

FOR RELEASE ON DELIVERY

Statement by

Henry C. Wallich

Member, Board of Governors of the Federal Reserve System

Before the

Committee to Investigate a Balanced Federal Budget

of the

Democratic Research Organization

Washington, D.C.

Friday, March 26, 1976

I welcome this opportunity to appear before the Committee to Investigate a Balanced Federal Budget of the Democratic Research Organization to present my personal views on the outlook for an adequate supply of capital.

I believe that there is a serious danger of a capital shortage, not today, but later, as the economy approaches full employment. The role of the Federal budget will be crucial. The Federal Government today is a heavy borrower, i.e., a user of the nation's savings. If by the time we approach full employment the Federal Government has shifted its position and has become a net saver and supplier of capital, the probability of capital shortages will be much reduced. If, however, the budget then is still in heavy deficit, a shortage, in my opinion, is very likely.

You have asked me to focus on a number of studies that seek to evaluate the prospects of a capital shortage, and this will be the main topic of this presentation. To begin with, however, I would like to comment briefly on what I mean by capital shortage. For it is only too easy, by appropriate use of the terminology and technique of economics, to arrive at the conclusion that there can be no question of a capital shortage.

In an economy in which prices, including interest rates, are free to move, rising demand for anything will normally raise the price until supply and demand are once more in balance. By this definition, there cannot long be a shortage of capital or of anything else. But,

of course, that is a tautological solution. If the demand for capital could be met only at rates of interest that are excessively high -- after making allowance for the rate of inflation, which tends to raise interest rates -- one would not regard that as a satisfactory solution.

Our national income accounting system, too, may lead us into an erroneous belief that a capital shortage is being avoided when, in a meaningful sense, that would not be the case. Our national income accounts are so set up that saving always turns out to be equal to investment. That is simply the consequence of a convention that defines saving as the difference between consumption and income, investment as the difference between consumption and production, while simultaneously treating income and production as just opposite sides of the same coin. Any consistent set of estimates of future saving and investment, therefore, necessarily arrives at the conclusion that the two are equal in an ex post sense. This does not mean that the level of investment is satisfactory. If investment has been held down by inadequate savings to such a degree that reasonable economic objectives cannot be met, we have, to my way of looking at the matter, a capital shortage.

I would suggest three tests of what it means to meet reasonable economic objectives. One would be the maintenance of sufficient capacity in critical industries to avoid bottlenecks that would lead to shortages or sharp price increases, even before the economy as a whole began to reach full operating potential. We experienced severe bottlenecks in

1973, though somewhat exaggerated by duplication of orders. Investment since has been relatively low, and I doubt that many of these bottlenecks have been removed. In the major materials area, for instance, the Federal Reserve index of capacity utilization in major materials industries reached a minimum of 67.9 per cent in March of 1975. It has since risen to about 80 per cent which still seems to leave a good margin. But breaking this down between durables and nondurables, the index shows that capacity utilization for nondurables is already up to around 83 per cent, while that for durables stands at only about 69 per cent. If investment is not sufficient to remove bottlenecks before we approach full employment, I would consider the result as a kind of capital shortage.

A second test of capital inadequacy would be an overall insufficiency of our capital stock to employ fully and efficiently our rising labor force, after allowance is made for its changing composition. I cannot provide data to demonstrate whether or not we can count, at the time we approach full employment, on having enough plant and equipment in place to absorb the entire labor force. Considering, however, that the growth of the labor force, reflecting the birth rates after World War II and increased participation rates for women, has been high by historical standards, while investment has been relatively low for the past two years by such standards and seems likely to remain relatively low for most of this year, I think that there is reason to fear that a disproportion between the capital stock and the labor force is developing, to the disadvantage of labor.

There is a third, and rather different, standard by which the adequacy of the supply of capital can be assessed, which happens to be frequently employed these days in business circles. It relates to the ability of American business to obtain the financing needed to effect the desired amount of capital spending. It could turn out that conditions could arise in which households supplied enough savings, and government made no excessive demands, but in which the state of corporate finances made it inadvisable or impossible for business to incur heavy debts, while a low level of profits, or of the stock market, made equity financing difficult. Such a situation could arise if corporations feel, as they seem to feel currently, that they have too much debt relative to equity, while an adverse climate, or inflation, or poor prospects, were depressing the stock market. Even if the savings were available, there might be no way of transforming them into productive investment.

I would add that what would constitute an adequate supply of capital by each of the three foregoing tests by no means promises the American economy a high rate of growth. Capital adequacy in all three senses above might mean that we could continue to grow at about the same rate as in the past, when we were relatively free of capital shortages, or perhaps a little more slowly, given the higher cost of energy and other new burdens imposed upon the economy. In that event, we would be growing at a rate inferior to that of many of the other major industrial economies. They would gradually catch up and eventually surpass us, if we project their and our growth at post-World War II historic rates. But that prospect cannot be deemed a capital shortage.

Studies of Capital Adequacy

A number of studies on the problem of capital adequacy have been done in the past year and a half, and I would like to review these for you this morning. These studies unfortunately do not always span the same years. Also, there are important differences in assumptions regarding tax laws, monetary and fiscal policy, and other factors which complicate comparison. In an appendix to this text I have included a table from the study by Gary Fromm, which delineates some of the principal differences.^{1/} The table also summarizes the major findings of the studies.

-
- 1/ NYSE - The Capital Needs and Savings Potential of the U.S. Economy: Projections Through 1985 (The New York Stock Exchange, September 1974).
- BDC - Barry Bosworth, James S. Duesenberry, and Andrew S. Carron, Capital Needs in the Seventies (Brookings Institution, 1975).
- BF - Benjamin M. Friedman, "Financing the Next Five Years of Fixed Investment," Sloan Management Review, Spring 1975.
- DRI - Allen Sinai and Roger E. Brinner, The Capital Shortage: Near-Term Outlook and Long-Term Prospects, Economic Studies Series #18 (Data Resources, Inc., 1975).
- SSG - Economic Policy Board Special Study Group. Unpublished materials partially based on The Structure of the U.S. Economy in 1980 and 1985, BLS Bulletin 1831 (U.S. Department of Labor, 1975).
- GE - Economic Prospects: 1975-85 (General Electric, March 1975) and supplementary materials.

[Footnote continued on page 6.]

In spite of the differences, there is sufficient agreement in terms of basic methodology to make a comparative discussion worthwhile. For purposes of presentation, the dollar figures in the various studies have been expressed as percentages of gross national product. This permits us, at once, to avoid being misled by the very large sums involved and to put the problem in perspective. I shall consider first the prospects for gross private domestic investment and then the outlook for total savings.

1/ [Footnote continued from page 5.]

- NPA - Robert Dennis, Clambering Into the Eighties, Report Number 74-N-1 (National Planning Association, December 1974).
- Chase - Michael K. Evans, Long-Term Forecast: The Next Ten Years, Inflation, Recession, and Capital Shortage (Chase Econometric Associates, Inc., August 1975).
- BEA - A Study of Fixed Capital Requirements of the U.S. Business Economy (Bureau of Economic Analysis, U.S. Department of Commerce, December 1975).
- CEA - "Will Capital Requirements for the Remainder of This Decade Be Met?" Economic Report of the President, 1976, pp. 39-47.
- Fromm - Gary Fromm, Investment Requirements and Financing: 1975-1985 (National Bureau of Economic Research, Working Paper, October 1975).

The Demand for Capital

Most but not all of the studies provide projections, either year by year or for an average of years, of each of the three sub-categories of gross private domestic investment: nonresidential fixed business investment, inventory accumulation and residential construction. These projections are shown in Table 1 as percentages of gross national product. Several important points emerge from the comparison.

First, the authors of these studies almost unanimously envision prospective fixed business investment to be greater than the ten-year historical average. Even those studies which place this figure at the low side expect this part of investment to be greater than it has been over the past decade. The reason for this is the anticipation, in varying degrees, of substantially larger increases in investment for environmental protection, energy independence, electricity generation, and occupational health and safety.

In evaluating the excess of the projections over the historical average, the following facts need to be taken into account. The historical average contains years of unusually high business fixed investment as well as some low years. It reflects the average level of investment over a period of years not all of which enjoyed full employment. Most of the projections also contain some years of relatively low investment, since some of them include the recession year 1974 and almost all include the year of incipient recovery 1975. Thus, for years approaching full employment, one must assume, for most of these studies, a projection of business fixed investment implicitly or explicitly above the average.

TABLE 1.--Range of Investment Rates ^{1/}

	Nonresidential Fixed Business	Inventory	Residential
Bureau of Economic Analysis (1975-80)	12.0	n.a.	n.a.
Bosworth, Duesenberry, Carron (1973-80)	10.9	0.7	4.0
Benjamin M. Friedman (1977-81)	11.5	0.8	3.5
Data Resources, Inc. (1975-85)	10.6	0.7	4.0
Special Study Group (1975-85)	11.2	0.9	3.3
General Electric (1974-85)	10.7	0.5	3.7
National Planning Assn. (1974-85)	12.3	0.7	3.5
Chase (1975-84)	10.6	0.7	3.1
NYSE (1974-85)	9.4 ^{2/}	3.1 ^{3/}	4.0
Average (except NYSE)	11.0	0.7	3.6
History (1965-74)	10.4	1.0	3.7

^{1/} Quoted with modifications from Gary Fromm, Investment Requirements and Financing: 1975-1985.

^{2/} Plant and equipment only.

^{3/} Inventory and other nonresidential fixed business investment.

It is these periods of high employment, however, during which the maximum pressure of investment on savings is likely to be felt, and when the issue of capital shortage will be most seriously posed. Thus, most of the projections tend to understate the probability of shortage during the crucial years.

I would like to draw particular attention to the study done by the Bureau of Economic Analysis (BEA) of the Department of Commerce, which examines nonresidential fixed investment by a different methodology and with much greater detail than the others. The BEA study concludes that because of the anticipated cyclical and secular changes in industry mix, future capital spending for fixed business investment of the historical kind could represent a smaller fraction of GNP than in the past. But the needs imposed upon us by the new investment demands noted above brings the BEA projections of business fixed investment for 1975-80 to 12 per cent, compared to an average for the bulk of the studies of 11.0 per cent and an historical 10.4 per cent for the years 1965-74.

It should be noted that one major area of uncertainty involves the future of investment in the electric utilities industry especially since the future role of highly capital intensive nuclear power remains unknown. It seems fair to say nevertheless that there is a considerable degree of agreement among the projections of business fixed investment, given the difficulties of the exercise, but that their average probably is somewhat on the low side, for years approaching full employment.

Inventory investment, to the extent that it appears separately in the projections, is universally expected to drop slightly below its historical average, from 1 per cent of GNP to an average for the studies of 0.7 per cent. This provides a partial but insufficient offset to the projected increase in business fixed investment.

Residential construction is particularly difficult to estimate. In contrast to the two other areas, there is little agreement about the future course of housing investment. Over the past decade, this type of investment has accounted for 3.7 per cent of gross national product. The mean of the studies puts this at 3.6 per cent of gross national product, with some of the studies coming in well above this figure, and some well below.

The Supply of Savings

Personal saving, corporate retention of profits, and business depreciation allowances are the principal sources of supply of capital within the private sector, if we abstract from the possibility of net capital imports. Projections here are more difficult to make, in my view, than on the investment side. The personal saving rate for the studies shown in Table 2 averages 5.1 per cent of GNP, which comes very close to the historical average from 1965 to 1974 of 5.0 per cent. But the range of the individual estimates is wide, running from 4.0 to 6.2 per cent. Household saving has increased of late, probably

TABLE 2.--Range of Savings Rates ^{1/}

	Personal	Business	Government
Bosworth, Duesenberry, Carron (1973-80)	4.6	10.6	0.2
Benjamin M. Friedman (1977-81)	4.9	10.8	-0.1
Data Resources, Inc. (1975-85)	5.4	11.0	-0.8
Special Study Group (1975-85)	4.7	11.2	-0.4
General Electric (1974-85)	5.8	10.9	-1.4
National Planning Assn. (1974-85)	4.8	11.2	0.1
Chase (1975-84)	6.2	10.2	-2.0
NYSE (1974-85)	4.0	10.6	0.3
Average	5.1	10.8	-0.5
History (1965-74)	5.0	10.8	-0.5

^{1/} Quoted with modifications from Gary Fromm, Investment Requirements and Financing: 1975-1985.

reflecting job insecurity and other risks created by inflation as well as, more enduringly perhaps, a desire to restore wealth holdings eroded by inflation to a more acceptable relationship to income. As wealth/income ratios once more approach satisfactory levels, household savings may well decline. The increasing degree of protection by Social Security, as well as Medicare, may also push personal saving rates downward. This conclusion is indicated by at least one careful piece of research.^{1/} It should be noted, furthermore, that since Social Security is on a pay-as-you-go basis at best, it does not lead to an accumulation of capital as does private saving. Thus, its net effect is to reduce the total supply of saving and to increase the threat of capital shortage.

Corporate savings, including depreciation allowances, have been severely distorted by inflation. Inventory profits do not add to investible funds. Neither do profits resulting from low depreciation based on original cost when inflation raises replacement costs. These unproductive profits, while they improve the appearance of balance sheets and income statements, deprive corporations of liquidity because they raise tax liabilities. A widespread view holds that capital's share of GNP has been trending down for a number of years. Certainly the share of corporate investment financed from internal cash flow has been declining for many years until very recently.

^{1/} Martin Feldstein, "Social Security, Induced Retirement, and Aggregate Capital Accumulation," Journal of Political Economy, September/October 1974.

Since Congress has made an effort to improve corporate finances by providing for accelerated depreciation and an investment tax credit, it is important to note that these measures have sufficed only to slow down adverse trends in corporate balance sheet structure and financial flows. For instance, external financing has increased relative to internal. Within external financing, the share of debt has risen relative to the share of equity financing, and within the total of debt financing, short-term debt has risen relative to long-term debt. Some improvement has occurred in these relationships during the recent recovery, owing partly to the low level of corporate capital spending, and partly to better profits, a higher stock market, and some long-term funding of short-term debt. In the face of uncertainties surrounding the appropriate calculation of, and the outlook for, corporate profits and cash flows over a longer period, too much weight should not be attached to the projections concerning the level of business savings. The projections average out at 10.8 per cent of GNP, exactly equal to the historical record, but with a range of 10.2 to 11.2 per cent.

This leaves the Government sector in a key position as the marginal supplier -- or user -- of savings. At a time of low investment, a large deficit can be accommodated. Under conditions of high investment, such as would reflect an approach to full employment, the prospective adequacy of private savings seems to me very much in doubt. The studies do not directly reveal this because, as noted before, the use of averages over low and high periods tends to understate the volume of savings required near full employment. The studies show a

projected government sector deficit (Federal plus State and local government) averaging 0.5 per cent of GNP, with a range from a deficit of 2.0 per cent to a surplus of 0.3 per cent. On average, therefore, these projections seem to imply that a small deficit in the public sector would be consistent with a balance of supply and demand for saving. In my view, however, this would be a misleading interpretation.

In the first place, as shown in Table 3, there is present in the projections a clear correlation between the findings of the respective authors about capital investment needs and their conclusions about the public sector deficit or surplus. Studies which have high estimates of investment needs tend to assume a surplus or a small deficit. Studies showing low investment rates tend to project a larger deficit. One way of interpreting this coincidence of high investment with low deficits (or surpluses) and that of low investment with higher deficits is that investment determines income and therefore the size of the deficit. But another way is to consider that a high deficit may discourage and depress investment and thereby create a fictitious justification for itself. If the deficit were smaller, investment would be larger in this interpretation.

Secondly, the projection of a small deficit over a period containing some years of very large deficits implies that for some other years balance or even a substantial surplus will be attained.

TABLE 3.--A Comparison of Investment and
Government Savings Rates 1/

	Investment Rate	Government Savings Rate
Bosworth, Duesenberry, Carron (1973-80)	15.6	0.2
Benjamin M. Friedman (1977-81)	15.8	-0.1
Data Resources, Inc. (1975-85)	15.3	-0.8
Special Study Group (1975-85)	15.4	-0.4
General Electric (1974-85)	14.9	-1.4
National Planning Assn. (1974-85)	16.4	0.1
Chase (1975-84)	14.5	-2.0
NYSE (1974-85)	16.4	0.3
Average	15.5	-0.5

1/ Quoted with modifications from Gary Fromm, Investment Requirements and Financing: 1975-1985.

This, in my view, is the crucial point. The adequacy of the supply of capital implied in most of these studies is plausible only if one assumes that as we approach full employment, the public sector will come into surplus. This conclusion is most clearly borne out by the Bosworth-Duesenberry-Carron study which, for its terminal year 1980, requires a Federal surplus of \$13.2 billion on the assumption of 4 per cent unemployment and of \$18.7 billion on the assumption of 5 per cent unemployment.

A small element of comfort can be derived from the circumstance, perhaps worth noting because it is not always recognized, that inflation causes the government to overstate the size of its deficit. Of the \$23 billion paid as interest on the publicly held government debt instruments in FY1975, some fraction possibly exceeding one-half must properly be regarded as an inflation premium. This premium, the purpose of which is to preserve intact the purchasing power of the investor, is not added to the principal of a government bond, but rather, is paid to the investor currently. As a result, while the nominal value of the bond represents lower purchasing power at maturity, the investor has received back an amount corresponding to the shrinkage in the value of his principal. The inflation premium, or that excess of interest paid over what would be an inflation-free rate, is, in an economic sense, not interest but a repayment of principal. One may surmise, also under such conditions, that the typical holder of government debt does not treat the entire interest as spendable income, but accumulates part of

it to protect the value of his savings. Adjusted for this inflation premium factor, the government deficit is somewhat smaller than appears. Of course, there are other factors, such as off-budget financing, that should be included in the deficit and that would make it correspondingly larger.

#

Summary of Assumptions and Results
in Studies of Capital Adequacy

Study	Federal Government Expenditures	Tax Policy	Federal Budget Position	Monetary Policy	Results
Bosworth, Duesenberry, Carron (1973-80)	<ol style="list-style-type: none"> 1. No net new Federal programs 2. Expenditures grow 8.7% per year 3. Grants-in-aid grow 6.2% per year for continuation of existing programs. 4. Transfer payments increase 10.9% per year for funding existing laws. 	<p>No change; revenues rise 11.1% per year (higher inflation rate would increase revenue growth; tax elasticity = 1.2).</p>	<p>\$82 billion initial surplus 1980; used to offset state and local financing gap of \$25 billion and increase federal purchases \$44 billion. Net surplus = \$13 billion (Note: offsets not included in first column).</p>	<p>Because of fiscal restraint (surplus) easier monetary policy, lower interest rates than 1974.</p>	<p>Financing capital needs not "unmanageable." Further shifts to debt financing.</p>
Benjamin M. Friedman (1977-81)	<ol style="list-style-type: none"> 1. Only modest new spending initiatives. 2. Constant expenditure share of GNP (excluding transfers). 3. Transfers grow faster than GNP. 4. Expansion in real terms consistent with real GNP growth. 	<p>Tax reductions to offset inflation impact on revenues so that budget is balanced.</p>	<p>Balance by 1977 and thereafter.</p>	<p>Relatively tight; less rapid creation of bank reserves than in last ten years.</p>	<p>Adequate funds for nonfinancial corporate sector, greater use of external funds and rising debt/equity ratios. Residential share of output declines.</p>

Summary of Assumptions and Results
in Studies of Capital Adequacy

Study	Federal Government Expenditures	Tax Policy	Federal Budget Position	Monetary Policy	Results
Data Resources, Inc. (1975-85)	<p>1. Expenditures grow at 7.0% per year and fall in relation to GNP in real and nominal terms.</p> <p>2. Transfers increase according to law.</p>	<p>1. 1975 personal tax cut continued to maintain real tax effect (\$12 billion, 1975).</p> <p>2. Personal tax reduction - \$20 billion in 1979, \$10 billion in 1984.</p> <p>3. Investment tax credit made permanent.</p>	<p>Declining deficits falling, as a percent of GNP, from 3.6 in 1976 to 2.3 in 1977, to 0.4 in 1984-85; levels are \$30-40 billion 1977-79 and \$10-15 billion in 1980's.</p>	<p>1. Stable, largely accommodating.</p> <p>2. Annual growth rates of nonborrowed reserves range between 7 and 10%; M_1 grows at 5-8.5% per year.</p> <p>3. Mild credit squeezes in selected years not counteracted.</p>	<p>1. Shortages of physical capacity not likely.</p> <p>2. Financing of capital outlays is relatively easy until 1980 with slight tightness in 1976-77.</p> <p>3. Financing becomes more difficult after 1980, especially 1981 and 1984.</p> <p>4. Ratios of short-term to long-term liabilities and debt-equity rise, causing some cutbacks in investment.</p>
Special Study Group (1975-85)	<p>1. No new programs.</p> <p>2. Growth in transfer payments to reflect real income maintenance.</p> <p>3. Grants-in-aid increase less rapidly than recent past (3.5% real growth).</p>	<p>1. 1975 personal tax cut (\$8 billion) made permanent.</p> <p>2. \$6 billion personal tax cut in 1976.</p> <p>3. \$6 billion/yr in personal tax cuts 1977-82 to maintain real tax effect.</p>	<p>Declining deficit to \$8.9 billion, 1985.</p>	<p>Accommodating, stable.</p>	<p>Adequate funds for investment; 4-5% unemployment.</p> <p>Further shift in balance sheet structure as between debt and equity toward higher debt proportions.</p>

Summary of Assumptions and Results
in Studies of Capital Adequacy

Study	Federal Government Expenditures	Tax Policy	Federal Budget Position	Monetary Policy	Results
Special Study Group (1975-85) (Cont'd)		4. Permanent 10-11% Investment Tax Credit. 5. Corporate profit tax rate lowered to 45%. 6. Depreciation allowances increased by 5%. 7. Gas tax increase to 7¢/gallon from 4¢.			
General Electric (1974-85)	1. Expenditures increase at 10.2% rate 1976-85. 2. Defense outlays gain slightly through 1985. 3. Transfers rise to 63% of outlays 1977-80 and to 66% by 1985. <u>a/</u>	1. Reduction in corporate income tax rates from 48% to 43%, 1977. 2. Permanent 12% investment tax credit, 1977. 3. Special tax treatment for ailing industries (e.g., railroads and public utilities).	Deficits - 1976 \$65 billion, 1977 \$39 billion, 1978 \$27 billion, 1979-85 \$17-22 billion.	1. Emphasis on containing infla- tion with "real" growth of M ₁ comparable to late 1950's to early 1960's; 1973-80, 0.7%; 1980-85, 1.3%. 2. Nominal growth around 9% per year.	1. Heavy investment needs intensify pressure on corporate cash flow. 2. More equity capi- tal needed or could be long-term bottle- neck on investment. 3. Sufficient funds for investment but only because of high interest rates and emphasis on equity finance. 4. Tight money or "stop-go" monetary policy causes incom- plete recovery.

a/ All Federal outlays other than purchases of goods and services (includes transfers to persons, interest payments, grants to state and local governments, and subsidies to government enterprises).

Summary of Assumptions and Results
in Studies of Capital Adequacy

Study	Federal Government Expenditures	Tax Policy	Federal Budget Position	Monetary Policy	Results
National Planning Association (1974-85)	<p>1. Slight real cut in defense expenditures; nominal outlays rise 8% per year.</p> <p>2. Nondefense purchases rise at 4.2% real and 12% nominal rates, 1974-84.</p> <p>3. Transfers increase at 9.2% rate and grants-in-aid at 11.1% rate 1974-84.</p>	<p>1. Reduction in yield of personal income tax by 5% before 1979.</p> <p>2. Increased depreciation allowances by 8% or \$20 billion before 1979.</p>	Surplus of \$5 billion in 1979, \$1.2 billion in 1984.	Restrictive to accommodating monetary policies.	1. Funds sufficient to meet investment needs without serious strain.
Chase (1975-84)	<p>1. Social security cost-of-living adjustment cut by \$5 billion, 1977.</p> <p>2. No real increase in defense outlays, nominal growth rate 8%; nondefense growth 2.6% real, 10.6% nominal, 1975-84.</p>	<p>1. Social security tax base and rate from \$15,200 to \$19,500 and from 5.85% to 6.85%, 1977 adds \$20 billion revenue.</p> <p>2. Personal income tax rates cut 10% after 1978 recession (1975 Act not renewed beyond 1976).</p> <p>3. Investment credit raised to average effective rate = 10%, 1979.</p>	<p>Deficits 1976 \$63 billion, 1977 \$33 billion, 1978 \$47 billion, 1979-80 \$70 billion, 1981-85 declining from \$55 billion to \$34 billion.</p>	<p>1. Unprecedented tight monetary policy, especially in 1978.</p> <p>2. Monetary base growth rate = 7.5% 1975-84.</p>	<p>1. Recession in 1978 attributed to monetary policy.</p> <p>2. Investment curtailed by lack of internal funds, high borrowing costs.</p>

Summary of Assumptions and Results
in Studies of Capital Adequacy

Study	Federal Government Expenditures	Tax Policy	Federal Budget Position	Monetary Policy	Results
NYSE (1974-85)	Projects deficit only.	Assumes no change.	\$3.5 billion annual deficit (based on average deficit 1954-63).	No mention.	Savings level inadequate to meet investment demand by \$520 billion 1974-85.
Bureau of Economic Analysis (1975-80) (CEA interpretation)	Slower rate of growth of Federal expenditures during recovery.	Encourage investment.	Reduce Federal deficit to avoid preempting private investment.	Expansionary if Federal deficit is small.	No shortage of physical capacity.

Sources: Gary Fromm, Investment Requirements and Financing: 1975-1985.
Economic Report of the President, January 1976.