Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE 566-2041

FOR RELEASE UPON DELIVERY
EXPECTED AT 11:00 A.M.
WEDNESDAY, OCTOBER 17, 1979

TESTIMONY OF THE HONORABLE G. WILLIAM MILLER
SECRETARY OF THE TREASURY
BEFORE THE
JOINT ECONOMIC COMMITTEE

Mr. Chairman and Members of this distinguished Committee:

Thank you for this opportunity to appear before the whole Committee. The primary focus of this hearing is on Federal Reserve monetary policy, its contribution to the fight against inflation and to the maintenance of exchange market stability. Chairman Volcker will comment in detail on monetary policy. I will briefly outline the major elements of our comprehensive strategy to deal with inflation, in which monetary policy plays a critical role.

High and persistent inflation has become deeply embedded in our economic structure and is a clear and present danger to our national well-being. It reduces real incomes and values; it inhibits job creating investment and threatens our ability to provide employment opportunities; it impedes productivity; it breeds recession; and it bears most heavily on those least able to afford it.

Containment of inflation is fundamental to restoration of sound economic growth. It is our top priority.

The causes of inflation are many, and the war against inflation must be dealt with on a broad front. We have a comprehensive, integrated strategy. All economic policies are being directed toward a total war against inflation.

First, the Administration is pursuing a disciplined fiscal policy. We are determined to reverse the trend of expanding federal deficits and expanding federal claims on the national economy. Progress has been made, both in reducing the deficit and in reducing the relative role of federal expenditures in the economy. We intend to make further progress. The net result over time will be to reduce the demands of the federal government on the economy and to release substantial resources to the private sector.

M-129

Monetary policy represents the second major weapon in the attack on inflation. The objective is to reduce progressively the rate of growth of money and credit in order to starve out inflation. Again, progress has been made. But in recent months monetary growth has accelerated. Earlier this month, the Federal Reserve announced a series of forceful actions that should serve to contain growth in the monetary aggregates and dampen inflationary pressures. These steps were needed and appropriate.

Third, fiscal and monetary restraints are being supplemented by the voluntary program to moderate pay and price increases. Widespread cooperation during the first year brought smaller price and pay increases than would otherwise have been recorded. We are providing for greater participation by management and labor in establishing and applying pay standards during the second year, which should help avoid inequities that could otherwise develop over time. A broadly representative pay committee, to be chaired by John Dunlop, will have as its first task the development of pay standards for the period ahead. The Administration has developed a National Accord with labor leadership in support of the war against inflation, and providing for labor involvement in the pay-price program.

Fourth is energy. The ten-fold increase in world oil prices has been a principal contributor to the acceleration of inflation during this decade. Constraints on energy supply pose important questions about the prospects for real economic progress worldwide.

To win the war against inflation, it is essential that we reduce our dependence on imported oil and that we reduce our dependence on oil itself as a source of energy.

For 2-1/2 years, President Carter has sought support for a broad and comprehensive program to achieve these objectives. The diversity of individual circumstances and interests in our vast country has made it exceedingly difficult to hammer out a national energy program. Some important parts of the program have already been put into place. The President has recently taken two major steps--on decontrol of domestic crude prices and on limiting oil imports--under his own powers and his own initiative. Remaining critical elements are now under active review by the Congress.

The priorities for our energy program are clear. We must conserve. We must increase the development and use of conventional domestic energy sources. We must increase the use of renewable energy sources. And we must rigorously develop unconditional domestic energy sources. Fully in place, our national energy program is expected to cut oil imports by about 50 percent--4 to 5 million barrels per day--from present levels and by about 8 to 9 million barrels per day from levels that would have been reached without a comprehensive energy plan.

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These domestic policies--our efforts to wring out inflation, secure sufficient independence and restore efficiency and vitality to the U.S. economy--are also the policies needed to assure a strong external position, a sound and stable dollar. Indeed, maintenance of exchange market stability is essential in the fight against inflation and forms an important part of our comprehensive attack on inflation.

Despite the massive buildup in our oil import bill, the effort to strengthen the United States balance of payments has made significant progress. In 1978, the U.S. current account was in deficit by $14 billion. This year, even though the recent oil price increases are imposing a $16 billion rise in the cost of our imports, we anticipate a deficit of only a few billion dollars. Next year the U.S. current account will be in substantial surplus. This major positive shift in our balance of payments--together with our concerted attack on inflation--provide the fundamental basis for dollar strength and stability.

Action on the fundamentals is being supplemented forcefully with action to deal with unwarranted exchange market pressures. The Committee is familiar with the program announced last November 1, nearly a year ago. Since that time, the dollar has strengthened by over 6-1/2 percent against other currencies used in our trade, and by nearly 10 percent from the viewpoint of the oil exporting nations in relation to the other major currencies they use to purchase their imports.

We are not, of course, interested only in averages. We are concerned about the dollar's value in terms of major individual currencies. The dollar is now about 30 percent higher against the Japanese yen than it was a year ago, reflecting in part the dramatic--and welcome--moderation of the large Japanese balance of payments surplus. But the dollar has also been somewhat lower in relation to the German mark at times since mid-June, and this movement has attracted market interest and speculative pressure. We have therefore given this situation special attention in our exchange market operations, and have consulted closely with German officials at the highest levels to assure that our joint techniques and resources are adequate and effective.

We are determined to maintain a sound and stable dollar. This is in the interests of our own domestic economic stability, and consonant with our broader world interests and responsibilities. Our basic economic policies are headed in a direction that will ensure that result. Our external position is strengthening sharply. And cooperative arrangements with other major countries are in place to deal with unwarranted exchange market pressures.

In sum, we are pursuing a comprehensive strategy to deal with U.S. economic problems, internal and external. Inflation is central to all aspects of those problems. Our domestic and international objectives are closely related by the overriding importance of controlling the inflationary pressures affecting our economy.

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