

# NOMINATION OF G. WILLIAM MILLER

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**HEARING**  
**BEFORE THE**  
**COMMITTEE ON FINANCE**  
**UNITED STATES SENATE**  
**NINETY-SIXTH CONGRESS**  
**FIRST SESSION**  
**ON**  
**THE NOMINATION OF**  
**G. WILLIAM MILLER, TO BE SECRETARY OF THE TREASURY**

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**JULY 27, 1979**  
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Printed for the use of the Committee on Finance



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FRIDAY, JULY 27, 1979

U.S. SENATE,  
COMMITTEE ON FINANCE,  
Washington, D.C.

The committee met, at 10 a.m., pursuant to notice, in room 2221, Dirksen Senate Office Building, Hon. Russell B. Long (chairman of the committee) presiding.

Present: Senators Long, Talmadge, Ribicoff, Byrd, Nelson, Gravel, Bentsen, Matsunaga, Moynihan, Baucus, Boren, Bradley, Dole, Packwood, Roth, Danforth, and Chafee.

[The press release announcing this hearing follows:]

## FINANCE COMMITTEE SCHEDULES HEARING ON NOMINATION OF HON. G. WILLIAM MILLER TO BE SECRETARY OF THE TREASURY

The Honorable Russell B. Long (D., La.), Chairman of the Committee on Finance, announced today that the Committee has scheduled hearings on the nomination of the Honorable G. William Miller to be Secretary of the Treasury on Friday, July 27, beginning at 10:00 a.m. The hearing will be held in room 2221, Dirksen Senate Office Building.

*Written Testimony.*—Senator Long stated that the Committee would be pleased to receive written testimony from those persons or organizations who wish to submit statements on the nomination for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies by July 30, 1979, to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510.

The CHAIRMAN. We are pleased to have with us today Hon. G. William Miller who has been nominated to be the Secretary of the Treasury. Mr. Miller presently is serving as Chairman of the Board of Governors of the Federal Reserve System.

Do you have a statement to make, Mr. Miller?

[The bibliography of Mr. Miller follows:]

### G. WILLIAM MILLER

#### EMPLOYMENT

*March 1978 to Present.*—Chairman, Board of Governors of the Federal Reserve System.

*1968 to March 1978.*—Chief executive officer of Textron Inc., Providence, R.I. (diversified manufacturing company); President until 1974; Chairman from 1974.

*1956 to 1968.*—Vice President (1957) and President (1960) of Textron Inc.

*1952 to 1956.*—Law firm of Cravath, Swaine and Moore, New York City.

#### PROFESSIONAL AFFILIATIONS

At the time of joining the Board of governors, a Director of the Federal Reserve Bank of Boston and of several corporations. Member of the Business Council, the

Business Roundtable, and chairman of The Conference Board and the National Alliance of Business.

#### PUBLIC SERVICE

Chairman of the President's Committee on HIRE (1978); Chairman of the U.S. Industrial Payroll Savings Bond Committee (1977); Co-Chairman of the US-USSR Trade and Economic Council and the Polish-US Economic Council; member, Distribution Committee of the Rhode Island Foundation; member, Advisory Board of the Coalition of Northeastern Governors; Chairman of the Industry Advisory Council of the President's Committee on Equal Employment Opportunity (1963-65); member of the National Council on the Humanities (1966-67).

#### EDUCATION

U.S. Coast Guard Academy, 1945, BS; University of California School of Law, Berkeley, 1952, JD.

#### MILITARY SERVICE

U.S. Coast Guard Officer, 1945-49.

#### PERSONAL

Born March 9, 1925 in Sapulpa, Oklahoma; raised in Borger, Texas. Married to Ariadna Rogojarsky.

#### STATEMENT OF G. WILLIAM MILLER

Mr. MILLER. Mr. Chairman, I do not have a prepared statement. I thought if you would like I would just begin with a few brief informal remarks.

I am here rather unexpectedly: just a short time ago I was settled into my assignment as Chairman of the Federal Reserve Board when the President asked me if I would be willing, if he so decided, to take on the responsibility of Secretary of the Treasury. I did, of course, give it consideration and an affirmative response.

The reason I was willing to do so is because we do have critical economic issues facing our Nation, not only ones with which I have been involved at the Federal Reserve but ones which involve even broader aspects of economic policy. In that sense, I felt an obligation to respond to the call to serve in another capacity and to move from a very interesting and secure role into a different arena in which I shall certainly endeavor to do my best to make a contribution to overcoming the virulent inflation which is such a threat to our system and our society.

I want to assure the committee that, while this was not something I sought, I am prepared to do my best and will do my best to serve and, in doing so, look forward to working with this committee to the best of my ability.

The CHAIRMAN. Mr. Miller, I think you are qualified to hold the job. You have an admirable background in business. You have fine experience in many respects which I think would be an asset to your country. In my judgment you are trading in a better job than the one you are getting.

If I had my choice I would rather be over there as Chairman of the Federal Reserve where I could be independent and do what I felt like doing, rather than having a job where the President could fire me if he did not agree with me.

Is there any difference in pay? Not much, is there?

Mr. MILLER. Very little. There was a report in the press that I had been demoted. I do not want to characterize that as being

accurate or inaccurate. I have moved from a secure position to an insecure position.

The CHAIRMAN. My first question is this: Why would you want to step down? It seems to me you had a better job than the one the President is offering you now.

I do want to bring up one matter. There is a report of the Securities Exchange Commission involving the Textron Corp. This is a matter which came up when you were before the Banking Committee with regard to your confirmation to the position you now hold.

My understanding is there is nothing in that report which provides evidence there was any improper conduct on your part, although it would look as though there are some people in the Textron Corp. who did engage in some questionable activities.

I requested the Chairman of the Securities Exchange Commission to authorize us to release that report. We have it. Any committee member is privileged to read it. The SEC Chairman told me he knew you would be willing to have it released, but he said he would have to insist that we not release it because the rights of a lot of other individuals are involved.

I am aware that the New York Times this morning has a story about the SEC study. It appears to be based on a draft version prepared before the final report was written. I do not know where the Times got it from.

In any event I think I should make it clear to you and all members of the committee that it is simply not within my power to release that information. I think it would probably be to your advantage if we could release it, and perhaps at some future date we might manage to make available generally what the gist of it is.

As I understand it, the report suggests that officers in the Textron Corp. at a time when you were the chief executive officer did engage in some activities and in making some sales that were not proper. It does not at any point suggest you knew about it or you approved it.

I think it is fair to ask a question in view of the fact that these activities occurred in more than one country: What is your reaction that this matter could have happened in several countries without you knowing about it?

Mr. MILLER. Senator, it has been disturbing to me to find that there have been some questionable payments in my former company. One thing I am pleased about is that when I was nominated as Fed Chairman, and when the Senate confirmed me, I stated unequivocally that I was not involved in any way in such practices and had a strong policy against them and would disapprove any such practices by my associates.

Both the Securities Exchange Commission and the company undertook an extensive investigation which has gone on longer than any such inquiry I know—it has been 1 year and 4 months since I was sworn in. Over this whole period of time these parallel tracks of inquiry have gone through the company apparently from top to bottom.

As I understand from the Textron independent committee report, which has been released to the public, over 8 years there were employees involved in some questionable payments in connection

with overseas sales which totaled some \$800,000 in eight countries over 8 years.

I am disappointed that there could have been 1 dollar so expended because it violates my standards for the company. I also am reassured that this did not seem to be a case of either pervasive or large amounts of money; there were temptations to overseas people who may not have understood the standards that we apply in this country.

I cannot defend that action. I cannot condone it. I just want to reassure the committee that I am gratified that, after such extensive inquiry, I believe my statements before the Banking Committee have been verified.

The CHAIRMAN. Have you at any point declined to tell any committee or any agency of this Government what you know about this matter?

Mr. MILLER. I have cooperated completely. I have given depositions to the Securities Exchange Commission. I have given interviews to the Textron committee. I have answered written inquiries. I have been available to them at all times. They have received from me everything they requested.

The CHAIRMAN. Thank you very much, Mr. Miller.

I wanted the committee's pardon for asking the first questions. I want to settle this matter at least as far as I am concerned.

Senator Ribicoff was the first here this morning. I will call on him.

Senator RIBICOFF. Mr. Chairman, I am delighted to see Mr. Miller. I think he is exceptionally qualified.

I do want to take the opportunity to pay a special tribute to Secretary Blumenthal who I feel has performed magnificently in a very difficult job. The President is entitled to have his own Cabinet. I think there should be no reflection whatsoever upon the performance of his duty in office. I know he is a friend of yours and I am sure you will agree Secretary Blumenthal performed an outstanding service to this country.

Mr. MILLER. Senator Ribicoff, Secretary Blumenthal has done an outstanding job under very difficult circumstances and during a difficult period in our country. He and I are friends. We are arranging a very smooth transition. We are working daily together. We are consulting and working on the continuity of the organization at the Treasury.

I am sad to see Mike leave the Government. My responsibility is to do credit to him and to the President and to the nation by picking up the task and continuing the policies and doing my best to make them effective.

Senator RIBICOFF. Mr. Miller, the big issue before the Congress, the country and the President is the windfall profits tax. I do not know where I am coming down on that issue at the present time. I have some great concerns.

The concern of producing more energy in this country is not going to be solved by demagoguery either by the President of the United States or by Members of Congress.

What we are interested in as I understand is how do we have a program to produce more energy and the basic purpose is not to raise taxes but to produce more energy.

Is there not a difference in a windfall profit tax on first or second tier oil, the old oil, as against the production of additional oil? Can the present oil producers produce more oil if given the proper incentives as against a Government corporation?

Is there any sense of collecting additional taxes to go into Government corporation to produce more energy? Do you think it is in the realms of probability that if we gave production credits to all companies to produce any type of energy, synthetic or present supplies of oil or gas as against their windfall profit tax, it may not make more sense and produce more energy than the realm the President has chosen?

Mr. MILLER. Senator Ribicoff, I would like to look at the core objectives of this excise tax for a moment and perhaps put it in the context of the energy policy.

It is essential for the welfare of this Nation that we reduce our dependence upon petroleum as a source of energy and that we reduce our dependence upon imported petroleum. It seems to me that the dual pronged policies which are involved in these initiatives are: one, to create conditions for conservation, which includes the market mechanism of pricing the energy source to its market level in world competition; and, second, to try to make a transition to that change by creating conditions for allocating resources so as to improve the options, not only for production of oil and gas, but for sheltering the shock of the price change on those who can least afford it and making sure there is an adequate allocation of funds to develop sources other than petroleum.

I think there is room, in the process going on now in this committee, to accomplish your purpose and that is to make sure that in that balancing of interests we do not lose the incentives for those companies that are in being and have the capacity to move in this energy field; they need to be incentivized to expand their efforts to help us accomplish those primary purposes.

As to the details of how you are going to work this out, I am really not quite up to speed on these. I hope, as Treasury Secretary, that I can work with you and make sure we strike those balances. This way we can achieve the best national policy: Not only getting the conservation but also the production and the options on alternate sources, so that in the years to come we are not going to not find ourselves constantly in a box.

Senator RIBICOFF. My time is up and I am sure other members will follow this up. I think this is a very important issue.

The CHAIRMAN. Senator Dole?

Senator DOLE. Let me welcome Mr. Miller. I appreciate your coming by to see me in my office a couple of days ago.

Following along the question raised by Senator Long regarding Textron, I would just add the Republican staff and Republican members did not receive the report until 8:30 a.m., this morning. We would like to look at it. I have an obligation to do so. If there is anything we feel deserves further inquiry perhaps you could return.

Mr. MILLER. I would be pleased to, Senator. I assume you refer to the Securities Exchange Commission material. I have not seen it myself. I certainly think you should have time to digest it. I would be happy to furnish you any further information.



Senator DOLE. Are we in a recession now?

Mr. MILLER. Yes, we are, Senator.

Senator DOLE. Is that a different view than you held in May of this year when you indicated we might avoid a recession?

Mr. MILLER. Earlier this year, when I testified before the House and Senate Banking Committees in February on monetary policy, it was my view that our economic policies would be able to achieve a slowdown in the economy without triggering a recession.

It was important that we dampen the fires of demand so that we did not continue to feed the inflationary pressures. It was our objective to try to do that within a balanced economy, avoiding a recession; we would take a pause and consolidate and relieve the inflation without falling into a recession.

The oil price at that time had been announced by OPEC to increase 15 percent over the year; that is, by the end of the year there would have been a 15-percent increase. The actual effect over the year would have averaged to about a 10-percent increase in oil prices.

What actually happened, as you know, is a 50- or 60-percent increase, and that has changed the economy and added about 2 percent to our inflation this year, which is going to come out of real output. So we now have been triggered into a recession.

It seems to me it is essential that we continue our disciplined efforts and that we do not finance that price increase by OPEC by printing money because, if we do, it will set off another round of inflation. Unfortunately, we have to suffer a mild recession as the penalty for that adjustment in price.

I might add that the figures which came out yesterday on inflation demonstrate the impact of this increase. If you take out the energy component and the housing component—which is related to factors in the monetary markets—the underlying inflation rate for all other activity was 4.4 percent at an annual rate. You can see how dramatically this energy situation has impacted.

Senator DOLE. For the benefit of the average American whether they be poor, living on fixed incomes, or middle class, what is the message they should be hearing from you as the Treasury Secretary on how to combat inflation? How do we end it?

Mr. MILLER. The first line of defense for recession under these conditions, looking at the constraints upon us, is to win the war against inflation which I believe is essential for the well being of our country, it is essential that we win that war. Inflation has built up over 16 years and, because it is deeply embedded—and because it is now affected by external events, by oil price increases, by suppliers whom we have no leverage on—it is going to take us 5, 6, or 7 years to work this inflation down even with effective policies.

The first defense for a recession, then, is not to give up the fundamental course of action that has been spurred by an array of policies that are essential to win that war, but instead to look at targeted efforts to lessen the distress on individual groups of Americans who will be affected.

I think we have to have a humane view. I think we also have to realize that if we do not protect the whole Nation from this inflation disease, we shall all go into a disastrous downward spiral.

I think we must both keep our discipline and have the humanity to target in and relieve the distress on those who will be affected. We should take the opportunity, at this time, to use some of our moneys for jobs to help build skills for Americans.

In recent years, we have had an enormous influx of new workers because of demographic changes. Many of those people are unskilled; they do not have work experience. And that has been affecting our productivity. Ten years from now we will have a shortage of labor. This would be a great opportunity to use some of our resources to teach skills to those people which will last their lifetimes and allow them to march up the ladder toward personal economic independence.

Senator DOLE. Thank you.

Senator RIBICOFF. Senator Danforth?

Senator DANFORTH. Mr. Miller, one of the questions which has arisen with respect to all of the recent Cabinet changes especially at Treasury, is whether we are seeing a change of policy or merely a change of faces and a change of names on the doors.

I think it is fair to say that in the Congress there is a growing consensus that we should do something different with respect to economic policy. The Joint Economic Committee put out a lengthy report some months ago dealing with the so-called supply side of the economy, the fact that we have lagged behind in the growth of our gross national product, that we are witnessing an actual reduction in our productivity, that we are seeing a decline in investment in new plant equipment and a decline in investment of research and development, and that America is far behind its competitors around the world in personal savings.

We seem to be following policies today which encourage immediate consumption and which discourage savings and investment.

Over the past couple of years a number of alternatives have been suggested especially by members of this committee for changes in tax policy in order to encourage capital formation and to encourage investment and savings. Repeatedly the Treasury Department has appeared before the Finance Committee and opposed each and every suggestion on the theory that it would involve a short term revenue loss.

Looking at some of the statements you have made, it would appear your position is similar to what I think is a growing consensus on the part of the Congress.

On September 6, 1978, testifying before this committee you said:

Ideally, I would like to see us work over a number of years to the point where the depreciation life for machinery and equipment would be 5 years. Perhaps a 1-year writeoff could be allowed for mandated pollution control equipment but a 5-year writeoff for production equipment and a 10-year writeoff for structures . . . I hope we do not have a tax theory that will work only if we all live 50 more years. I think we need one that gives action now and I think accelerated depreciation is the type that does.

On October 3, 1978, speaking before the American Productivity Center, you said:

The Nation's tax policies have not offered adequate incentives for new capital investment and in particular depreciation allowances are not adequate to provide cash flow sufficient to encourage increased fixed investment in today's conditions nor to offset the substantial risks of obsolescence.

On January 30, 1979, you talked in a similar vein before the Joint Economic Committee and as recently as July 19th in San Francisco you said:

My own proposal has been that we endorse a simple formula, 1-5-10. Acceleration of the depreciation allowance offers the most direct and efficient way to boost investment. Our estimates indicate that 1-5-10 after 5 years could raise the investment share of output close to 1 percent higher than it would otherwise have been.

My question to you is now that you have been nominated as Secretary of Treasury, do you still hold the views which you have held consistently while you were Chairman of the Federal Reserve? Do you continue to hold the views that I think are in line with the views in the Congress and are you willing to fight for those positions and change the position of the Treasury Department with respect to economic policy?

Mr. MILLER. Senator Danforth, my independence at the Federal Reserve allowed me to speak my mind freely. I stated things as I saw them then and I still stand by those words. I am glad I was so consistent over that period of time.

I notice there is growing support for this concept. Last year, when I testified before this committee, I think there was even a vote in committee for some change in depreciation limits, which later was taken out.

What you are talking about is critically important for the Nation. In the first 20 years after World War II we had the highest rate of productivity gains of any major industrial nation, 3½ percent a year, which was the basis for annual increases in real incomes for all Americans. In the last 10 years we have had only 2 percent annual productivity gains; in the last 5 years, we have averaged only 1 percent a year.

There are many reasons for this lag. Part of it is in the experience of the labor force, but a great deal of it stems from our underinvestment. For some 15 years now, this Nation has, through some sort of unspoken concensus, favored consumption over investment. We cannot continue that decade after decade without ceasing to have the ability to produce or to have the lead in technology we must have if we are to be the first in the world as an industrial power and as a technological power.

I believe deeply everything I said, and I believe it is critical that we address this problem. My 1-5-10 formula is similar to the proposed 3-5-10; that is a variation of the fundamental concept.

I have always said—and, in fact, I said quite recently—that we were coming to a time where we would need to act upon this. I thought it useful to gain everyone's attention, to study and understand that this was critical this year so we could move as promptly as possible in this direction.

I will indeed pursue this course, as soon as I have an opportunity to suggest the timetable for such action that I think might be consistent with our objectives of fiscal discipline and winning the war against inflation.

The CHAIRMAN. Senator Byrd?

Senator BYRD. Thank you, Mr. Chairman.

Mr. Miller, you have moved as you noted earlier from a secure position to one that is somewhat insecure. I think that is a tribute

to you. The country is fortunate to have you in government. I welcome you here today and to your new position.

I am convinced that inflation is the greatest long term threat to the people of the United States. Do you agree?

Mr. MILLER. I certainly do. If we do not conquer inflation, I do not believe our economic system can continue to work effectively. I think our political system will be strained and will be subject to changes we cannot predict. It will affect the whole fabric of our nation.

We have never in the history of the United States had high levels of inflation for a sustained period in peacetime, except in this decade. It is a deadly disease which we must cure.

Senator BYRD. Do you regard deficit spending as a major cause of inflation?

Mr. MILLER. It has contributed very significantly to the problem. When we entered this decade, as I recall, the Federal debt—after nearly 200 years of history—had reached \$375 billion; it is now over \$800 billion. If we had the same debt level today we had in 1969, the saving on interest would put us in a surplus budget position. That is how much of a load we are carrying from the cumulative effect of constant deficit spending.

Senator BYRD. To me your position is very welcome. It dramatizes a great problem, one which has very little, if any, political sex appeal, and yet it affects every American citizen. As you mentioned the national debt has doubled in the last 8 years. In 1972 it was \$437 billion and as you indicated earlier, by the end of this fiscal year it will exceed \$900 billion.

What priority would you assign to balancing the Federal budget?

Mr. MILLER. Senator Byrd, last year when I came to Washington and was sworn in in March of 1978, the Congress had before it a financial plan that contemplated a \$60 billion deficit in this current fiscal year. Because of the alarm sounded about inflation, because of the recognition not just of the Congress but of the American people that this constant escalation of the deficit was an underlying cause of inflation, the Congress and the President deliberately and conscientiously decided to revise that program, to forego tax cuts, to impose spending limitations and to bring that proposed deficit down to where it will be less than \$30 billion.

I think Congress demonstrated enormous courage and enormous understanding of the problem in taking that action. Our job now is to continue on that track, within business cycle possibilities, to a balanced budget as soon as possible. I certainly do not know yet, because I have not had the opportunity to dig into details, but I am very hopeful that the President will be able to propose, for fiscal year 1981, a budget that is as near to being in balance as possible. That ought to be a high priority. That does not mean that in times of economic downturn we should ask Americans who are unable to do so to bear a burden of distress. We need to target in and help those people. I think we can do that without foregoing the commitment to Fiscal discipline which has been introduced by the Congress. I think that is fundamentally sound and I believe it is politically sexy to the American people because I think the American people are really alarmed about the growth of government, the

growth of deficits, and they are concerned that we as a government show we are going to get control of the situation.

Senator BYRD. As you know the law today mandates a balanced budget for fiscal year 1981 which is the budget the administration is now working on. Would you advocate that balanced budget mandate be repealed?

Mr. MILLER. I would not, Senator. I think you were a sponsor of that. I, of course, would not recommend its repeal.

Senator BYRD. Thank you.

Mr. MILLER. The direction is consistent with what I have been saying for the year and 4 months I have been in Washington. I have said the same thing to this committee before, and I believe it.

Senator BYRD. The fact is that Congress and the President will either have to comply with that law or will have to advocate and repeal that law. Otherwise Congress will be in violation of its own law.

Thank you, Mr. Miller.

The CHAIRMAN. Senator Roth?

Senator ROTH. Mr. Miller, I noticed this morning the Labor Secretary, Mr. Marshall, said that increased Federal spending is a much more effective way to combat unemployment than across the board tax cuts. Do you agree with his statement? Do you believe increased public sector spending to fight employment is better than freeing up the private sector?

Mr. MILLER. Senator Roth, I have not seen his statement. I am not sure of the context. I would say we already have built into our system certain public sector efforts to relieve unemployment during times of economic downturn.

I worked with Secretary Marshall on such matters when I was still in the private sector and when I was chairman of the National Alliance of Business.

Those available funds can be far more effective if directed not just toward putting people in sterile jobs and parking them there, but instead toward involving private employers and local communities in creating skills and employing those who are disadvantaged and chronically unemployed in private jobs rather than government jobs.

To the extent that we can use the available public funds to move more in that direction I think we can do a number of important things. The main thing is to use the countercyclical funds that cushion distress for a permanent improvement in employable skills, creating a much higher probability that those skills, if acquired in the private sector, will be used and retained in continuous employment.

Senator ROTH. It concerns me Secretary Marshall is advocating the old conventional wisdom that when you are in a recession the way to get out of it is through more government spending of one type or another.

Senator Byrd asked you the question about balancing the budget. I agree that a balanced budget is essential. What bothers me is this administration is trying to balance its budget on the backs of the American taxpayers.

This 13-percent increase in inflation living will mean something like \$20 to \$24 billion in additional taxes on the American people.

You said you would favor depreciation changes and other business tax cuts to create capital formation. What about the working people of America? Would you support some kind of across-the-board tax cut for the American people who are paying and will be paying the highest taxes in the history of peacetime America?

Mr. MILLER. Senator Roth, I would say that I believe priming the spending pumps in the kind of mild recession we have now would be unwise. I think we have to keep our discipline on the Government spending side very strongly.

In context, we all recall that in the last decade this Nation was expending some 17 percent to 19 percent of GNP through Federal expenditures. That has grown to almost 23 percent recently. Again, the new direction Congress is taking, which I think is extremely wise, steps to move progressively over the next few years to bring that down to 20 percent or less.

In the process of doing that, we relieve the burden of government on the taxpayers. In 4 or 5 years, as a result of holding down expenditures, we would have some \$60 to \$70 billion of fiscal dividend to turn back to the American people, where the cumulative decisions of individuals and businesses will be far more effective.

Having said that, I will say we should maintain the discipline needed to get this fundamental reform, to get this dividend, to return decisions to the American people. At this moment, I think an across-the-board tax cut, even though it would offset some of the burdens placed on the American people, would be unwise. It would unleash a new round of inflationary pressures.

My feeling, both for individuals and businesses, is that we should use targeted tax reductions that accomplish anti-inflation results. For businesses, the investment program we were just talking about would do that because of productivity gains, lower unit cost of output, lower energy per unit of output, better technology, more competitive prices for exports—all of those contribute to fighting inflation. For individuals, changes at the right time which relieve payroll taxes would help because they not only are a direct burden but also add costs that go into the prices of the things consumers buy.

Senator ROTH. If I understand you correctly what you are really saying is we ought to have tax cuts for business but you do not favor tax cuts at the present time for the working people of America.

Would you support a tax cut for working Americans today?

Mr. MILLER. Senator, I must correct myself. I do support tax relief for individuals.

Senator ROTH. Today?

Mr. MILLER. I do not believe today is the right time for any tax cut. This is the same Congress that has been telling me, and that I have been telling, that we must have the courage and the will and determination to stick with our policies and not run for cover the first time we see a little flurry.

We have had a second quarter of low economic output for all kinds of reasons, but unemployment is still quite steady.

I do not think we should prematurely start to make changes that merely add to the deficit and add to inflationary pressures and to excess demand which will get us back on the same treadmill.

Instead, I think we ought to time any action carefully. We ought to be prepared with our thinking and with an agreement to relieve taxes for individuals in the most direct and the most progressive way possible: Payroll tax relief would give the most benefit to Americans.

Senator ROTH. I happen to think we should do two things. One, we ought to restrain Federal spending. I think that is absolutely essential. Two, we must reduce taxes. Unfortunately by your own predictions that we are now in a recession and unemployment will go as high as 8 percent, that would mean another \$40 to \$50 billion in Federal spending.

This is the old conventional wisdom. You are going to try to balance the budget by letting taxes rise on the American people. You have Secretary Marshall who is talking about more spending. That is what has gotten us on this roller coaster. We are not taking any direct action to change the direction of this country.

I might say that I think there are many people on the Democratic side who, even though they are reluctant to speak out, think the way to really get the country moving again is to reduce taxes on the business side through depreciation changes and so forth and to reduce the marginal tax rates on the American people.

I would urge that if we really are going to change the direction of this country we give careful thought to try to take these long steps that will move this country upward and restrain spending so we can balance the budget, which we all want to do.

Thank you, Mr. Chairman.

Mr. MILLER. Senator Roth, in principle I concur. The whole purpose of the strategy of fiscal shift, I have outlined is that there will be a dividend that should go to the American people, but permanently and not as a palliative in times of stress. I think we have a fundamental common objective.

Senator TALMADGE. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Miller, I just want to say I think the country is tremendously fortunate in having your services formerly as Chairman of the Federal Reserve Board and now coming in as Secretary of the Treasury. As a Rhode Islander I just want to also say we are tremendously proud of you and the record you have achieved.

I would also like to point out to this committee in connection with the Textron situation, there has never been the slightest suggestion that Mr. Miller has in any way had knowledge of the activities which took place or that he in any way condoned them. There have been all kinds of investigations and the latest one being an internal investigation in his own company. In every single investigation Mr. Miller has been cleared completely. I think that is important for us to realize.

Mr. Miller, I was shocked to read in the New York Times the day before yesterday that the United States is now eighth in the world in per capita income. It is not that some rich oil chieftains have moved ahead of us. It is Switzerland as No. 1 and Kuwait as No. 2. Then comes Denmark, Belgium, West Germany, and all countries we are competitors with. Once upon a time we called ourselves the richest Nation in the world yet it turns out we are the eighth in per capita income.

It seems to me something has to be done. I urge upon you to follow through with all the vigor at your command with the subject you have spoken out on so often and that is capital investment and more rapid depreciation. Whether it is the 1-3-5 or 1-5-10, whatever it is, I personally think the bill Senator Nelson has sponsored and which I have joined in with and others have, the 3-5-10 seems to have the best chance of passage.

I would hope you would use your influence within the administration circles to press that. Somehow we have to reverse this situation. As you know and you have spoken out that the United States spends only 9 percent of its national income on capital investment. West Germany spends 15 percent. Japan spends 20 percent.

I would hope you would continue that.

I have one specific question. You have indicated concern about special treatment for pollution control equipment under your depreciation proposal. That seems to have been shuttled aside a bit. Could you speak about your concern in that? I think a very substantial part of capital investment now is for mandated pollution control equipment.

Mr. MILLER. Senator Chafee, I just want to reemphasize I concur in the importance to the good of the country of this capital investment area. It can return us to being No. 1 in technology, and in productive capacity, and thereby No. 1 in real per capita income.

If you look at our capital expenditures in business today, you need to net out replacement expenditures and environmental expenditures to find what we are doing to our real, underlying capacity to produce. It is even way below the 8 or 9 percent you mentioned, because so much of it has been replacement and environmental.

I was trying to devise an incentive to release resources into real productive capacity and real modernization and real technological gain. I think this is desirable.

I do not feel strongly that 1 year, as against 3 years or 5 years, is that critical, but I wanted to demonstrate that we have to focus on the net result of our capital investment and not just the gross figures.

We often think we are doing all right, but you have hit the nail on the head. How can we, year after year and decade after decade, spend substantially less of our gross national product on productive investment and then meet the needs of Americans in the future? We just cannot do it.

Senator CHAFEE. As Senator Danforth mentioned earlier, the stumbling block to these proposals of course has been the Treasury Department. We will welcome you back with your new hat in future days as we discuss these matters in greater detail.

Thank you.

Mr. MILLER. I hope the President is not tuned in today.

Senator CHAFEE. We hope you will encourage the President along these lines. Thank you. Thank you, Mr. Chairman.

Senator TALMADGE. Thank you. At the request of Senator Byrd, to be inserted in the record during his colloquy with Mr. Miller, a document entitled "The National Debt in the 20th Century." Without objection that will be inserted.



[The material referred to follows:]

*The National Debt in the Twentieth Century—Totals at the end of fiscal years*

[Rounded to the nearest billion dollars]

1900.....	1	1941.....	58
1901.....	1	1942.....	79
1902.....	1	1943.....	143
1903.....	1	1944.....	204
1904.....	1	1945.....	260
1905.....	1	1946.....	271
1906.....	1	1947.....	257
1907.....	1	1948.....	252
1908.....	1	1949.....	253
1909.....	1	1950.....	257
1910.....	1	1951.....	255
1911.....	1	1952.....	259
1912.....	1	1953.....	266
1913.....	1	1954.....	271
1914.....	1	1955.....	274
1915.....	1	1956.....	273
1916.....	1	1957.....	272
1917.....	3	1958.....	280
1918.....	12	1959.....	288
1919.....	25	1960.....	291
1920.....	24	1961.....	293
1921.....	24	1962.....	303
1922.....	23	1963.....	311
1923.....	22	1964.....	317
1924.....	21	1965.....	323
1925.....	21	1966.....	329
1926.....	20	1967.....	341
1927.....	19	1968.....	370
1928.....	18	1969.....	367
1929.....	17	1970.....	383
1930.....	16	1971.....	409
1931.....	17	1972.....	437
1932.....	19	1973.....	468
1933.....	23	1974.....	486
1934.....	27	1975.....	544
1935.....	29	1976.....	632
1936.....	34	1977.....	709
1937.....	36	1978.....	780
1938.....	37	1979*.....	839
1939.....	48	1980*.....	899
1940.....	51		

<sup>1</sup> Gross federal debt.

\* Estimated figures.

Source: Office of Management and Budget.

Senator TALMADGE. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Miller, I would like to follow up on the last point. It has been my experience in the short time I have been on this committee that Treasury takes every opportunity it can to increase revenues rather than spur investment and spur productivity. I wish you the very best luck in not necessarily trying to turn that around but at least in achieving a better balance with much more objectivity than the present policy the Treasury currently has.

In answer to an earlier question you agreed inflation is probably our greatest problem. You further stated energy and housing are the two greater components in determining our inflation problems.

It seems to me that inflation is probably going to be with us for quite a while because our energy problem is not going to go away, that is the cost of energy is going to continue to increase in all likelihood and certainly the cost of housing is probably not going to diminish unless we suffer another recession or something even more severe than a recession.

How in the world are we realistically going to see any reduction in the rate of inflation if the two major components are energy and housing?

Mr. MILLER. Senator Baucus, let me say on energy that while we are going to have increasing energy prices I do not think we are going to have a 60-percent increase in oil prices each year. I think we can counter that with an integrated strategy to reduce our dependence upon petroleum and our dependence on imports.

On housing, one technical comment. The way the CPI is constructed is in terms of a market basket approach. The cost to the consumer of housing is assumed to be the cost including the financing charge of a house purchased today. Actually, the housing costs to Americans include the costs of such houses as the one I bought in 1960 with a 5-percent mortgage. So, the CPI overstates the actual housing costs in the total economy.

Now that we are seeing a period of slack in the economy, I really think we will see quite a slow down in that housing component as far as inflation is concerned. I believe we will begin to see that drop off in about 2 months or so.

Fundamentally, to win the war against inflation we need an integrated economic strategy that we commit to as a Nation. We need to find an accord between the executive branch and the legislative branch for that strategy, and we need to pursue it with diligence and commitment for a number of years.

The components I would recommend to you would include discipline on the fiscal side; We must not give that up despite business cycle changes; we must stick to a commitment to get rid of this cascading debtload that will otherwise overwhelm us. Second, we do need to consider some sort of incomes policy. We have recently had the wage and price standards and there is a good deal of consultation going on now about incomes policies.

Senator BAUCUS. You are opposed to wage-price controls?

Mr. MILLER. I would oppose mandatory controls completely. They are inequitable; they will not work. What would mandatory controls do as to beef cycles or to OPEC prices or to things we have no control over? Such control would create a massive bureaucracy.

The voluntary system allows adjustment for peculiarities or problems of a particular industry.

There are consultations going on and there will be opportunities for public comment soon on what kind of accord we could have to bridge us over. After all, this wage and price moderation is not the only anti-inflation program, but it is a help until we can solve some of the other problems.

A third important component is that we must have a strong international economic policy and, particularly, we must be and will be committed to a sound and stable dollar. If we allow the dollar to be weak, that will introduce new inflation.

A fourth important element of that strategy is the determined commitment to reduce the energy component of inflation by reducing our dependence on imports. In 1973 we imported \$8.5 billion worth of oil; by the end of this year we will be running at an annual rate of about \$70 billion. We have to reverse that. We must have a strong energy program to do so.

A fifth important component has to be a disciplined monetary policy. A sixth important component has to be productivity and the investment initiatives we have been talking about. A seventh has to be regulatory reform to take off the burden that raises prices.

If we get ourselves working together there is just nothing we cannot do to solve our problems. But it will take 5 to 7 years.

Senator BAUCUS. You were commended by Senator Byrd for leaving a very secure position at the Federal Reserve for a somewhat less secure position at Treasury. In view of recent speculations that the White House staff is going to be determining more policy than Cabinet officials, my question is why did you leave the Fed for the Treasury?

Mr. MILLER. It hastens my return to the private sector.

Senator BAUCUS. Thank you.

Mr. MILLER. I do not believe the White House staff is going to be making policy decisions. That is a misunderstanding. My relation is with the President and the Office of the President. If he can organize his staff to support his activities more efficiently, I would welcome that, for I have worked with staff in many organizations. I think the policy decisions will be made by the President. I certainly will have complete access to him, both as Secretary of the Treasury and as Chairman of the Economic Policy Group. I have no fear and no expectation that there will be any effort by staff to do more than staff work for the President.

Senator BAUCUS. Thank you. I wish you the very best luck. Thank you, Mr. Chairman.

Senator TALMADGE. Mr. Miller, as I told you, I regret to see you leave as Chairman of the Federal Reserve Board. I am sure you will do an outstanding job as Secretary of the Treasury and I congratulate you, sir.

What do you foresee about our economy? Are we in a recession now?

Mr. MILLER. Yes, Senator, we have entered a recession. That recession was not necessary under the economic strategy we were pursuing; it was brought on by the oil price shock which came as an unexpected event. The structure of the recession is somewhat hard to assess at the moment there were some distortions. The second quarter, with an indicated 3.3 percent decline in real GNP, was influenced somewhat by: First, some interruptions in shipping, such as trucker strikes; and, second, it was affected very severely by the gasoline shortages that not only diverted people's spending from other activities but also discouraged them from carrying on normal activities because of the uncertainty as to the availability of gasoline.

My expectation is that we will not have as deep a decline in subsequent quarters. My expectation is we will have a mild recession. It will continue for two or three quarters—probably about three quarters—and we will begin to come out of it, I hope, in a

condition of strengthened economic vitality if we emphasize those courses of action we have been talking about this morning.

Senator TALMADGE. When do you think the recession started, some 3 or 4 months ago?

Mr. MILLER. It really started in the second quarter. A cyclical peak will be shown probably in March; we will see a little decline from that point on. I would say the first quarter was the peak of the cycle and the second quarter is the first downturn.

Senator TALMADGE. I realize economics is not an exact science but what is your best guess as to when it might be over?

Mr. MILLER. I think we will be recovering, certainly by the second quarter of next year; possibly in the first quarter we will be back into positive growth trends.

Senator TALMADGE. What do you foresee about interest rates?

Mr. MILLER. I am still Chairman of the Federal Reserve. As Chairman of the Federal Reserve I am not supposed to say anything about interest rates for fear that the markets will be unsettled. Perhaps the more politic thing for me to say is that the peak of interest rates in 1979 will happen this year, and I hope we will have conditions in money markets that will allow us to carry out our economic strategy.

I am at a disadvantage in talking about interest rates while I am at the Fed.

Senator TALMADGE. What do you foresee about the maximum level of unemployment during this recession?

Mr. MILLER. Personally, I can see the unemployment getting up to 7.5 percent next year. There are more pessimistic outlooks; there are more optimistic ones. I think the administration, at the moment, is looking to 6.9 percent in the fourth quarter of 1980. It might be a little higher.

We have a chance to counter that if we take the right steps. As you say this is not an exact science. The trouble about economic projections is that they are based upon the assumption that we make no intervention to change them. I think we should intervene to achieve the kind of strategic moves we have talked about, which could well change expectation and, therefore, change the commitment of business toward fixed investments that we need to prepare for the future.

Senator TALMADGE. How much will this recession reduce the estimated revenue of the Federal Government?

Mr. MILLER. I do not have a count on that. We have not made that calculation precisely at the Federal Reserve. There will be an effect and it will cause some increase in the fiscal year 1980 deficit. I am sorry, Senator, but I can get you an answer if you would like.

Senator TALMADGE. Increased prices for oil I presume will add substantially to the income of the oil companies. I have already noticed some earning reports which have been reported on television and in the financial publications.

Will the increased earnings of the oil companies be sufficient to offset the decline in revenue of other corporate income and personal income?

Mr. MILLER. We will probably have several effects from a recession. There will continue to be gains in income in some areas, and therefore increased tax revenues from such sources. But there will

be loss in income and reduction in tax revenues in other areas. The overall effect, on the income side, I believe will be a slight lowering of incomes and a slight lowering of revenues.

On the spending side, the fact is that we have in place unemployment payment programs and transfer payments programs that are triggered by higher unemployment levels. Those spending programs have been committed by Congress and, therefore, there will be some swelling in spending. Between the two, I think we can expect some increase in the deficit from what had been expected earlier.

Senator TALMADGE. Thank you, sir. Senator Packwood?

Senator PACKWOOD. I have no questions.

Senator TALMADGE. Senator Moynihan?

Senator MOYNIHAN. Thank you, Mr. Chairman.

May I add my welcome, Mr. Miller, as the other members of the committee have done. I would like an answer to the question Senator Baucus put to you in a way I think he probably hoped you would answer: "Why did you leave the Federal Reserve for the Treasury? Because the President asked you to do so, And you are a patriot and you did." It is not a fashionable word, but it is an attitude that is still in place and we are proud you accepted.

Mr. MILLER. Senator, I enlisted in the Government, and I thought that as long as I had enlisted I should serve where I am called to serve; and I will do so.

Senator MOYNIHAN. We are very happy about it.

I would like to inquire about a remark made by Senator Chafee and Senator Baucus. It is very much our impression that we have had the lowest rate of capital formation of any country in OECD for two decades.

When we talk about it, we have the feeling that Treasury witnesses are concerned with only reduction in revenues. They think we are out to deplete what is rightfully theirs—which is every penny they can gather through taxes. It is not very helpful. We would like to see some response from the Treasury.

Mr. MILLER. I will endeavor to get that response because it is something I believe in deeply. Let me give you an example of why I think we may have misunderstood the issue.

If we talk of accelerated depreciation—which is my favorite way of approaching this—we do not talk of a first year impact of the magnitude of an investment tax credit.

If we applied the formulas we have talked about this morning—3-5-10 or 1-5-10—the first year impact on revenues would be no greater than something like \$5 billion. At the same time, that activity creates jobs and incomes as offsetting factors. In the second year, you already have productivity gains and other advantages.

I think we have to become better analysts of the dynamics of the system.

Senator MOYNIHAN. That is very good to hear you say.

I would like to turn to a parochial but not necessarily narrow subject which is New York City. As you know, Secretary Blumenthal was a superbly capable Secretary and in no respect was he more faithful to his task than in helping New York out of the near catastrophe which was threatened with the last recession.

We are going into another recession or we are in one, as you have said, and we hope it will be light. For New York City it may be severe. I would hope we will have your support in this, but I assume you expect things to be more difficult now than they have been in the interval since the last downturn.

Mr. MILLER. Senator Moynihan, the conditions will be more difficult, but it is important that we continue to support the New York City program. It is important that we have revitalization of all of our cities for all kinds of reasons. There is every reason in the world for us to want to use cities more effectively in the future, including energy considerations.

We can no longer afford the luxury of the dispersals that are so costly. We must make our cities vital places where there are not just limited activities—transactional business—but where there is the vitality of the cultural and residential influence of a total community. We must continue the program.

New York City is certainly one of the greatest cities in the world. It is the key financial city of this country.

Senator MOYNIHAN. No, sir, not one of the greatest.

Mr. MILLER. The Greatest.

Innesbrook is also a very nice city.

Senator MOYNIHAN. As villages go, incomparable.

Mrs. Harris was here earlier this week and was questioned about the President's commitment on welfare reform, specifically, to assume the local costs of welfare which is essential to New York City's fiscal stability.

We asked her about those statements. She said President Carter has kept more promises than any other President in history. The New York Post in an editorial commented, "except this one."

I do not want to ask you about your position on this, but I would like to leave you with the thought that the President made a solid commitment to try to get the local costs of welfare assumed. An effort to keep this commitment has not been made.

I congratulate you on your new position.

Mr. MILLER. I appreciate your calling that to my attention.

Senator TALMADGE. Senator Boren?

Senator BOREN. Mr. Chairman, I want to add my word of welcome to those of other committee members and to say I join them in being very pleased about your appointment. We are sorry to see Secretary Blumenthal leave but if that has to be the case, I cannot think of anyone in the United States better qualified than you are to take on this responsibility.

I do not want you to be led into too many good comments about New York by Senator Moynihan because we are convinced you are particularly well qualified not because of your attitudes toward New York City but because your birthplace is Sapulpa, Okla. I want to make that clear to you.

Mr. MILLER. I have tried to live in as many States as possible to gather senatorial support.

Senator BOREN. You have spoken to the question of productivity and I was very glad to hear your answer to Senator Moynihan's question. You indicated that we cannot regard only the revenue impact or the short-term revenue impact of measures that would

accelerate depreciation and give other incentives to improve productivity and capital investment rates in this country.

As we look at the potential for a recession, we think of two ways in which traditionally the Government has responded to downturns in the economy—one by increasing spending in the public sector to try to reduce the level of unemployment and the other through tax reduction, stimulus to investment and perhaps more rapid depreciation, to stimulate the private sector.

In advising the President and in being a voice in the making of economic policy for this country, which of the two alternatives in terms of major thrust would you prefer to see this country take if we are faced with a choice between stimulating the private sector to try to bring us out of a recession or public spending to stimulate the economy?

Mr. MILLER. Senator Boren, I must preface my answer to that question by saying I think we must be cautious not to be premature in generating stimulus in an economy which has been recently overstimulated; we must not unleash inflationary pressures.

Recognizing this as being a hypothetical question, I think it is important that any responses be more targeted. I would prefer to keep discipline on spending and to target those kind of countercyclical programs that are already in place toward a more effective effort to achieve employment skills, to employment of the disadvantaged and unemployed in the private sector.

I would also favor changes that are targeted toward incentives for investment and toward helping individuals and that also are anti-inflationary. I have mentioned payroll taxes as going into prices and therefore into inflation. We give relief to individuals on the lower income scales by reducing payroll taxes. They benefit from an increase in nominal income and also a reduction of inflation; we help them twice.

I would favor trying to reform the tax system, but I still have a deep desire to keep reducing the relative role of the Federal Government until we get it to 20 percent or less of GNP from the too high 23 percent it recently has been.

Senator BOREN. Thank you very much. I appreciate your answer.

Senator TALMADGE. Senator Bradley?

Senator BRADLEY. Thank you, Mr. Chairman.

Mr. Miller, I would like to welcome you to the committee and join my colleagues in assuring you that we hope your tenure will be productive for the country and that you will be able to address the issues in a way that makes a real difference in our economy.

One of the things I am very concerned with is that next year we will have a national debate on the question of revenue sharing. As you know there are really three revenue sharing programs, countercyclical, a targeted and a general revenue sharing.

I wondered what were your general feelings about those three programs and how the program might be shaped in next year's legislation.

Mr. MILLER. I have not been privy to the administration strategy yet on this subject. I will give you a personal reaction.

Again, looking at our use of resources and trying to balance the economic impact throughout a nation of wide regional differences, I feel that we would be wise to use this money more toward targeted

efforts. I think there should be more of an emphasis on making these funds flow to where there is demonstrated need or hardship.

I would deemphasize the general revenue sharing and concentrate more on targeted efforts. That is just a personal reaction as to strategy.

Senator BRADLEY. Do you feel as well a standby countercyclical program is essential as we move into a recession?

Mr. MILLER. I think that is desirable. It is difficult and dangerous to react to recession with new programs; the tendency is to overact, to assume the recession is going to be very serious and react too vigorously.

If you have a built-in, automatic system, it tends to monitor itself better.

Senator BRADLEY. You would favor a significant standby countercyclical program as opposed to the normal fiscal distress measures such as public works programs which are authorized in the middle of the recession?

Mr. MILLER. Senator Bradley, I think they are more effective. The experience with a public works program is that it is cranked up during an economic downturn and by the time it becomes active the economy is already recovering. Suddenly, it adds to excess demand instead of helping during the period of downturn.

I think the more automatic fast reaction systems probably do work better to counter the business cycle.

Senator BRADLEY. Within the time of the next 1½ years, in the context of a political campaign and in the context of major international disruptions and energy supply and havoc in the international monetary markets, what do you see are the three most essential steps that this Government can take to restore the value of the dollar?

Mr. MILLER. We are absolutely committed to a sound dollar. We will not permit the dollar to deteriorate from its present level. There are two fundamental courses of action we will be pursuing. One is to be sure we work in the market to avoid a speculative run or any market reaction to the dollar that is not based upon real factors. We have to be sure we are protecting the market.

The other is that we are working and must work to be sure that the fundamentals are in order. That means we must take whatever steps are necessary to assure that we are showing the monetary posture and the fiscal posture and the commitment to win the war against inflation. We must demonstrate that we are bringing our current account deficit into order so we do not need to finance an outflow of funds.

We must work both on the stability of the market and the underlying fundamentals that are the ultimate source of strength for the dollar.

I might say that the current account deficit last year was \$14 billion, down slightly from the year before. It will certainly be less than half that this year and next year will be in balance. We have made some real progress in terms of the position of the dollar in terms of international accounts.

We now have to demonstrate as a nation, as we were mentioning a moment ago, that we have an integrated strategy to fight inflation, and that we have developed an accord between the President



and his administration and the Congress on that strategy, and that we are determined to pursue it diligently and consistently.

Senator BRADLEY. Could I take from your first comment that you would be in favor of expanding the support basket in the international market, decreasing over the size to maybe 25 or 50?

Mr. MILLER. Senator Bradley, last November 1 we put together a defense fund in three currencies, the mark, the yen, and the Swiss franc, totaling \$30 billion. Almost all of that is intact; it is still there. We are committed if necessary to expand it. We would not need any expansion at the moment. We would do so if we felt it essential.

Senator BRADLEY. You would do so?

Mr. MILLER. Yes, sir.

Senator BRADLEY. You are committed to an active interventionist policy in international monetary markets to maintain the value of the dollar?

Mr. MILLER. Backed by the fundamental changes that assure the long-term soundness of the dollar, yes, sir.

Senator TALMADGE. Senator Matsunaga?

Senator MATSUNAGA. Thank you, Mr. Chairman.

I, too, wish to join my colleagues in congratulating you, Mr. Miller, on your nomination as Secretary of the Treasury.

I take it that you willingly resigned from the chairmanship of the Board of Governors of the Federal Reserve to accept this new position; this shift would indicate that you may be a political animal; that is one who is willing to enter the arena where political battles prevail, while as Chairman of the Board you would be sitting up on a pedestal?

Mr. MILLER. I do not consider that at all to be the case. I had a long and interesting and very enjoyable career in business and only reluctantly agreed to take the assignment with the Federal Reserve. Certainly, in the shift, I have done what I think I have been called upon to do as a matter of public service and commitment to government service.

I have no intention of entering the world of politics other than to serve the Government in the role of Secretary of the Treasury; I have no other interest.

As I said, perhaps there is one advantage of my move, it probably will hasten my return to the private sector, where one can live in a certain quiet.

Senator MATSUNAGA. I'm afraid I didn't make myself clear; but be that as it may, following up on your response to a question put to you by Senator Boren I note that you have a connection with Oklahoma, Texas, and New York.

Mr. MILLER. Also California and Rhode Island.

Senator MATSUNAGA. What connection do you have with Hawaii to merit Hawaiian support?

Mr. MILLER. I love it.

After I was commissioned an officer in the Coast Guard the first ship I actually went out on was out of Pearl Harbor. I have fond memories of those days.

Senator MATSUNAGA. You have been to Hawaii; then you know Hawaii?

Mr. MILLER. Very well.

Senator MATSUNAGA. Then you will agree with my advice to my colleagues in the Senate who have not been to Hawaii that they had better get to Hawaii soon before it is too late, because once they've been there they will at least know what Heaven looks like, when they go the other way. [Laughter.]

I was somewhat saddened to see you leave the chairmanship of the Federal Reserve System, Mr. Miller, because I thought, having observed your votes and your statements while Chairman of the Board that perhaps we had someone there who had the right theory in combating inflation.

As you know various economists in recent years have advocated the raising of interest rates to combat inflation; yet higher interest rates really add to inflation.

Do you ascribe to the theory that in order to stem inflation we should raise interest rates?

Mr. MILLER. Senator Matsunaga, we have a dilemma in monetary policy. In order to control the growth of money and credit, we can ration it and maintain an intervention in the market system to restrain excess printing of money and the debasing of currency; or, we can let market factors work a different way.

What has happened in this decade is that we have had this high inflation, and we have had to learn some new lessons about monetary policy. Since 1966—when regulation Q establishing interest rate ceilings on savings was put into effect temporarily, but extended every year since—in every business cycle, money and credit have been controlled by closing down the availability of money to the housing industry. The result was to maintain lower interest rates by decimating one sector of the economy.

In 1972 in the fourth quarter, housing was running at the rate of 2.5 million starts a year. The window closed. Two years later, there were 900,000 starts, a 60-percent decline. Think of the hundreds of thousands of people laid off. Think of the businesses that did not put their investments into capacity to produce building materials. Think how we are suffering today because we have materials shortages.

That is not a good system. If we turn to the marketplace, interest rates are going to go up until there is a higher and better use for funds; funds are allocated through market action toward higher and better use. That means the marketplace will bid for funds for most economic use and that means interest rates in times of high inflation will be high.

If we go the other way we are headed for deep trouble. Of all our choices, using the market system more is going to be better for us and help us win the war against inflation.

Senator MATSUNAGA. My time is up. I would like your views on profit sharing later on.

Mr. MILLER. Yes.

Senator TALMADGE. Senator Bentsen?

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

I also want to welcome Chairman Miller. I am delighted a man of his ability and integrity is offering himself to this position.

Mr. Miller, I am sure you are not at this stage in your new career going to comment on timing for a tax cut but let me ask you this; with a \$50 billion or more fiscal drag on the economy, do you

not think a tax cut can be structured for the appropriate time which would not contribute to inflation?

Mr. MILLER. Senator Bentsen, I think we should be preparing for tax reductions at the right time. I think it is premature today. Reductions when made should be directed toward a dual purpose: relieving the tax burdens on Americans and American businesses, and at the same time creating anti-inflation responses in the economy.

The tax reductions we should be planning to put in place at the right time would be, first, to help individuals through lower payroll taxes. That would be my preference because it has the double effect not only of reducing the tax burden for individuals and particularly people of lower incomes, but also of reducing costs and therefore reducing prices and helping us reduce inflationary pressures.

On the business side, I have favored those kind of tax reductions that are directly targeted toward getting the capital investment which is essential if we are to achieve the productivity gains and the improvements in technology and in our competitive position in the world that are essential to our vitality. At the same time, we get lower unit costs of output and lower amounts of energy used, which will help us reduce inflation.

I think it is the combined effects we need.

Senator BENTSEN. Mr. Chairman, we are in agreement on that. Our disagreement is on timing. Some month or two ago I called for a tax cut to be effective January 1 in the sum of about \$20 billion with half of it going to the supply side and the other half to individuals.

Frankly, Congress and administrations have historically been too late in their tax cuts. That was certainly true in the 1974 recession. The tax cut finally was implemented in 1975 as we were coming out of the recession and really did not help and in fact it contributed to further problems.

If a tax cut is asked for in January of this year, we will not bring it about before probably April. If the economists and their timing happen to be right, again that will be late. I frankly would hope we give consideration to it this fall with implementation as of January 1.

Mr. Chairman, some of us on this committee have been working rather intensively and extensively trying to encourage the exports of the products of this country. One of the things Senator Danforth and I have worked on is the changing of the Webb-Pomerene Act so that small companies can truly work together in coalitions to try to penetrate some of the foreign markets. I would urge you take a look at that. It was what the act was originally designed for but there are certain questions about it which make it inoperable.

We have further proposed tax credits for R. & D. as well as special tax reserves for foreign bad debts.

If you would look at that one, we think these are things which will assist businessmen. I understand that you have experience in running a very large company. A great many innovations and new programs come from small companies in the way of inventions, new products, products really made and started by individuals in small companies.

I would urge you look at the work of a special task force of the Commerce Department which calls for a number of things in the way of capital formation and venture capital firms as far as stock options, rollover credits on stock in those limited applications.

It looks like they lifted a good part from my legislation, S. 1475, the Venture Capital Tax Reform Act, which I had proposed. I would appreciate you in your new capacity taking a look at it.

Mr. MILLER. I certainly shall. Those are all important points. We need to expand our exports substantially. Exports have been running about 7 percent of GNP; over the next few years we should endeavor to get that percentage up to about 10 percent.

In my former company we had a venture capital division. We helped sponsor many new companies. You are quite correct, many individual inventors and innovators need a sponsor to help them get going. I think from that experience I would agree that we can look at a series of possibilities to help facilitate enterprise development.

Senator TALMADGE. Are there any other questions of Chairman Miller? Senator Danforth?

Senator DANFORTH. Mr. Miller, my assumption is that savings is good. Do you share that?

Mr. MILLER. I do share that view. I am even going to be promoting U.S. savings bonds in my new job at Treasury. We need savings and investment.

Senator DANFORTH. Let me give you a hypothetical situation. Two individuals, a family with an income of \$20,000, one saves \$100 and the other borrows \$100. The one who saves the \$100, he will get paid back at the end of the year and he will get paid back in inflated dollars and he will have to pay a tax on the interest he receives. The other who borrows will pay back his loan in cheapened dollars and he will get a deduction on interest which he pays.

Just doing sort of a rough computation and I may not be entirely accurate on this but I figure a person who saves \$100 in this hypothetical situation loses \$10 in purchasing power and the person who borrows the \$100 makes about \$6 in purchasing power.

It is now profitable for an individual or for a family to borrow and to spend as opposed to putting the money aside in a nest egg and saving it. Part of this is a function of inflation or a large part is a part of inflation. The person who saves get taxed as a result of savings and the person who borrows deducts the interest he pays.

I wonder if this suggests to you that we are doing something wrong.

Mr. MILLER. It suggests to me the distortions one gets from this dreadful inflation which obviously creates the wrong incentives. Last year there was an incentive for consumers to engage in anticipatory buying, building up their debtload to historic levels. It is very bad for the Nation.

It shows you we must cure inflation. The Financial Reform Act which has been proposed to phase out the rate limits on savings, and at least allow the small saver to get market rates, would be one way to go. I certainly would not close my mind to other kinds of adjustment on the tax side.

Your point is well taken. If we are going to achieve our strategic aims, productivity and investment, we have to have more saving, investment and productivity and less consumption.

I think this is well worth examining.

Senator DANFORTH. Is it worth examining the possibility of tax policy as a way of encouraging research and development?

Mr. MILLER. I think it is worth examining. It may be that Senator Bentsen's thoughts about the stimulation of innovation and new enterprises may encourage that; a lot of new technology does come from this American process of allowing inventors and entrepreneurs to build enterprises from scratch. But they probably need some sort of help in their research efforts when they do not have income to offset research expenses in the startup phase.

Senator DANFORTH. My assumption is that there are probably a number of approaches to how to encourage capital investment. There are a number of approaches on how to encourage spending on R. & D. There are a number of approaches on how to encourage personal savings. Those are nuances which can be debated.

What we need to do is commit ourselves to the kinds of economic policies and the kinds of tax policies which will encourage capital investment and will encourage investment in research and development and which will encourage personal savings.

Right now the policies we are following are discouraging all of those things.

Mr. MILLER. I completely agree. If I can summarize again, I think we need to get together an integrated economic strategy that the administration and the Congress can agree on. I think the methodology then becomes easier to hammer out. We should not be doctrinaire about methodology if we have fundamental common objectives.

Senator DANFORTH. Would you be willing to try to work with Republicans in trying to devise answers to these commonly perceived problems?

Mr. MILLER. Yes, indeed. I would also work with Democrats.

Senator TALMADGE. Senator Dole?

Senator DOLE. With yesterday's announcement on the increase in the Consumer Price Index, I assume inflation is going to be a matter of great concern to you?

Assuming you are confirmed and sworn in, what immediate steps will you recommend as the new Secretary of Treasury to curb inflation? Wage and price controls? Credit controls?

Mr. MILLER. Senator Dole, I believe inflation has built up over 12 to 14 years. It has become deeply embedded. Inflation is not only cyclical—tending to go up and down with the business cycle—but also it is now structural. It is built in. Some of it is built in domestically; we are also subject to some now from external forces which we cannot control except by putting in place long-term policies to free us from the leverage that these producers have on us.

I would be deceiving you if I told you there was some short-term solution or some 6-month, instant, quick fix. I do not believe that. I believe if we do impetuous things we will regret it; we will just complicate matters.

Senator DOLE. Does that include wage and price controls?

Mr. MILLER. I would be absolutely opposed to those controls. I think what we must do is work on this strategy I am talking about, using the market system, which means you must have the patience and time to let those systems adjust.

The one area where I have felt we need bridging action is in some voluntary efforts in moderation of wages and prices. I think businesses and labor unions have cooperated in the past year and we have had less increases in both wages and prices than we would have had otherwise. It has not been perfect.

Senator DOLE. Do you think it is appropriate to withhold Federal contracts if a business does not comply with the so-called voluntary wage and price guidelines?

Mr. MILLER. I do not know to what degree those sanctions are really needed. They have not been used that I know of. My experience is that businesses cooperate because, if they feel everybody is cooperating in a program with flexibility, they see their self-interest served in trying to unwind this cycle of wages chasing prices and prices chasing wages.

I believe most labor unions see their self-interest served in breaking the cycle. I hope we will not have to use sanctions. I do not believe any have been used. I am not looking at sanctions.

I am looking at asking people to sit down and reason it out and see their self-interest in working for a common purpose. We need a little relief. When there is a 2-percent inflation this year because of the increased oil prices from OPEC, that is a terrible penalty. If we all go out and try to up our wages and salaries to cover it, then we just have 2 percent more inflation forever; we cannot get rid of it.

It is the tightening of the belt and the common austerity and linking of hands that is the important thing. The voluntary program has the merit of allowing everybody to know what the speed limit is. If we know the speed limit, we can at least drive close to it.

Senator DOLE. Shifting to the foreign tax credit, what are your views on the foreign tax credit? There have been regulations proposed by Treasury which are aimed primarily at oil companies. There is some difference of opinion on the issue.

I assume you may have used foreign tax credit yourself in Textron. Do you favor the foreign tax credit? Do you think it should be revised? Do you think we should single out one industry for special treatment or should it be across the board and applied to all corporations?

Mr. MILLER. As to foreign tax credits, it seems to me we should have a consistent attitude and that the purpose of such credits is to avoid double taxation of income. I would favor us continuing to avoid that double taxation. As to technical aspects of whether there is the right income or the right deduction, I am not an expert, but I think the fundamental approach is correct.

If we tax everything over and over the first thing you know there is nothing left at the end of the process for investment or productive activity. It just will not work.

We want American companies, for a number of reasons, to be active in the international area. American activities abroad started originally and in large measure to find and bring to this country resources that we needed, and particularly oil. That was one of the

first outreaches beyond the United States of American investment. It has been true in iron ore, bauxite, and other resources.

Later, as other countries began to industrialize, we found it necessary to have American presence around the world to be competitive in supplying our products with local content and local costs. We also found it necessary in order to be a worldwide competitor. We also found it necessary in order to share in the technological development of the world.

We should not put barriers in the way of useful investments or of repatriation of resultant earnings that will help us in this country. We are getting substantial repatriation of earnings now that help us tremendously on our current account deficit and we do not want to cut that down.

Senator TALMADGE. Senator Roth, did you seek recognition and did you, Senator Chafee?

Senator ROTH. Yes, Mr. Chairman.

Senator CHAFEE. Yes, Mr. Chairman.

Senator TALMADGE. Senator Roth is now recognized and Senator Chafee will follow.

Senator ROTH. Mr. Chairman, or rather, soon to be Mr. Secretary, you predicted on July 19 unemployment could go as high as 8.25 in 1980. The administration predicted last week unemployment rates at 6.8 percent in 1980. I understand today you said it could rise as high as 7.5. I wondered what happened which has changed your opinion on next year's unemployment?

Mr. MILLER. Senator Roth, in an earlier report to the House Banking Committee what I reported was the estimate of the Board of Governors, the consensus of the Board of Governors of the Federal Reserve on an unemployment rate between 6.75 percent and 8.25 percent in the fourth quarter of 1980.

This morning giving my personal opinion, I said it would likely 7.5 percent at that time.

Senator ROTH. In any event we will see a substantial increase in unemployment. I made some reference earlier to the Secretary of Labor, Mr. Marshall, who said tax cuts are a very expensive method of dealing with unemployment and direct expenditures to create jobs are much more effective.

I am concerned this old conventional wisdom of using public spending as a means of working our way out of recession has created the roller coaster effect of more inflation and more unemployment.

Secretary Marshall claims the President has not made up his mind. I wondered what your advice to the President would be and I say this seriously. I assume you will have direct communications on such problems with the President of the United States and not have to intercede with any intermediary.

What would be your advice?

Mr. MILLER. I am not in favor of opening the spending spigots to counter business cycles. The traditional ammunition used in that regard included undertaking all kinds of public works and other spending. Much of that was ineffective because by the time it could be organized and put into operation, we were already out of the business cycle and were adding the demand of public activity on

top of the recovery of the private sector—competing for resources and really adding to inflationary pressure.

We were out of sync. As Senator Bentsen said, we often get out of sync with our policies and we need to get back into sync.

Distinguish that, if you will, from the existing laws that provide that if there is unemployment we will shelter the distress to the unemployed. We do so by unemployment insurance or we do so by creating public service jobs.

My point is simply that those moneys have been decided upon by Congress, as I understand it, and what I would like to see happen is instead of us just putting people in jobs that have no mobility to them, no upward possibility, that we use the same funds during this recession to transfer skills to people, as much as possible in the private sector.

There are ways. There was a very effective program in the 1960's, on-the-job training. There were very effective ways of using the private sector during these periods to create incentives to prepare people.

Businesses know that next year they will need employees. They just cannot afford to hire them now.

I would like to see a shift of funds in the direction of skills training.

Senator ROTH. Mr. Chairman, what concerns me is every administration wants to spend the funds more effectively. I am talking about changing the direction. I agree with you we should have capital formation tax cuts. I think that is essential. I also agree with you that we should do something about the payroll taxes. For example, 2 years ago I suggested that if there was going to be a crude oil severance tax, it might be used to help social security. I think that is a possibility today if we are going to have large windfall profit tax. Maybe some of those funds could be used, or some other funds, to delay the scheduled increase in social security taxes.

Would you agree with that, Mr. Chairman?

Mr. MILLER. I think we could look at social security as consisting of various components. To the degree that social security is a retirement system, I think it should be funded and actuarially sound.

Senator ROTH. I agree.

Mr. MILLER. It is the kind of thing like the medical benefits—cost not related to putting money aside now for payments in 30 years—which we can fund through some other method.

Senator ROTH. The thing which bothers me is you oppose any general tax reduction. As a practical matter, taxes are going to reach as high as 23 percent of gross national product if we do not do something in the near future. It is a serious mistake as a means of promoting savings and investment and productivity if we do not take the tax drag off of the working people as well as those on the lower income levels.

I would hope that you would review that.

As Chairman, you suggested the Congress might delay the increase in minimum wage. Would you agree today that is appropriate or do you think we should let them go into effect as enacted? At that time you thought they were inflationary.



Mr. MILLER. I think those increases have added to our inflation. I opposed that last year. Congress was not able to change that; we missed the opportunity. I would suggest now we look at how to accomplish the same purpose.

We are talking about payroll taxes. One possibility to look at in the future—and I have not discussed this with the administration—is whether we could exempt from the social security tax for the first 6 months or the first year a new employee under age 21. That happens to have the same effect without crossing this other barrier which Congress did not feel they could cross.

I am looking at other innovative ways to accomplish the same purpose. I think we should all work together on that kind of idea. I have not tested that idea, but it is the kind of thing we should look at.

Senator ROTH. Like many people on the Hill, I am very concerned that we do not politicize the Internal Revenue. There have been instances and accusations in the past that the tax system has been used to reward or help out one's friends and attack one's enemy.

What steps will you take to make certain that in no way does politics become involved in the IRS?

Mr. MILLER. The IRS has to be completely isolated from politics. I believe that my record of fighting for the independence of the Federal Reserve is a good one. I believe I fought vigorously to maintain that independence. I did so without giving 1 inch in that regard. As Secretary of the Treasury I will fight just as hard to make sure the IRS stays free of improper influence.

From my personal point of view I cannot permit it to happen. You cannot run a fair and effective tax system that way.

Senator ROTH. I would ask, Mr. Chairman, that upon becoming Secretary of Treasury, if anyone in any way tries to influence or breach the independence of the IRS that you immediately report such action to the Finance Committee and the Ways and Means Committee.

Would you be willing to do so?

Mr. MILLER. I certainly would be willing. I want your help to avoid that sort of thing happening because we cannot afford it.

Senator ROTH. Thank you, Mr. Chairman.

Senator TALMADGE. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

Mr. Miller, as you know the President has announced he is going to impose a quota on imported oil. In other words he is going to hold the oil imports to the 1977 figures.

In 1975 a provision was included in the law which encourages the Secretary of the Treasury to hold public hearings before taking any major action to limit imports. I might say I favor limiting the imports. The consequences or potential consequences could be severe to certain regions of the country and particularly New England.

My specific question to you is, is your intention to hold public hearings on the oil import limitation program?

Mr. MILLER. Senator Chafee, I am not sure I am up to date on the technicalities, but as I understand it, the Department of Energy and the Department of Treasury are working on proposals

for the President, due in a few weeks, on how to implement this quota. Once the President has made a decision among the options, I believe that will be published for comment and inputs.

I believe that the responsibility would then be with the Department of Energy. If it is with the Treasury, so be it. I would tend to concur that the more public input the better, and I would personally favor us moving along toward public hearings as a way to do that.

If it is with the Department of Energy, I would certainly carry your message and encourage them to think along those lines.

Senator CHAFEE. Thank you.

A second question, you very eloquently have spoken this morning on your concerns about the oil imports, its effect upon our balance of payments and indeed on our inflation. It seems to me the most direct shortest and quickest way to curb oil imports is through greater conservation in the United States and yet conservation responds to price. There can be exhortations to drive 55 miles per hour and so forth but nothing encourages conservation like price.

Yet the President has not seen fit to remove the price controls on gasoline and the allocations which go with it, in other words to let what you have frequently referred to as the free market work.

Do you have any thoughts on what procedures should be followed and would you encourage the President to remove the price controls on gasoline and to remove the allocations?

Mr. MILLER. Senator Chafee, the President had three options earlier this year. One was to continue the controls on domestic crude and gasoline; the other was to remove them all at once; and another option, the one he chose, was to phase decontrol until October 1981.

My view if I had been asked, is that it would have been better to decontrol all at once. It would have been a one time shock; you would work out of it and be ahead of the game a little bit later on.

Senator CHAFEE. Excuse me, if I may interrupt. We are all under a time limit. I understand the oil situation. I am specifically addressing gasoline.

Mr. MILLER. Gasoline was included in that. I would say my preference would have been for immediate decontrol of the whole thing. I am saying the President chose a path that is a little different from mine but I think it is a reasonable one toward moving on this. I think he sought opinions and concensus and found there was not much support for immediate decontrol at that time. Maybe there is a different view today.

Senator CHAFEE. Setting aside the oil, he is maintaining the price controls on the gasoline specifically. It is my understanding there is no decontrol on the gasoline prices.

Mr. MILLER. Until the end of this process.

Senator CHAFEE. I do feel very strongly that the gasoline prices should have been lifted and the controls removed with the allocations. Admittedly there would be a wrench and prices would rise but I think swiftly would follow greater conservation and thus reduce our imports into the country.

Thank you, Mr. Chairman.

Senator TALMADGE. Senator Matsunaga?

Senator MATSUNAGA. Thank you, Mr. Chairman.

Since there's a vote being taken on the floor now, we must leave shortly to cast our vote. There may not be sufficient time for your response. However, one of my greatest concerns—I am sure you share this concern—is the drop in individual productivity in the American work force. I made a rather thorough study, seeking solutions to this grave problem and I have found that profit-sharing plans give workers the necessary encouragement to create a better, more productive work environment. Comparing different firms in the same type of business, I found that, the average productivity is anywhere from 15 to 20 percent greater in a firm with a profit-sharing plan than in a company not having a profit-sharing arrangement for its workers.

We need to provide tax incentives for more and more firms to employ profit-sharing plans. I feel this is one of the real solutions to the problem of decreasing rate of productivity.

I would like your views on this.

Mr. MILLER. I will give you the short, bottom line. The bottom line is I agree with you. In my former company, we had a rather extensive stock savings plan with tax incentives tied to it which meant that the employees of the company became substantial owners and had a big incentive to make the company work.

There are qualified plans for profit sharing and there are some that have tax deferral features which I think makes them helpful. I think you are on the right track. There are a large number of options, and administration and skill in designing and applying profit sharing must be used because profit sharing can also be a built in disincentive.

I agree with you. I support it. I think if there is more we can do to make them more effective, I would welcome suggestions.

Senator MATSUNAGA. Thank you very much.

Senator TALMADGE. The committee will stand in recess until 10 a.m. Tuesday morning when we will hear administration witnesses discuss their plans for spending the revenues from the crude oil windfall profit tax.

Thank you, Mr. Secretary.

[Whereupon, at 11:55 a.m., the committee was adjourned to reconvene Tuesday, July 31, 1979, at 10 a.m., at the call of the Chair.]

