THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE
NATIONAL CONFERENCE OF STATE LEGISLATURES
WASHINGTON, D.C.
SEPTEMBER 19, 1979

Transcript of Question and Answer Period

QUESTION: You indicated that in your opinion the international stability of the dollar improved in the last year or two. How does that square away with the cost of gold that has almost doubled?

SECRETARY MILLER: Well, since I have been Secretary of the Treasury our monetary reserves have increased in value enormously as a result of that gold increase, so our dollar is well backed now by gold--and I say that as a joke. We have a dollar that in foreign exchange translates into other currencies--how many marks, how many francs, how many yen can be bought with a dollar. And those exchange rates on the average --while we are higher against the yen and we're slightly lower against the British Pound and about the same against the Swiss Franc and the Mark--on the average, on a trade weighted basis we're up 5-1/2 percent or so since last October 31. As you know we have some time ago in the early 1970's under the prior Administration had a demonitizing of gold and gold is no longer linked to currency. Gold is a commodity and gold trades like a commodity and it trades in the same way that wheat or oil or silver or other commodities trade. And right now its been on a speculative trend upward as people apparently around the world have had some concern about the rise of inflation and are buying a commodity as one of their alternate hedges. You've heard over the years about people buying paintings or art or antiques because they felt that that was a hedge against inflation. Apparently right now people are buying some gold. Of course, because its a very thin market, a very small market, it doesn't take much of that kind of buying to change it. Its price has gone up no more than silver, its price has gone up no more than oil but, the result of that is that, at least currently, there seems to be an awful lot of publicity. As far as our economic system, as far has our monetary system, it has no relation. The only relation it has, is if people lose confidence and therefore begin to pattern their spending and investment behavior on some general loss of confidence, that affects economies. But the price itself doesn't affect it. It is a unrelated incident and if you look at the indices you will find that silver I think, has actually gone up more than gold and, I think, oil has gone up more than gold and so forth.

QUESTION: Mr. Miller, I wonder if you could comment on the impact of the present tight money policy on the credit crunch for fuel oil (inaudible) ---

SECRETARY MILLER: I think I have to separate the general from the specific. Generally, when you have the oil price shock in the second quarter--which, if you will recall, was a sixty percent increase in world oil prices--as that ripples through the economy it will add two percent to our inflation this year. And its not the result of anything you did or I did. Its the result of a decision by those who control sources of oil to make that increase. That two percent goes into inflation, and as I mentioned before unless interest rates went up in sympathy with that then actually there would be a drop in interest rates which would actually have put us into negative interest rates where you people would be paying you to borrow their money. So it is natural that when there's a shock of inflation there will be a compensatory adjustment in interest rates. Now does that result in a credit crunch? It depends but we have a very flexible, very innovative, creative private market system and so far the idea of rationing demand by price of money has been working. But it has not denied money. We have been very careful in this process not to deny credit to major components of the economy. But it has made people more cautious because of the cost, and this is a natural restraining phenomenon that goes with this inflation rate. So in general, I would not expect and do not see conditions for a credit crunch. It is merely that it will cost more and decisions will be made only to use credit if its very worthy, if it has a yield, if it has a result thats worth doing. And uses of credit that are postponable or not adequately beneficial will probably be deferred and take the pressure off the markets. Now when you come to the run up in the oil price to a dealer, for example, his individual case can be a crunch indeed, because what he's had to finance in inventory suddenly doubles in price while the whole economy may have had to absorb a nine percent increase or something like that. He's had to absorb enormously. So in that case, obviously, the credit problem is a severe one. And in those cases I think we have to--and I'm not, obviously, the one directly involved--but there have been considerable efforts in the Energy Department to go back and work with oil companies and make sure that there was not a crunch placed on those who distribute the oil products. I don't know if this is what you had in mind, but obviously its a serious problem that has to be addressed. It is a micro problem compared to the macro problem, but terribly important and one we certainly will not neglect And you've noticed right away the idea of charging customers on a COD basis instead of thirty-day terms. These were all parts of the process of which the carrying of these inventories and financing of this imposed increase on energy on us as a Nation has shown up in many, many ways. And I believe that as it works through the system, we will find that the more normal credit system will begin to take hold.

QUESTION: When do you see us as coming out of the recession?

SECRETARY MILLER: In my view, and this is a personal view --it is consistent with the Administration forecast but I'll just kind of give it to you in a more specific way rather than generalities over a year. It appears that the recession we are in started in the second quarter. It started with some disruptions in the economy because of some strikes and then it was really triggered by the oil price increase and the shortage of oil which interrupted economic activity and brought the economy down to a 2.4 negative growth rate in real terms in the second quarter. And that started the recession. It would appear that because of technical reasons the third quarter won't be that weak. It may be around zero, but it will not be as weak as the second. The third quarter will do a little better than the second, not because real activity is much better, but because there's been an accumulation of inventory. There's been production that keeps the economy going but it hasn't been sold. So that causes the economy to look like its doing well, but if you don't sell your goods, as you know, that isn't going to survive. So one would expect that inventory adjustment to move into the fourth quarter and you'd expect some downturn in the fourth quarter. And then as this is digested, because of the fairly good balance in our economy, I would think that after about a year of this, that by the second quarter of 1980 we'd begin to come out from this adjustment. It appears unless there's a new shock of some sort, unless there's a miscalulation of some sort--which there always can be--and a psychological change, that the recession will be moderate and it will go for about four quarters and then it will be a normal self-healing process that will bring us out and we'll be back on to a positive growth. And the recession will have been caused by the transference abroad of considerable monies to pay for the oil price increase which has reduced our capacity to carry out our own economic progress. That's exactly how it happens--just like a tax being put on and taking money out of the economy. A tax has been put on in the way of an oil price increase and that has retarded our economy and we'll catch up with it and begin to grow again after we've digested that.

QUESTION: Mr. Secretary, the continuation of general revenue sharing, as you know, has been one of the prime priorities of the National Conference of States Legislatures and we know that your Department is responsible for administering that program and we're concerned that the Administration is proposing a cutback on the part of the revenue sharing that will go to the States and we would like to have the opportunity, Mr. Secretary to review any draft proposal when it is formulated so that we can comment and to make our views known to this Administration. Would you care to comment on this?

SECRETARY MILLER: Certainly be glad to do that. That program runs out and we've got to work with you and others to prepare for a continuation. And as you know, in the meantime the Administration has favored a modest program of targeted fiscal assistance through revenue sharing that we wouldn't mind having your help getting through the Congress because we do believe in this time of recession that there are needs to at least take those resources--which are not enormous, but important--and target them towards areas that are being hardest hit. That has nothing to do with continuation of general revenue sharing, but it does try to supplement that with some programs that are more targeted. But we'd be pleased to work with you and get your comments.

Any other questions? I thank you all very much. I hope you have a good and useful stay in Washington.