do not in some way keep our eyes on coming to that intelligent compromise. Thank you very much.

Chairman HUMPHREY. Congressman Brown.

Representative BROWN of Ohio. Mr. Chairman, I would like to get a response to my statement. My concern is, or my conclusion is, from what I have heard today that what we have done to cure the recession from the congressional level really has not begun to take hold as yet, and as we have done positive things they remain to be an influence on the recovery, but the recovery, or the bottoming out, I should say, of the recession we have seen, perhaps, the first glimmer of have been a result of the strength that is left in the private sector, and I guess that is some solace for some of us, who still do believe in the private enterprise theory of a free economy.

It seems to me that now the best thing, and I do not mean to discount in any event the supportive actions that the Government has built into our system, such things as the Federal Deposit Insurance Corporation, which saves some pain, through the ripple effect of pain in the system, when we had some bank failures; the supplemental unemployment benefits; the tax relief, that we have aimed at and so forth.

I do think that we now have a problem of what do we do next, and I have a grave concern about our continuing to overreact, as we frequently do, in the Congress, 6 to 18 months after the fact, to try to do something about a situation which was true 6, 8, or 10 months ago. And I am concerned about both excessive spending now and the prospects of overregulation. It is almost a setpiece that on the day that Chrysler announced they lost $94 million in one quarter, its major or the largest loss that it has ever experienced in its history in one quarter, that the subcommittee on which I sit in the House decided that we would slap on mandatory fuel regulations, fuel economy regulations on the automobile industry.

If those are mutually contradictory to the safety regulations, and the environmental protection regulations that the Federal Government has already put on, we may be able to do to the automobile industry in this country what we did to the railroad industry over a period of years, and that worries me.

It also worries me that we are talking about spending, having a $70 billion deficit or, perhaps, $100 billion, or, perhaps, a $20 billion deficit and doing that out of one side of our mouths, as we are talking about our concern about the housing industry on the other side of our mouths.

I do not think that we logically can do both. I would like to ask Mr. Greenspan where you think the interest rates will be if we have a $100 billion deficit, that has to be financed over the next few months. I just cannot see anything but cutting the throat of the housing industry, no matter what we try to do, in putting money into the industry to stimulate it. I think that housing is the single major purchase that any citizen makes in this country; any single debt commitment that a citizen makes in this country is a function of confidence. If he does not think he is going to have a job, there is not much that you can do to stimulate him to buy a house. So, we have got to get unemployment turned around in the hopes now that that is happening, but if we set that interest rate 10 percent or above on housing, I do not see any way that a prudent man is going to go out and buy a house. Can you give me some prediction as to where we would go in interest rates at a $70 billion deficit to be financed this year, or a $100 billion deficit to be financed this year?

Mr. GREENSPAN. Mr. Brown, obviously the higher the deficit under the conditions of economic activity that we foresee, the greater either is the level of interest rates or the rates of monetary expansion that would be required in a sense to accommodate the Treasury borrowing.

Representative BROWN of Ohio. That is a hoax, too. Monetary expansion, the result of monetary expansion, if you accommodate a $100 billion debt that my 30-cent dollar would be worth 6 cents.

Mr. GREENSPAN. Not 6 cents, but it is certainly going down, but in either case, interest rates will eventually rise because in the first case, clearly, you have more demand for securities than supplies. In the second case, you may temporarily avoid that phenomenon, but eventually you will create a rate of increase in inflation that will embody itself in the interest rate, what we call inflation premiums, which means you get it both ways. So I would certainly subscribe to the notion that one of the very grave dangers confronting this country is that if we do not contain what I think has been an exceptionally dangerous trend in Government expenditures, the type of problem that you suggest in interest rates and its effect on housing and a number of other industries is likely to result as well as other vaster consequences, which, I think, could undercut the whole free enterprise economy on which this country's standard of living is based.

To go back to my opening remarks and concurring with the chairman, I think the sooner we are capable of maintaining a degree of fiscal discipline in this country and avoid the types of deficits that you are suggesting, the sooner I think we are capable of emerging with a more sensible and stable economy with a lower level of interest rates.

Representative BROWN of Ohio. The figure of interest rates at a $70 billion deficit?

Mr. GREENSPAN. A $100 billion figure would be a better level for interest rates—$70 billion, to my knowledge, does not extend to a point where I could give it to you.

Representative BROWN of Ohio. Thank you.

Chairman HUMPHREY. Mr. Greenspan, I just noticed, and I am sure you saw it this morning, the story that was alluded to, "The U.S. Raises Tax Receipt Estimate," scales down plans for borrowing. I would say maybe that is some of the best news we have had, that particular little item. That obviously affects what deficit financing you are going to have.

Let me just say that I am convinced that the Congress of the United States is going to exercise fiscal discipline. We have budget committees; that budget committee estimate was sustained with an overwhelming vote in the Senate, as well as the House, and we take this responsibility very seriously. I want that message to go from the Joint Economic Committee.

While we have some differences, some of us, as to the amount of stimulus that we ought to have, I think it is now clear that the Congress has a handle on the budget, and I do not see a $100 billion deficit. I am confident that that is not going to happen. I doubt that it is going to be a $70 billion deficit, because I really believe that if there are any signs of recovery at all, it will show itself in these revenues; and obviously it would also show itself in less unemployment compensation and other social costs.

So, I do not think that we ought to frighten anybody. I was concerned about Secretary Simon was frightening people out of the money market when he said that we could not finance both the public moneys and the private sector. He did not put it quite that directly, but there was some indication of that.

Now, I am convinced if the public gets the idea that, first, as Senator Proxmire said, we had a tax bill that is going to go into effect; second, we have a handle on the budget and we have for the first time in the memory of anybody in this audience, we have a handle on this budget; and third, we at least have a statement from the Federal Reserve as to what the money supply rate will be, whether we think it is adequate or not. These three factors will give more encouragement to the economic outlook than all of the other talk that we have had put together.

I do not go away from here today as a proclaimed prophet of gloom and doom. It just happens to be that I like to win, and I have had some losses. I do not believe that you build character in losing. It is no fun; I believe in winning, and I just want us to win. Now, it is your turn. We appreciate your patience here.

Mr. GREENSPAN. Thank you, Mr. Chairman. I hopefully have expressed my views here this morning.

Chairman HUMPHREY. We will be in touch with you. Thank you very much, Mr. Greenspan.

The committee stands adjourned.

[Whereupon, at 12:20 p.m., the committee adjourned, subject to the call of the Chair.]

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