LIAM PROXMIRE
WISCONSIN

United States Senate

WASHINGTON, D. C.

March 30, 1961

Honorable William McChesney Martin
Chairman, Board of Governors
Federal Reserve System
Washington, D. C.

Dear Chairman Martin:

Your further statement on unemployment, supplementing your testimony to the Joint Economic Committee, on March 7, 1961, reached me this morning. While I appreciate having these additional comments on the nature of unemployment in the American economy today, it does seem to me that you have failed to come to grips with the salient points raised by the differences between your original testimony and that of Dr. Heller.

As you will recall, I initiated the questioning of those differences during the hearing on March 7. Subsequently, on March 9, I discussed them on the floor of the Senate. I observed that the difference between your testimony and that of Dr. Heller amounts to a sharp and decisive contradiction of economic policy. I inserted a brief analysis of the specific differences at the close of my remarks. An excerpt from the Record for March 9 is attached for your convenience.

Your further statement now comments generally on the problem of unemployment without offering any further, deeper analysis of the questions raised by the conflicts between your earlier remarks and those of Dr. Heller. As you know, Dr. Heller attached an appendix to his main statement which specifically challenged the view that unemployment at present is so substantially structural in nature that anti-cyclical programs would soon be seriously inflationary. He provided statistical tables showing for example, a remarkably uniform increase

Honorable William McChesney Martin
March 30, 1961
Page Two

in unemployment between 1957 and 1960 in a number of industries regardless of their structure or technology. Since you provide no similar statistical support for your position, I would very much appreciate having a detailed, statistical analysis from you which would support your contentions.

To the crucial question of what would constitute an "acceptable" level of unemployment, Dr. Heller gave a specific answer. He stated that 4% unemployment would be the level the economy should attain before policies of contraction, i.e., diminution in money supply relative to GNP, or hiking taxes, decreasing spending, should be adopted. I hope you will also give us your estimate of a satisfactory unemployment reduction "target", so that the Committee will have a benchmark against which to measure future monetary and fiscal policies.

If you should feel that this should be a matter of balancing a number of criteria such as profits, retail sales, prices, gold outflow, as well as unemployment, please indicate as precisely as possible how significant an upward movement in these criteria would be necessary to suggest government policies of contraction at 6%, 5%, 4% unemployment.

For example, would you agree that governmental action to contract its effects on the economy would be inappropriate when unemployment is above 4%, provided the price level is stable or falling and the international payments picture is not strongly unfavorable?

Sincerely,

Bill Proxmire

William Proxmire, U.S.S.

Enclosure