U.S. Treasury Dept.

Press releases.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE September 1, 1974

SIMON ANNOUNCES HIGH LEVEL
U.S. - ISRAELI MEETINGS

Secretary of the Treasury William E. Simon announced today that three of the subcommittees operating under the Joint U.S. - Israel Committee for Investment and Trade will be held here in Washington September 4 through September 6.

"These meetings," Simon noted, "are an important step in our efforts to add a new dimension to the long-standing framework of economic relations between Israel and the U.S."

Meetings of the subcommittees on Capital Investment, Trade, and Raw Materials are being held to prepare for the inaugural meeting of the Joint Committee in Washington next November. The subcommittee on Research and Development will meet in Israel in the near future.

Simon noted that "in addition to exploring ways of facilitating foreign private investment in Israel, and moving to expand trade between Israel and the U.S., we will be examining means to help Israel meet its raw material needs."

The Joint Committee and the four working subcommittees are the result of discussions Simon held with Prime Minister Rabin and Finance Minister Rabinowitz during Simon's visit to Israel last July, and were announced in a Joint Statement issued in Israel July 18 at the end of the visit.

Treasury Secretary Simon and Israeli Finance Minister Yehoshua Rabinowitz are co-Chairman of the Joint Committee. Assistant Secretary of the Treasury Gerald L. Parsky is Executive Secretary of the Joint Committee and will have a key role in the working level meetings held in Washington.

Members of the U.S. delegation will include senior officials from the State and Treasury Departments as well as the Departments of Commerce and Agriculture, and the Office of the Special Representative for Trade Negotiations.

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FOR IMMEDIATE RELEASE September 3, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasu y De artment, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,400,000,000, or thereabouts, to be issued September 12, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated June 13, 1974, and to mature December 12, 1974 (CUSIP No. 912793 VC7), originally issued in the amount of $1,902,535,000, the additional and original bills to be freely interchangeable.

182-day bills for $1,800,000,000, or thereabouts, to be dated September 12, 1974, and to mature March 13, 1975 (CUSIP No. 912793 VZ6).

The bills will be issued for cash and in exchange for Treasury bills maturing September 12, 1974, outstanding in the amount of $4,404,980,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,907,835,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, September 9, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

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with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 12, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 12, 1974. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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FOR IMMEDIATE RELEASE September 4, 1974

ANTIDUMPING INVESTIGATION INITIATED ON CERTAIN NON-POWERED MECHANICS' TOOLS FROM JAPAN

Assistant Secretary of the Treasury, David R. Macdonald, announced today the initiation of an antidumping investigation on certain non-powered mechanics' tools from Japan.

The term "certain non-powered mechanics' tools" encompasses punches, chisels, hammers and sledges, vises, C-clamps, micrometers, vernier calipers, dial indicators, and battery service tools.

The announcement followed a summary investigation conducted by the U.S. Customs Service. Information received tends to indicate that the prices of the merchandise sold for exportation to the United States are less than the prices of such or similar merchandise sold in the home market.

Notice of this action will be published in the Federal Register of September 5, 1974.

During the period of July through December 1973, imports of certain non-powered mechanics' tools from Japan were valued at roughly $4 million.

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FOR IMMEDIATE RELEASE

September 6, 1974

MACDONALD TO PARTICIPATE IN INTERPOL MEETING

David R. Macdonald, Assistant Secretary (Enforcement, Operations, and Tariff Affairs) announced today that the United States will participate in a conference on international fraud to be held in Paris, September 9-12. Law enforcement officials from more than 40 countries are expected to take part in the meeting which is being sponsored by INTERPOL. The participants will analyze a variety of crimes in an effort to share their knowledge and develop more effective methods for preventing and detecting violations. The topics will include, among others, fraudulent banking, insurance, and securities operations. Representatives from the Securities and Exchange Commission and the Justice and Treasury Departments will attend.

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FOR IMMEDIATE RELEASE September 5, 1974

TREASURY ANNOUNCES TAPERED ROLLER BEARINGS FROM JAPAN ARE BEING SOLD AT LESS THAN FAIR VALUE

Assistant Secretary David R. Macdonald announced today that tapered roller bearings from Japan are being, or are likely to be, sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. The term "tapered roller bearings" means equally matched, conically shaped rollers, equally spaced by means of a cage, which roll easily in a tapered raceway formed by an outer ring or cup and an inner ring or cone. Tapered roller bearings are used primarily in transport equipment such as trucks, autos, and trailers. Notice of the determination will be published in the Federal Register of September 6, 1974.

The case will now be referred to the Tariff Commission for a determination as to whether an American industry is being, or is likely to be, injured. In the event of an affirmative determination, dumping duties will be assessed on all entries of tapered roller bearings from Japan which have not been appraised and on which dumping margins exist.

A notice of "Withholding of Appraisement" was issued on June 5, 1974 which stated there was reasonable cause to believe or suspect that there were sales at less than fair value. Pursuant to this notice, interested persons were afforded the opportunity to present oral and written views prior to the final determination in this case.

During the calendar year 1973, imports of tapered roller bearings from Japan were valued at approximately $16 million.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE September 5, 1974

MEMORANDUM FOR THE PRESS:

The Secretary of the Treasury, William E. Simon, and the Chairman of the Federal Reserve Board, Dr. Arthur F. Burns, will be meeting this weekend in Europe with their counterparts from a small number of other major countries.

The meeting was scheduled during Secretary Simon's talks with European officials during his visit to Europe in July and will be one of a continuing series of consultations among these officials to insure close cooperation in international financial affairs.

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FOR RELEASE AT 12 NOON, C.D.T.
FRIDAY, SEPTEMBER 6, 1974

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SCHOOL OF BUSINESS ADMINISTRATION
FIFTH BUSINESS CONDITIONS MANAGEMENT BRIEFING
SOUTHERN METHODIST UNIVERSITY
DALLAS, TEXAS
FRIDAY, SEPTEMBER 6,1974

FREE ENTERPRISE AND INFLATION

Today I want to discuss the threat that inflation poses for the American economic system of free enterprise. For almost two centuries, since this country was just a bare foothold in the wilderness, we have placed primary reliance on private decision making and open markets.

That approach has served us well. In material terms it has put this Nation in a position of unrivalled economic leadership in the world. Even more important, in my view, the system has helped us preserve our most cherished personal and political freedoms. Thus I believe that preservation of our free enterprise system should be a basic goal for all Americans.

Free enterprise should need no defense, but I think it does. Because it is more vulnerable today than it has been at any time since the Great Depression of the 1930s. At that time the problem was mass unemployment. Such economic extremes inevitably give rise to public discontent and calls for action. And in a democratic system, government must respond. But it must respond in a way that does not destroy what has served us so well.

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Four decades ago, when we were in the grips of depression, we determined that we would never again permit a recurrence of mass unemployment. That was a correct decision -- and it is as correct today as it was then.

But in the 1930s we also began to make some national decisions that were wrong. We started a trend of having the government do too much for people. That trend has been building momentum ever since, and in the past couple of decades it has carried too far.

In trying to do too much for people, the government has ended up by accomplishing too little. In trying to do too much for people, the government has taken on open-ended spending commitments that drain our resources and make the Federal budget an inflationary juggernaut.

The danger to our free enterprise system today is not the threat of mass unemployment, it is the threat of prolonged high inflation. I am concerned that we have not yet fully recognized the dimensions of this threat. For if the rate of inflation is not reduced to tolerable levels, the American public will demand direct action to hold down wages, prices, profits and interest rates. Such action would not end the inflation but, if accepted as an economic way of life, it could mean the erosion of our economic system -- the system that has provided the American people with more and better homes, automobiles, leisure, education and almost everything else worth having -- especially personal and economic freedom -- than any other nation on earth.

I am not talking about economic ideology. This is the 20th century and we can't go back to laissez-faire, or some other mythical system. Government has always had an important role to play in our economic life. But we have also had the good sense in this country to allow maximum scope for competition and individual initiative.

The Case For Private Decisions

The case for private decision making in a market system is based upon a very basic and fundamental fact: It works. The marketplace is an efficient system when it is allowed to operate with the necessary freedom. Indeed, the price

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system is not only the most effective method of determining what, and where, and how economic activity shall take place in a free society, it is the only feasible method.

If markets and prices were not used to provide the signals of our economic life, what would we use instead? We would use some governmental planning mechanism. But this is an enormously large and complex economy. Even the Washington bureaucracy would not be enough. Every industry, every commodity and every community would need its own contingent of planners. And although there might be plenty of volunteers at the start, they wouldn't be around for long. Their bewildering assignment would be to insure that the right commodity or service was available at the right time to the right person. It just couldn't be done.

No, if we want the system to work for us, rather than us working for the system, we cannot do better than competitive markets. Furthermore, once detailed economic planning is substituted for the market mechanism, most of our economic freedom is gone. And when economic freedom is gone, our chances of retaining political and other freedoms would be close to zero.

Nothing in this life is perfect and the market system is no exception. The market system does not automatically dispense social justice; nor does it meet all our collective needs. At times, extraordinary circumstances prevent the market from operating even reasonably well. The government may have to step in to deal with the situation. Government should also be ready to step out when conditions return to normal.

It is clear that we must take care of those who are in need and insure that all of our citizens are in a position to live out their lives in dignity. Those who cannot help themselves must be helped. Further, the economy must function within an adequate framework of law. And to operate properly, competition must be vigorous.

For these and other reasons, government has many important functions. It must enforce the laws. It must provide for the common defense. It must provide essential public services. It must protect the environment. It must enforce standards to protect the public health and welfare. It must insure that competitive conditions are maintained. Most important, it must protect individuals against the extremes of economic adversity.

It is also appropriate to recognize some recent accomplishments of the market approach. After August 1971 when we removed the artificial constraint of fixed exchange rates, the dollar moved to a more competitive level internationally. In doing so, it pulled our trade balance out of its chronic deficit (until the oil embargo struck). Similarly, the 180-degree change that was made in Federal agricultural policy in 1972 and 1973 -- ending acreage limitations and other restrictions on farm production -- permitted wider latitude for the normal price incentives to operate and encouraged maximum agricultural output. Food prices are high but they would have been higher still without this important change in national policy.

I think Harry Reasoner of CBS News got to the heart of this matter of the benefits of competition. He made this comment during the energy crisis, back when gasoline was scarce and if you could find any at all you had to wait in long lines to get it and you didn't get the extra services you used to always get automatically.

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As Harry Reasoner put it:

"The reason you got your windshield washed was that a man wanted to sell you gas. If he automatically sells all the gas he can get, where is your buyer's edge? They have lived with this problem for years in societies where there was never enough to go around. It's a new one for us.

With a dirty windshield in a station which is out of gas anyway; you are down to depending on saintliness. I am not knocking saintliness, but over the centuries, in the ordinary day to day rut, competition cleans more windshields."

I think that sums up very nicely the advantages of the American system: competition does clean more windshields.

The Rise of Big Government

Let me turn now to the question of whether our economic system can coexist with big government. It is an unfortunate fact that government is an increasingly important factor in our day-to-day economic and financial life. Whether or not the economy can thrive depends on whether government can carry on its essential functions while keeping its spending under some kind of control. I will tell you quite frankly that I think Federal expenditures are growing much too rapidly and that they must be restrained.

It took us 185 years to get to the $100 billion mark in Federal expenditures, only nine more years to reach the $200 billion mark, and just four more years to get to $300 billion. And this doesn't even take account of all the extensions of Federal credit through various guarantees and the like which caused total Federal and Federally-assisted borrowings to account for almost two-thirds of total funds raised in the capital markets in fiscal year 1973.

In 13 of the past 14 years the Federal budget has been in deficit. The fiscal results of the first half of that period were dominated by the Vietnam buildup which culminated in a $25 billion budget deficit in Fiscal Year 1968 -- this at a time when the economy was already operating above full employment. The second half of the period has been largely free from the need for increased defense expenditures. Other Federal expenditures have, however, taken up the gap.

In the 1974 Fiscal Year just completed, defense expenditures were $78 billion, roughly the same as they were in fiscal 1968. In marked contrast, all other categories of Federal expenditures rose by about $90 billion, roughly $60 billion of the increase was in social security, veterans benefits and welfare programs. Another $15 billion of the rise went for health, education, and manpower. Most of the remaining increase was accounted for by higher interest payments on the national debt. All of this would probably be termed "uncontrollable" in the budgetary sense of the term. Indeed, it concerns me that by the time all the uncontrollable items are listed, each year's budget is virtually immune to cuts. Our budgets are uncontrollable in every sense of the word if we accept the fallacious assumption that once a law is enacted it can never be changed. I do not accept that.

In our modern economy, there are strong pressures for Government to play a major role in the social welfare area. The public recognizes the desirability of establishing a minimum floor of economic well-being for the less fortunate. We have always been a compassionate people. But in recent years we have used the Federal budget as an instrument of social reform without adequate reckoning of the cost.

I want to make my position clear on this matter. I favor large expenditures for social purposes. Although I think we should insist upon maximum scope for self-help and individual initiative, we must help those of our citizens who need and deserve help. If that requires even larger social welfare programs, and it may, I favor that also. My only point is that we must pay for those programs. If we refuse to do so, then the budget will be virtually out of control, inflation will be rampant, and the very people we tried to assist will be the ones most penalized.

High and rising Federal expenditures inevitably mean high and rising taxation. Either we get higher taxes directly, or the resulting budget deficits produce inflation which is the most insidious and indiscriminate tax of all. And both inflation and taxation can have, and no doubt have had in this country, an adverse effect on incentives to save and to invest. Without an adequate volume of saving and investment, we would not be able to put into use the

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scientific advances and new technology that are coming off the drawing board, and we would not be able to expand and improve our productive and distribution systems. As a result, National economic growth would be stunted and there would not be a larger pie to slice up each year.

Without attempting to turn back the clock, we need to examine how far the essential incentives of the free enterprise system have been eroded in the past few decades. I believe that the private enterprise system is capable of strong future performance. However, there have been some inroads into the vitality of the system and we must shift our emphasis from consumption to savings and investment. We must get back to the fundamentals and emphasize growth in productivity.

The Inflation Threat

A major threat to free enterprise and its ability to survive is a big government that cannot balance its books. The Federal Government has a monopoly of the monetary and fiscal powers. Abuse of these will ruin any system. History is littered with the wreckage of political systems that failed to cope with inflation.

A strong government can control inflation. The question is whether it will. It seems to me that two roads are open. One road leads us to an emphasis on restraint and maximum reliance on competition and productivity. That is the road to travel in my opinion. It can take us back to reasonable price stability at high levels of employment. But we must recognize that there have been years of fiscal and monetary abuse, which cannot be undone overnight. Thus, fiscal and monetary restraint must be exercised patiently and consistently for a sustained period of time.

The other road leads back to controls. Controls appeal to our desire for action, to our wish for a quick and easy solution. But controls do nothing to remove the causes of inflation, and they exact a heavy cost in the form of distortions of the productive structure. Wages and profits take turns being squeezed. As things get worse, the bureaucratic temptation is always to clamp the controls on a little tighter. Controls are the enemy of the market and could kill the economic system as we know it.

The process of curbing inflation will not be costless. This is a fact we all must fully understand. Federal spending programs will have to be stretched out. The pleasures of a tax cut will have to be foregone. Credit will not be available easily or cheaply. Growth in business sales and profits will not be as ebullient. And for a time unemployment will have to remain slightly higher than we would like.

These costs of the anti-inflation effort must be offset as best we can -- through improved unemployment insurance, and other programs. However, not all of the costs can be offset. Yet we must bear them, because the costs of continued inflation are far greater.

If we lose this battle against inflation, or retreat into a maze of controls, we lose our chance for a healthy, growing economy that can sustain full employment. I believe Americans sense this and are ready for a concerted, and lengthy, effort to return to a more stable economic environment.

Conclusion

It is clear to me which policies we should follow. We must remove the causes of inflation, not just treat the results. I am confident that with the support of the American people inflation can and will be ended. The traditional American economic system must be defended from this grave threat. The free enterprise system is worth defending. Its advantages have been stated eloquently.

I close my own remarks with these words, which are probably not those of Abraham Lincoln, although they have sometimes been attributed to him.

> "You cannot bring about prosperity by discouraging thrift. You cannot strengthen the weak by weakening the strong. You cannot help the wage earner by pulling down the wage payer. You cannot further the brotherhood of man by encouraging class hatred. You cannot help the poor by destroying the rich. You cannot keep out of trouble by spending more than you earn. You cannot build character and courage by taking away man's initiative and independence. You cannot help men permanently by doing for them what they could and should do for themselves."

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Department of the TREASURY NEWS

SHINGTON, D.C. 20220 TELEPHONE W04-2041

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MEMORANDUM FOR THE PRESS September 6, 1974

FINANCIAL CONFERENCE ON INFLATION

Attached is a letter Secretary of the Treasury William E. Simon has sent to members of the banking and finance community invited to attend the "Financial Conference on Inflation" September 20, 1974. Also attached is the list of delegates who have been invited and the preliminary agenda. The U.S. Senate delegates will be announced later.

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TEXT OF THE LETTER
SECRETARY OF THE TREASURY
WILLIAM E. SIMON
HAS SENT TO PARTICIPANTS IN THE
"FINANCIAL CONFERENCE ON INFLATION"
BEING HELD
IN WASHINGTON, SEPTEMBER 20, 1974

Dear:

I am pleased to learn that you have accepted the President's invitation to the Conference on Inflation on September 27 and 28 and the Financial Conference on Inflation on September 20.

At the banking and finance meeting, we will concentrate on a broad range of issues relating to inflation. We are anxious to have your thinking on this, the nation's number one problem--on its causes, its effects, and its cures. Special emphasis will be devoted to fiscal and monetary policy, the capital markets, the international situation, and financial institutions.

Attached is a preliminary agenda which outlines the format of the meeting and the major subjects that will be covered. We are preparing a compendium of selected papers on each of these topics. We invite you to submit a one-page summary of your views on any of the agenda items for inclusion in this document. We need to receive these summaries by September 13, so that we can distribute the compendium to all participants in advance of the meeting.

An outstanding group of congressional leaders, government officials, economists, and business and financial leaders have accepted our invitation. I am confident that we in government will benefit from your advice and discussions, and I am going to conduct the meeting with that goal in mind.

The meeting on the 20th will be held at the Statler-Hilton beginning at 9:00 a.m. I would also like to invite you to a reception and dinner for the participants on the evening of the 19th. This dinner will be held in the Executive Dining Room at the Federal Deposit Insurance Corporation, 550 Seventeenth Street, N.W., at 7:00 p.m. We will keep you advised of any other details of the Conference, and I want to say again how much I appreciate your acceptance.

Sincerely,

/S/

William E. Simon

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MEMBERS OF BANKING AND
FINANCE COMMUNITY
INVITED TO ATTEND
THE FINANCIAL CONFERENCE ON INFLATION
WASHINGTON, D.C.
SEPTEMBER 20, 1974

HELD AT THE REQUEST OF
PRESIDENT GERALD R. FORD
AND THE CONGRESS OF THE UNITED STATES

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TREASURY DEPARTMENT

The Honorable William E. Simon
Secretary of the Treasury
U.S. Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

The Honorable Stephen S. Gardner
Deputy Secretary
U.S. Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

The Honorable Jack F. Bennett
Under Secretary for Monetary Affairs
U.S. Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

The Honorable Edgar R. Fiedler
Assistant Secretary for Economic Policy
U.S. Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

U.S. HOUSE OF REPRESENTATIVES

The Honorable Barber B. Conable, Jr.
U.S. House of Representatives
Rayburn House Office Building
Room 2429
Washington, D.C. 20515

The Honorable Wright Patman
U.S. House of Representatives
Rayburn House Office Building
Room 2328
Washington, D.C. 20515

The Honorable Henry S. Reuss
U.S. House of Representatives
Rayburn House Office Building
Room 2186
Washington, D.C. 20515

U.S. HOUSE OF REPRESENTATIVES (cont'd)

The Honorable J. William Stanton
U.S. House of Representatives
Rayburn House Office Building
Room 2448
Washington, D.C. 20515

FEDERAL RESERVE SYSTEM

The Honorable Arthur F. Burns
Chairman
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Mr. Bruce K. MacLaury
President
Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55480

Mr. J. Charles Partee
Managing Director, Office of Research
and Economic Policy
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

OTHER REGULATORY AUTHORITIES

Mr. Thomas R. Bomar
Chairman Federal Home Loan Bank Board
320 First Street, N.W.
Washington, D.C. 20552

Mr. Ray Garrett, Jr.
Chairman
Securities and Exchange Commission
500 North Capitol Street
Washington, D.C. 20549

Mr. Herman Nickerson, Jr.
Administrator
National Credit Union Administration
2025 M Street, N.W.
Washington, D.C. 20456

Mr. James E. Smith
Comptroller of the Currency
Department of the Treasury
Washington, D.C. 20219

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Mr. Frank Wille
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

COMMERCIAL BANKING

Mr. Richard P. Cooley
President and Chief Executive Officer
Wells Fargo Bank, N.A.
Post Office Box 44000
San Francisco, California 94144

Mr. Gaylord Freeman
Chairman of the Board
First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Mr. David B. Harper
President
First Independence National Bank
234 State Street
Detroit, Michigan 48226

Mr. Milton J. Hayes
Chairman
Government Fiscal Policy Committee
Independent Bankers Association
1725 DeSales Street, N.W.
Washington, D.C. 20036

Mr. Richard D. Hill
Chairman of the Board
Frist National Bank of Boston
100 Federal Street
Boston, Massachusetts 02110

Mr. Rex J. Morthland
President, American Bankers Association
The Peoples Bank and Trust Company
of Selma
Post Office Box 799
Selma, Alabama 36701

Mr. David Rockefeller
Chairman
Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza
New York, New York 10015

Mr. Robert H. Stewart, III
Chairman of the Board
First National Bank of Dallas
Post Office Box 6031
Dallas, Texas 75283

Mr. Thomas I. Storrs
Chairman of the Executive Committee
North Carolina National Bank
Post Office Box 120
Charlotte, North Carolina 28255

Dr. Charles J. Zwick
President
Southeast Banking Corporation
100 South Biscayne Boulevard
Miami, Florida 33131

CONSUMER REPRESENTATIVES

Dr. Gwen Bymers
Professor and Chairman of the
Department of Consumer Economics
Cornell University
Ithaca, New York 14850

Ms. Sylvia Porter
Syndicated Financial Columnist
30 East 42nd Street
New York, New York 10017

ECONOMISTS

Dr. George Leland Bach
Professor of Economics and Public Policy
Stanford University
Stanford, California 94305

Dr. Robert G. Dederick
Senior Vice President and Economist
Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60690

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ECONOMISTS (cont'd)

Dr. Otto Eckstein
Department of Economics
Harvard University
Cambridge, Massachusetts 02138

Dr. Milton Friedman
Department of Economics
University of Chicago
1126 East 59th Street
Chicago, Illinois 60637

Dr. Tilford C. Gaines
Senior Vice President and Economist
Manufacturers Hanover Trust
350 Park Avenue
New York, New York 10022

Dr. Paul W. McCracken
Senior Consultant
U.S. Department of the Treasury
Office of the Secretary
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Dr. Arthur M. Okun
Senior Fellow
The Brookings Institution
1775 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Dr. Raymond J. Saulnier
Department of Economics
Barnard College
Columbia University
New York, New York 10027

ECONOMISTS (cont'd)

The Honorable George P. Shultz
Executive Vice President
Bechtel Corporation
50 Beale Street
San Francisco, California 94119

The Honorable Charls E. Walker
President
Charls E. Walker Associates
1730 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

Dr. Marina Whitman
University of Pittsburgh
Department of Economics
Pittsburgh, Pennsylvania 15260

INSURANCE

Mr. Archie R. Boe
Chairman of the Board
Allstate Insurance Co.
Allstate Plaza
Northbrook, Illinois 60062

Mr. Donald MacNaughton
Chairman of the Board
Prudential Insurance Company of America
Prudential Plaza
Newark, New Jersey 07101

Mr. W.J. Kennedy, III
President
North Carolina Mutual Life Insurance Co.
P.O. Box 201
Durham, North Carolina 27702

Mr. Ralph S. Saul
Vice Chairman of INA Corporation
Insurance Company of North America
1600 Arch Street
Philadelphia, Pennsylvania 19101

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INVESTMENT COMMUNITY

Mr. Robert H.B. Baldwin
President
Morgan Stanley and Company
1251 Avenue of the Americas
New York, New York 10020

Mr. Robert H. Bethke
President of the Executive Committee
Discount Corporation of New York
58 Pine Street
New York, New York 10005

Mr. William H. Franklin
Chairman
Caterpillar Tractor
100 N.E. Adams Street
Peoria, Illinois 61629

Mr. J. Henning Hilliard
Chairman
J.J.B. Hilliard, W.L. Lyons, Inc.
545 South Third Street
Louisville, Kentucky 40202

Mr. Paul R. Judy
Chairman
A.G. Becker
2 First National Plaza
Chicago, Illinois 60670

Mr. Harvey E. Kapnick, Jr.
Chairman and Chief Executive Officer
Arthur Anderson and Company
69 Washington Street
Chicago, Illinois 60602

Mr. Ralph F. Leach
Chairman of the Executive Committee
Morgan Guaranty Trust Company of New York
23 Wall Street
New York, New York 10015

Mr. Gustav L. Levy
Partner
Goldman, Sachs and Company
55 Broad Street
New York, New York 10004

INVESTMENT COMMUNITY (cont'd)

Mr. James J. Needham
Chairman
The New York Stock Exchange, Inc.
11 Wall Street
New York, New York 10005

Mr. Donald T. Regan
Chairman of the Board
Merrill, Lynch, Pierce, Fenner and
Smith, Inc.
One Liberty Plaza
165 Broadway
New York, New York 10008

Mr. Robert V. Roosa
Partner
Brown Brothers Harriman and Company
59 Wall Street
New York, New York 10005

Mr. Martin E. Segal
Chairman of the Board
Martin E. Segal Company
730 Fifth Avenue
New York, New York 10019

Mr. Carlton P. Wilson
President and Director
Robert W. Baird and Company, Inc.
731 N. Water Street
Milwaukee, Wisconsin 53201

LABOR REPRESENTATIVES

Mr. Howard Coughlin
President
Office and Professional Employees
International Union
265 West 14th Street
New York, New York 10011

Mr. John Tomayko
Director, Insurance Pension
United Steelworkers of America
5 Gateway Center
Pittsburgh, Pennsylvania 15222

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SAVINGS INDUSTRY

Mr. Morris D. Crawford, Jr.
Chairman of the Board
Bowery Savings Bank
110 East 42nd Street
New York, New York 10017

Mr. Robert Ray Dockson
President
California Federal Savings and
Loan Association
5670 Wilshire Boulevard
Los Angeles, California 90036

Mr. Gilbert R. Ellis
President
Household Finance Corporation
Prudential Plaza
Chicago, Illinois 60601

Dr. Grover W. Ensley
Executive Vice President
National Association of Mutual
Savings Banks
200 Park Avenue
New York, New York 10017

Mr. Richard G. Gilbert
President
Citizens Savings Association
100 South Central Plaza
Canton, Ohio 44702

Mr. M.R. Hellie
President
Credit Union National Association, Inc.
1730 Rhode Island Avenue, N.W.
Washington, D.C. 20036

Mr. Norman Strunk
Executive Vice President
U.S. League of Savings Associations
111 East Wacker Drive
Chicago, Illinois 60601

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Agenda for September 20
Financial Conference on Inflation

9:00 AM - Introduction

9:10 AM - Economic Situation and Policy Briefing - Council of Economic Advisers

9:25 AM - Briefing on the Budget - Office of Management and Budget

9:40 AM - Fiscal Policy

Major Fiscal Objectives and Options for Fiscal Years 1975, 1976, and Beyond

Possible Cuts in Federal Spending

Possible Changes in Federal Taxation: Current Levels, Incentives, Deterrents, Equity

11:30 AM - Monetary Policy

Current State of Domestic Financial Markets

Current Monetary Policy: Given the Circumstances, has it been too Tight or about Right? What Should the Future Course of Monetary Policy be?

1:00 PM - Lunch

2:00 PM - Capital Markets and Capital Formation

Discussion of the Dimensions of Future Capital Requirements for Energy, Mass Transit, Housing and All Other Needs of the Economy

- Policies to Increase the Total Volume of Saving and Investment
- Policies to Insure Adequate Financing through the Equity and Long-Term Debt Markets

3:00 PM - International Economic Policy and Inflation

Discussion of the Appropriate U. S. Role in International Economic Policy

International Financial Aspects of World Inflation

4:00 PM - Financial Institutions and Inflation

Possible Changes that should be made in Laws and Regulations Affecting Financial Institutions to Assist in the Fight Against Inflation

4:30 PM - Wage-Price Policy

How Should the Wage-Price Monitoring System be Operated?

5:00 PM - Other Suggestions to Combat Inflation

6:00 PM - Adjournment of Formal Session

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

ADVANCE FOR A.M. NEWSPAPERS
MONDAY, SEPTEMBER 9, 1974

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TREASURY OUTLINES RESTRICTIONS ON GOLD FUTURES

The Treasury has received a number of inquiries as to whether U.S. firms and individuals may now purchase or sell gold futures contracts, providing for delivery of the gold after the date when gold ownership will become legal. These inquiries have been prompted by Public Law 93-373, signed by President Ford on August 14, 1974, which provides for the termination of all existing restrictions on the ownership of gold on December 31, 1974 or on such earlier date as the President finds and reports to Congress that deregulation of gold would not have an adverse effect on the nation's international monetary situation.

This law does not in any way limit the continued present applicability of the Gold Regulations. These regulations will not lose their force and effectiveness until December 31, 1974 or the date of a Presidential determination reported to Congress.

Acquisition of future interests in gold is restricted under the Gold Regulations. Under the Regulations, the acquisition of any interest in gold, except for licensed industrial, professional, artistic or numismatic uses, is prohibited. A gold futures contract, even though providing for delivery after December 31, 1974, gives the purchaser a present interest in gold, and consequently such contracts are in violation of the Regulations. Moreover, except for the above-mentioned licensed uses, gold in any form for present or future delivery may not be purchased or sold on any exchange within the United States.

The Regulations also prohibit the purchase or sale of any present or future interest in gold in any form, direct or indirect, for speculative purposes. For example, the Regulations prohibit a seller from holding rare gold coins as a hedge against a contractual obligation to deliver gold bullion to purchasers after termination of the Regulations. In addition, firms may not accept orders for gold for delivery after termination.

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(Over)

However, it would be consistent with the Regulations for United States firms to advertise that they will be engaged in the sale of gold to the general public after termination and invite prospective customers to submit names for inclusion on mailing lists for receipt of prospectuses, order forms, and other literature. Advertising may describe merchandise which a firm expects to offer for sale after termination, but may not provide details as to quantities, prices, and time for delivery of articles, such as to create an inference that a customer's response would result in a contract for future delivery of gold.

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WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE September 6, 1974

Government Files Appeal in Import Surcharge Case

Today the Department of the Treasury announced that the Department of Justice filed an appeal by the Government in the case of Yoshida International, Inc. v. United States.

The appeal, filed today in the Court of Customs and Patent Appeals, seeks the reversal of the July 8, 1974, decision of the Customs Court. The Yoshida decision declared invalid Presidential Proclamation 4074 of August 15, 1971, under which an additional duty of 10% ad valorem was levied upon most articles imported into the United States between August 16, 1971 and December 20, 1971.

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WS-92

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

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FOR IMMEDIATE RELEASE September 9, 1974

LENDING ACTIVITY
AUGUST 26 - SEPTEMBER 6, 1974

Federal Financing Bank lending activity for the period August 26, 1974, to September 6, 1974, is as follows:

-- The Bank purchased $2 million on August 26 and $2.3 million on September 6, of notes issued under the HEW Medical Facilities Direct Loan Program (Hill Burton). This brings the amount borrowed under this program to $22.3 million under a total commitment of $27.6 million.

-- On August 27 Amtrak borrowed an additional $5 million from the Bank under an outstanding loan commitment of $200 million.

-- On September 3 the Bank made a $125 million 91-day loan to the Student Loan Marketing Association (Sallie Mae) to refund a maturing $100 million note held by the FFB and to furnish additional funds for Sallie Mae operations. The interest rate on the new loan is 9.89 percent.

The Federal Financing Bank was established by an Act of Congress last December (Public Law 93-224) to consolidate the financing of various Federal agencies and other borrowers whose obligations are guaranteed by the Federal Government. The Bank began operations last May.

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FOR RELEASE ON DELIVERY

THE FORD ADMINISTRATION AS VIEWED FROM THE TREASURY

Warren F. Brecht
Assistant Secretary for Administration
U. S. Department of the Treasury

Convocation Address
DePauw University
Greencastle, Indiana
September 6, 1974

I. Introductory Remarks

A. I am honored to be the opening convocation speaker for the new school year. Over the years since I graduated from DePauw, I have continued to follow the progress of the University. I continue to be impressed with DePauw's overall program and philosophy: a relatively small, top-notch student body; the broad-gauged liberal arts focus; a high calibre and diverse faculty; a curriculum that is continually changing with the times; and finally a construction program that is based on a sound long-range plan.

B. It has been 10 years since I last visited Greencastle. I am most impressed with all the major construction and the progress that it conveys. Yet, I am somewhat saddened by the demise of Minshall Lab. I still have memories as a freshman pledge guarding the Sigma Chi bell, spending a number of nights in the bushes around Minshall Lab trying to catch a certain Phi Psi named Naus Thompson who successfully rang the bell about 20 times before we finally caught him. Like war stories, I am not sure I would want to repeat those experiences, but I am glad I experienced them at the time.

C. DePauw has had quite an influence at the Treasury Department. Those currently in the Office of the Secretary besides me include: Edward Roob, Special Assistant to the Secretary for Debt Management; William Hausman, Director of the Office of Operations under the Assistant Secretary for Enforcement, Operations and Tariff Affairs;and Charles Arnold, Senior Public Information Officer. In addition, Joseph Barr was a former Secretary and Under Secretary of the Treasury during the Kennedy and Johnson Administrations and presently is the newly appointed Chairman and Chief Executive Officer of the financially plagued Franklin National Bank of New York.

D. The main theme of my address today is the Ford Administration as viewed from the Treasury (which really means as viewed by me). I will talk about two broad aspects:

1. The general tone as characterized by a more open administration, a more cooperative relationship with the Congress, a restoration of confidence in our national government, and a renewed sense of ethics.

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2. I will focus on the President's major domestic priority, which is licking inflation and stabilizing the economy. (This is not only the President's major priority, but clearly a major responsibility of the Treasury Department.)

In closing, I will relate some of my own observations and experiences as a Presidential Appointee under two Presidents and three Secretaries. I will also talk briefly about career opportunities in the Federal Government.

II. <u>A more Open Administration; Cooperative Relationship with Congress; and Restoration of Confidence in Government</u>

A. Let's look first at the general tone President Ford has set in the four weeks since he took the oath of office. In the remarks following his swearing-in as our 38th President, he said to the American people:

". . . I feel it is my first duty to make an unprecedented compact with my countrymen. Not an inaugural address, not a fireside chat, not a campaign speech--just a little straight talk among friends. And I intend it to be the first of many.

[About the Congress, he said]

". . . Those who nominated and confirmed me as Vice President were my friends and are my friends. They were of both parties, elected by all the people and acting under the Constitution in their name. It is only fitting that I should pledge to them and to you that I will be the President of all the people.

[and finally]

". . . In all my public and private acts as your President, I expect to follow my instincts of openness and candor with full confidence that honesty is always the best policy in the end."

B. A few nights later, in an address to a joint session of Congress, President Ford said:

". . . As President, within the limit of basic principles, my motto towards the Congress is communication, conciliation, compromise, and cooperation."

C. In his first press conference August 28, the President again pledged an open Administration to guard against future Watergates; his code of ethics, he said, would be "the example that I set."

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D. All of the above, I believe, reveals a good deal about the kind of person President Ford is and how he will function as our national leader. It reflects a high degree of openness and honesty, of cooperation between the Congress and the Executive Branch, and of the strong desire to rally the people of this country.

E. Through several Treasury examples, I would like to illustrate how President Ford's leadership approach will enable the Executive Branch and the Congress, working together, to move forward on some of the tough issues of the day, particularly the severe economic problems which do not lend themselves to easy, clear solutions.

1. The President's Trade Bill is a specific case in point. The proposed Trade Bill is a major key to international trade reform, which together with monetary reform, is intended to lead to a more stable world economic order. It would provide broad authorities to the President and his delegates to negotiate reduced tariffs and other non-tariff trade barriers on a reciprocal basis as well as permit the raising of such tariffs and trade barriers on a selected basis against countries whose trade practices discriminate against the United States. The passage of this Trade Bill is essential before the

United States can meaningfully participate in the current international negotiations through GATT (General Agreement on Tariffs and Trade). This is the Bill that until recently was embroiled in an impasse over the question of the Soviet Union's Jewish emigration practices. While the underlying issue of individual freedom is important, we are now hopeful that the key members of Congress, Secretary of State Kissinger and others will be able to find a common ground to achieve the basic rights of individuals while still allowing the important trade legisla-

2. The <u>Budget Reform Act</u> is another example where I believe we will see a more positive and cooperative working relationship between the Executive Branch and the Congress. Ironically, a major impetus behind the passage of the Budget Reform Act was to prevent former President Nixon from going against the will of Congress by impounding appropriated funds to reduce Federal expenditures. While the Act itself may have been born out of an adversary proceeding, the real guts of the Act call for the Congress to set overall spending limits and priorities at the beginning of each session [illegible] be addressed

against the overall ceiling rather than on a piecemeal buildup, as has been the case up until now. Through this process hopefully both the President and the Congress will be conscious of the overall budgetary ceiling and working together, will achieve a more financially responsible budget--something vital toward getting our country on a more solid financial footing. In fact, if carried out as intended, the Budget Reform Act could turn out to be the most important piece of economic legislation since the Employment Act of 1946.

3. Another example vitally affecting Treasury is the <u>Tax Administration System</u> in the Internal Revenue Service. This country's tax administration depends heavily on voluntary compliance, with enough of an audit and enforcement presence to assure the general public that the system works well and to assure the vast majority of citizens who conscientiously report and pay their tax liabilities that those who do not will be found out and punished. Activities surrounding the former President and alleged pressures by White House staff on IRS have raised serious questions of public morality. The Treasury Department and the Internal Revenue Service have been working very hard to assure ourselves and the public that potential abuses will not happen

in the future. Again, I believe the tone set by President Ford will be a major help in restoring public confidence in what is the best tax administration system in the entire world.

4. Privacy and computers (data banks) is another area where I see substantial improvements ahead under President Ford. Again, because of the abuses or attempted abuses of power through unauthorized use of confidential data, the whole subject of data banks, computers, telecommunications and rights of privacy has come under sharp focus in recent months. Unfortunately, the issues have been looked at in a certain state of hysteria. This has resulted in almost total paralysis of any new computer and telecommunications systems which have as their noble objectives the improved operational efficiency and effectiveness of government. In the last several months, the Treasury Department has had the development and procurement of several computers and computer systems suspended until this whole privacy issue is resolved. These have included simple replacement computers which are urgently needed to cope with the legitimate workload growth in places like IRS, in some cases simply to replace machines which are badly worn out. In these

instances, there are no terminals and no telecommunications lines which could possibly be tapped into by unauthorized persons.

With a new President, I am now confident that these highly emotional issues can be addressed in a more rational manner and that truly constructive improvements and safeguards, where necessary, will be recommended and implemented. The above example, incidentally, I have felt personally since I have the overall responsibility in Treasury for major computer and telecommunications systems.

F. These are just a few examples that come to mind--all of which stand a much better chance of successful accomplishment now under the more open, cooperative Ford Administration.

G. I should point out that Secretary Simon fits in extremely well with the Ford style.

1. Bill Simon has practiced openness and candor from the day he joined the Government, first as Deputy Treasury Secretary, then as Federal Energy Administrator, and more recently as Secretary of the Treasury.

2. Throughout this period he has established the respect of the Congress, others in the Executive Branch, and

the press corps for his frankness, ready accessibility and yet tough-mindedness.

3. He has constantly prodded the rest of us to do likewise--something which suits me also.

III. Inflation and the Economy

A. I now would like to turn to the more specific and very serious problem that is on practically everyone's mind--the pervasive problem of double digit inflation and its impact on the American economy. I am hesitant to discuss this serious and complex subject in much depth. Although I was an economics major at DePauw, I never practiced it. The Treasury Department, of course, has a heavy responsibility for economic policy, but it is not my own area of responsibility. Yet, I have received considerable exposure to economic problems and policy matters from sitting in on the Secretary's daily staff meetings of top policy officials and keeping abreast of various economic papers, speeches, and Congressional testimony.

B. In his August 28 press conference, President Ford, in discussing domestic priorities stated: "Reducing inflation is so paramount that I really don't have a number two priority. If we can take care of inflation and get our economy back on the road to a healthy future, I think most of our other domestic problems will be solved."

C. The problem of inflation is also Secretary Simon's number one concern. On several recent occasions he has commented on the intolerable rate of inflation, the first sustained seige of rapid peace-time inflation Americans have experienced. The American people don't understand how double digit inflation happened and they lack confidence that the Government can solve it. It is of little comfort that our rate of inflation is "only about 12 percent a year" when in most other parts of the developed world it is much higher. For example, Japan is experiencing an inflation rate of 30 percent. Italy, Great Britain and France have current inflation rates in the range of 15 to 20 percent. West Germany is one of the few industrialized nations whose inflation rate is not quite so unacceptable as ours--less than 8 percent.

D. At the risk of over-simplification, the unacceptable price explosion we have experienced in 1973 and 1974 has been primarily due to two general factors:

1. A series of severe temporary shocks that originated largely outside the U.S. economic system.

2. Almost a decade of excessively stimulative fiscal and monetary policies under both Democratic and Republican Administrations.

E. The temporary outside shocks included:

1. Worldwide agricultural crop failures in 1972, which caused an explosive rise in the price of farm products.

2. A worldwide economic boom, experienced by all of the developed countries simultaneously, which put enormous pressure on the prices of internationally traded raw materials.

3. The two devaluations of the dollar.

4. The sudden Arab oil embargo which led to a quadrupling of the price of imported crude oil.

5. Finally, the end of formal wage and price controls on April 30 was an additional temporary force which raised prices and wages faster than normal.

F. But aside from these severe temporary jolts, our general economic policies over the past 10 years have been very stimulative and, as a result, we were unable to absorb these one-time shocks. For example, during the decade 1955-1965, federal spending rose at an annual rate of only 6 percent. Since 1965, however, federal expenditures have risen 10 percent per year. A similar change in pattern occurred in monetary policy. The nation's money supply, as regulated by the Federal Reserve System, rose an average of 2-1/2 percent per year in the 1955-1965 decade. Since 1965, the money supply has increased an average of 6 percent per year. It is no coincidence that the earlier period was marked by stable prices, whereas the most recent period was one of record peace-time inflation.

G. This country has been living beyond its means for so long that the inflationary forces have become deeply imbedded into our entire economic system--especially in the pattern of price expectations and wage settlements. It is for these reasons that President Ford, Secretary Simon and other leaders in this country are now being very careful not to promise any miracles. It will take a long time and be a tough process to stem the tide of rising prices and to get our economy back on a more stable basis. It will take several years, or more. There are no easy shortcuts. We believe a more restrictive fiscal policy of federal budget cutting coupled with a continuing restraint on monetary policy are basic to controlling inflation. Yet, we also recognize the need for some measures of relief for certain casualties and inequities of inflation. For example:

-- Proposed improvements in the system of unemployment compensation.

-- Possible public service employment programs to go into effect if the overall unemployment rate exceeds a certain percentage.

-- Subsidies to financial institutions to augment the very tight supply of mortgage funds to relieve strains in the housing industry, which always gets hit the hardest when inflation becomes serious.

-- Relief to public utilities unable to cope with the enormous increase in the price of raw energy.

H. Another economic policy issue that we are particularly concerned about is how to generate the enormous volume of savings and capital investment that will be needed in the next decade and beyond. The trend in this country has been more toward consumption and less toward investment. Since 1960, for example, the percentage of total output for plant and equipment spending, housing, and public investment in the United States has been significantly lower than in most other developed countries. At the same time, the projected capital requirements for major priority areas over the next 10 years and beyond stagger the imagination. One representative study, for example, calls for a minimum of $850 billion for capital investment in the U.S. in the energy field alone (Project

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Independence), and some estimates are even higher. Then there are the major capital investments required for such things as new mass transit systems, housing, pollution control, as well as to expand basic industrial capacity. Although business is often looked at as the whipping boy and profits as a dirty word, the fact is that profits and retained earnings are a most important source for the capital investments so urgently needed in the coming years.

I. President Ford is moving promptly, carefully, and thoroughly to review the economy and economic policy. He has stated that there are no easy answers and at times the going may be tough. During this month, there will be a series of conferences throughout the country chaired by top government leaders and covering a number of areas, including: labor, state and local government, agriculture and food, transportation, business and manufacturing, housing and construction, health, banking and finance. These conferences will culminate in a major Conference on Inflation in Washington September 27 and 28. These conferences will be a bi-partisan affair, involving not only members of the Executive Branch and the Congress but, most important, leaders from the business community, labor and the academic world. While attempting to deal with some of the more troublesome problems on an ongoing basis, the President sincerely hopes that out of these sector conferences and the main Conference on Inflation at the end of September will come a better understanding of how we deal with the inflation problem. Although the President has made some of his views known such as a strong aversion to restoring wage and price controls, and a strong resolve to cut the Federal budget, it would be inappropriate at this time for me to predict where all of this will lead. In fact, the President has stressed that these conferences are to be truly open forums; and are not intended to railroad through preconceived notions. In keeping with my earlier remarks, however, the President certainly has the support of the Congress in dealing with these most difficult problems.

IV. Closing Remarks

A. We have covered a lot of ground this morning on how the Ford Administration is likely to operate--the more open Administration, the more cooperative relationship with Congress, and the efforts to restore the public's confidence in government and a renewed sense of ethics. We have looked at the very serious problem of inflation, its causes, and the general plan for addressing this number one domestic priority.

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B. In closing, I would like to share with you some of my general observations about government service. As Treasury's Assistant Secretary for Administration the past 2-1/2 years, I can say without question this has been the most professionally rewarding period of my career. And most of my career has been spent in the private sector. My responsibilities cut across the entire Treasury Department--handling the Department's budget and financial management, personnel management, organizational and management reviews, audit, computers, facilities, and various other administrative programs. I am very much involved with improving the efficiency and effectiveness of the Treasury Department and its bureaus.

C. While admitting a bias, I believe the Treasury Department is one of the best in the Federal Government. Not only do we deal with policies and operations that are vital to the very existence of government--we have a long history dating back to 1789 and the founding of our Constitution.

D. During my three years in Government, I have gained an appreciation and respect for a number of dedicated career civil servants as well as a top-notch group of appointees. Unfortunately, government servants in this country too often have not been held in the highest regard. When I was in college and graduate school, a government career was not something many people aspired to.

E. Times have changed, however, and I would strongly encourage you to consider career opportunities in the Federal Government. Don't overlook the fact that Federal pay scales--particularly at the middle level--now compare favorably with business and the professions.

F. The Treasury Department alone will be hiring about 5000 new employees at the professional entry level this year. Most of the new hires will be recruited by our bureaus directly from the college ranks. Currently the best career opportunities with the Treasury are in accounting, law enforcement and general administration in such bureaus as the Internal Revenue Service, the Customs Service, the Secret Service, the Bureau of Alcohol, Tobacco and Firearms, the Bureau of Government Financial Operations, and the Comptroller of the Currency. I believe the opportunities for public service can be very rewarding and hope that a number of you will seriously consider a career in government.

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

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FOR RELEASE AT 12 NOON
TUESDAY, SEPTEMBER 10, 1974

ADDRESS BY THE HONORABLE DAVID R. MACDONALD
ASSISTANT SECRETARY OF THE TREASURY
(ENFORCEMENT, OPERATIONS, AND TARIFF AFFAIRS)
BEFORE
THE AMERICAN IMPORTERS ASSOCIATION
NEW YORK CITY, NEW YORK
TUESDAY, SEPTEMBER 10, 1974

IT'S HIGH NOON AT THE CUSTOMS CORRAL
(OR HOW FAST CAN YOU DRAW BACK?)

It is both an honor and a pleasure to be with your Association today for my first major speech as Assistant Secretary of the Treasury. I had a profitable exchange of views with your President, Mr. Katz, and Messrs. O'Brien, Gitkin, and Casey during their recent trip to Washington, and I look forward to similar exchanges in the future.

As a lawyer before joining the Government, I specialized principally in public offerings, private corporate financing, mergers and acquisitions, and other corporate legal problems. It probably is not obvious to you, therefore, why I was appointed Assistant Secretary in charge, among other things, of tariff affairs and of the 185-year old Customs Service. I can only say that having Customs, Secret Service, Alcohol, Tobacco and Firearms, the Mint, the Bureau of Engraving and Printing, not to speak of Foreign Assets Control and the Consolidated Federal Law Enforcement Training Center, George Shultz thought I would make a good utility infielder. When I took office, my income dropped in the same proportion as the size of my office increased -- which Secretary Simon advised me was a fair exchange, considering that I was also being granted the privilege of working for the Treasury Department. Having been here for five months, I must say that I agree with him.

There is, however, one way in which my being unfamiliar with the Customs Service, its procedures and policies, may be helpful. The lack of any preconception regarding Customs operations brings into immediate and sharp relief those facets of the Customs Service which are unique. The sight of a missionary boiling in a pot may be old hat to the cannibals, but it will probably leave a sharp impression on first-time visiting missionaries. In the same way, those who deal daily with Customs may have become inured to its unique statutory procedures. To a newcomer like myself, however, the entire process, governed by a statute originally enacted in 1789 and revised only in piecemeal fashion since that time, resembles a scene from the Western frontier in the nineteenth century.

Perhaps the best way I can convey this is by way of metaphorical scenario -- as you may know, we government employees are prone to talk in terms of scenarios -- and that scenario, if I were writing it, would go as follows:

It's approaching high noon at the old Customs saloon. "Doc" Customs, the owner and general law-and-order man in the territory is lounging at the bar. Doc is a little ill-at-ease -- rumors have been flying that Sam Importer, from the dreaded Importer gang, is in town and looking for trouble. A confrontation is at hand.

Common belief is that the Importer gang rustled some cattle from Doc Customs' corral last year, but no one knows exactly how much, because the Customs hands have such a large spread that it's difficult to keep track of the total herd.

In any event, a bead of sweat breaks out on Doc's forehead as he tosses down his drink and starts checking his weapons. Doc has a lot of weapons, but he knows that Sam Importer laughs at the ineffectiveness of all of them except one - Doc's gun. This unique firearm is known as the Section .592 Magnum. It has the combined qualities of a gatling gun and a 10-pound smooth bore cannon. It's not too good at long distances but it's deadly at close range. The only problem with the Section .592 Magnum is that sometimes it's difficult to identify the victim afterwards.

As the sun approaches its zenith in the sky overhead, the townsfolk draw their shades and lock their doors -- all except a small boy loitering near the swinging doors of the Customs saloon.

"Get away boy," murmers Doc. "I've gotta have a clear line of fire in order to nail Sam Importer the second he comes through the swinging doors."

"Why don't you wait until he gets inside the room and then fire?" asks the kid innocently.

"You don't understand, boy," replies Doc. "If I don't blast Sam Importer just at the moment he comes through those swinging doors, I'll never get another chance."

The clock ticked on toward twelve. Doc's muscles tighten. His hand creeps toward his holster.

The whinnying of a horse outside breaks the silence. Doc realizes that this is it -- only one man can be outside and that man is coming in.

The swinging double doors burst open -- there, big as life is Sam Importer. "I've got an itchy trigger finger and I'm looking for the Doc," he roars.

* * *

The remainder of the scenario is strangely missing. Some people, mostly from the Importer gang, speculate that Doc emptied his .592 into Sam as he came through the door, only to find that Sam really did have an itch in his trigger finger which he wanted the Doc to treat with Cornhusker's Lotion for Men. Doc, according to this version, promised to remove the .592 bullets at his first opportunity.

Others, principally the hands on the Customs ranch, allowed that Sam Importer not only did not get shot, but that he made off with several bottles of unmetricated liquor before Doc could get his gun out of his holster.

Whichever way the story really came out, this allegory does have a moral. That moral is that the Customs laws and procedures are antiquated relics from another era -- the era of the California gold rush, the three-masted square rigger, and the pony express. This is not to say that the ancient Customs practices have never produced anything worthwhile. Nathaniel Hawthorne was inspired to write <u>The Scarlet Letter</u> as a result of working as a Customs weigher and grader in Salem, Massachusetts. The experience of Chester Alan Arthur as Chief of the New York Customs Port undoubtedly stood him in good political stead when he later became President. Despite these intangible benefits, something has to be done in order to bring the Customs entry and clearance procedures out of the rigging and into the air-consitioned business offices of the twentieth century.

This is not to criticize the people at Customs who are involved in the process of clearing merchandise for entry. The fact that the process works as well as it does under existing primitive groundrules is a compliment both to the thousands of dedicated Customs officers and to the importers and customs brokers with whom they deal. It is conventional wisdom that the personal element is always able to botch up the most artfully and accurately designed program. The fact that the present Customs entry and clearance procedure works as well as it does, in my opinion, is proof that the reverse is also true -- that people can make things work in spite of design deficiencies.

I am here today to discuss possible remedies for these design deficiencies, and to solicit your help in bringing them to fruition. The remedies presently contemplated are two-pronged. First, there is involved the controls over the physical entering of the goods. The incredibly complex entry procedures must be simplified without threatening the revenue or sacrificing the administration of the two hundred odd laws, in addition to the Tariff Act, that Customs must administer at ports-of-entry and along land and sea borders. Second, the legislatively mandated procedure for reporting, paying duties and enforcing duty payments must be brought into line with the automated practices presently utilized by most businesses. The modernization of the entry procedure, as many of you know, has already been commenced under the leadership of the present Commissioner of Customs, Mike Acree. Briefly, the streamlining of the entry procedure involves three main functional Customs areas: immediate delivery control, automated entry screening, and collection processing.

The immediate delivery control portion of the program involves the creation and maintenance of an automated inventory of all merchandise released under current Customs' bonding procedures. This procedure allows expeditious entry of the goods while tracking and reporting to Customs any subsequent failure to file the required entry documentation. It relieves the Customs import specialist of many clerical functions, permitting him to concentrate on more complex and difficult entries, thereby improving Customs' efficiency. The system provides the capability for prompt final action regarding entry transactions, which is accomplished by producing daily bulletin notices of liquidation rather than weekly postings that currently are experiencing a three-week delay. We believe that the daily bulletin notices of liquidation will give a more timely notification of trade community financial liability to Customs, in addition to removing the red tape that surrounds the physical movement of goods at the docks.

This system was inaugurated at Philadelphia, with the immediate delivery control successfully installed and operational since April 1974. Present plans are to implement the system in New York in 1976.

The automated entry screening procedures verify, and perform calculations on, data obtained from formal entries filed by customs brokers and importers. Many of the procedures of entry processing currently performed clerically will upon adoption of the system, be automatically performed. Duty computations will be made and merchandise subject to quota provisions or Internal Revenue taxes will be identified. Additionally, methods will be used to identify merchandise which, by past experience, may require extensive review by import specialist teams.

The collection processing subsystem, the third function, will automate the billing and cashier functions and establish an accountability for all collected funds.

Thus, under the proposed system, assuming that an appropriate bond is on file with Customs, the importer can obtain release of his merchandise after Customs examination without the payment of duty. Customs will produce a monthly statement that will allow the importer to make one payment for transactions performed at various U. S. ports. Paperwork which presently prevents entries from being liquidated for four weeks or more will be completed in a matter of days.

Perhaps the most significant result of the program will be that importers will be able to deal with Customs as a single service instead of dealing separately with separate ports, with the concomitant variation in requirements and procedures.

From our standpoint at Treasury, we believe this system will remove many of the routine clerical tasks from our inspectors and import specialists and will, therefore, allow them greater time to perform their professional judgment functions. It will simplify Customs' relations with the many other government agencies that they serve. Almost an incidental result is the faster and more accurate management information which is generated in order to make better decisions for improved service. Of great importance to us, of course, is that Customs can develop this system within their current capabilities. It does not require massive reorganization or the appropriation of huge amounts of additional funds.

There are many details of this system which remain to be worked out. Customs must and will work with importers, brokers, bonding companies, common carriers and others. In this connection, I note that a general briefing between Customs and the AIA regarding this entire concept was held last month.

Just as important to the people in this room as the modernized physical entry procedures is a related legislative program which we presently contemplate proposing to Congress. The substantive details of this program have not been worked out, and will not be worked out without an opportunity for importers, borkers, freight forwarders and other interested parties to be heard. The essense of the program as now envisaged, however, would be the replacement of the entry-by-entry payment system with a procedure whereby Customs duties would be reported and paid on a periodic basis by those importers, and only those importers, who qualify for such treatment. In order to adopt this procedure without threatening the revenue, a statutory basis which enables Customs to audit the declared tax liability of the importer is necessary. Thus, the proposed legislation would require the maintenance of books and records by the importer relating to his business; would grant the Secretary of the Treasury or his delegate the right to audit those books; and would empower the Secretary or his delegate to require their production as well as the appearance of the importer himself for the purpose of giving testimony regarding his import activities.

I would like to emphasize here and now that any existing bookkeeping system maintained by an importer which is sufficient to reveal his financial condition and results of operations should also satisfy the proposed legislative requirement to maintain books and records. We have enough paper and forms in the Government now to satisfy the most discerning bureaucrat. No duplicate bookkeeping system should be required and, in fact, all those who presently pay income tax must meet similar legal requirements under the Internal Revenue laws. Our experience,

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however, has led us to conclude that existing civil enforcement powers are so truncated and that existing discovery procedures are so inadequate that the ability of Customs to find out the facts in an orderly manner is severely hampered. The result has been to turn the process into an adversary contest with, as you know, extremely high stakes. We anticipate creating effective methods of proceeding to collect the correct duty by the civil administration of the laws without resorting to procedures which are more nearly akin to criminal procedures.

At the same time, we propose, without endangering the revenue, to reduce the myriad of procedures and documentation required by filing repetitive entry documents and duty payments. As business practices become more and more technologically oriented, the retention of these green eye shade procedures becomes not only an anomoly, but also an unnecessary obtacle to further modernization. The Internal Revenue Service, along with countless private businesses, long ago recognized that benefits in terms of efficiency and economy, without weakening verification controls, could be obtained from a system of periodic account reporting. This system is equally suitable to the processing of repetitive, large-volume imports. However, without the recordkeeping and verification authority proposed in the legislation, any change from entry-by-entry reporting to a periodic return system would, in our view, endanger the revenue. In addition, the proposed alternative method of reporting and paying Customs duty would be entirely voluntary with the importer. We do not expect to require the importer to bypass the entry-by-entry method of importing unless he believes it to be advantageous to himself. In this way both we at Treasury and the importing community can experiment, with a view to ascertaining whether the new procedures will be beneficial to each of us.

Philosophically speaking, I do not personally believe that the proposed periodic reporting and payment concept can be successfully inaugurated unless the system of reporting is geared to existing business reporting methods of the importer. The success of the voluntary filing system of the Internal Revenue Service is in my view, based upon the fact that income tax reporting is built around an existing business bookkeeping and financial reporting system which is normally audited and utilized for shareholder reporting and internal management use. This is why we feel confident that we can assure you that no new bookkeeping requirements will be instituted. To do so would, in and of itself, defeat the system. In fact, the ultimate purpose of the new system would be to work toward a single set of records which businessmen can maintain that will be adequate for all governmental reporting and taxpaying functions. You should be aware that transactions between related importers and exporters as reported to Customs will be examined on an integral basis with the same transactions as reported, for example, to the Internal Revenue Service.

The question may have occurred to you by now whether the penalty provisions of Section 592 would be retained for those imports brought in under the new procedures. I can only say at this time that we would listen to any suggestion that would result in more sophisticated enforcement procedures which are equally effective in protecting the revenue. I underline that condition.

Speaking of Section 592, I should mention that we intend to publish major portions of the Treasury guidelines governing mitigation procedures in the relatively near future. At the same time, while we are always willing to listen to suggestions for procedural improvements, I would not anticipate any change in the manner of use of Section 592 beyond those changes which were suggested by the AIA and others and were subsequently adopted by Treasury. Until adequate medical help is available, the *in terrorem* effect of exorcising duty violations by Customs witch doctors will have to remain in place.

We also look forward to seeing your representatives in Washington. We at Treasury and Customs desire to work with you who are closely involved in the importing process to improve that process. Having worked in what I now call the "private sector" for many years, I am well aware that a continuing dialog must be maintained between industry and government in order to promote a clearer perspective of importing activities by Customs and of Customs' activities by the importing community.

I have only one recommendation to make regarding your visit. Don't come in with an itchy trigger finger -- just belly up to the bar and the verbal libations will be on the house! Thank you.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE SEPTEMBER 10, 1974

TREASURY BILL OFFERING REDUCED

The amount of Treasury bills offered today for sale in the regular weekly auction of September 16, for delivery September 19, was reduced to $4.3 billion, $100 million less than last week's offering and $200 million less than the amount of bills maturing on September 19.

The Treasury's short-term cash outlook is such that it is expected that the amount to be offered in the auction of September 23 will also be $200 million less than the amount maturing. The reduction may not be continued in subsequent weekly offerings.

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FOR IMMEDIATE RELEASE September 10, 1974

TREASURY'S WEEKLY BILL OFFERING

The Treasury Department, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000, or thereabouts, to be issued September 19, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated June 20, 1974, and to mature December 19, 1974 (CUSIP No. 912793 VD5), originally issued in the amount of $1,901,235,000, the additional and original bills to be freely interchangeable.

182-day bills for $1,800,000,000, or thereabouts, to be dated September 19, 1974, and to mature March 20, 1975 (CUSIP No. 912793 WA0).

The bills will be issued for cash and in exchange for Treasury bills maturing September 19, 1974, outstanding in the amount of $4,512,195,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,772,325,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills of both series will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Monday, September 16, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

(OVER)

with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securiti Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only thos submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such resp shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accept in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 19, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 19, 1974. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221 (5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accru when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issu Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041
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FOR IMMEDIATE RELEASE September 10, 1974

PARSKY TO LEAD HIGH-LEVEL DELEGATION
TO SAUDI ARABIA

Secretary of the Treasury William E. Simon announced today that Assistant Treasury Secretary Gerald L. Parsky will lead a high-level delegation to Saudi Arabia for meetings of the U.S.-Saudi Working Groups on Agriculture and Science and Technology.

"These meetings," Simon noted, "evidence the continuing desire by the U.S. to broaden economic relationships with the Saudis and will make a further contribution to our mutual efforts to bring peace and economic prosperity to the Middle East."

Parsky, who is the Executive Secretary of the U.S.-Saudi Joint Commission on Economic Cooperation described the Working Groups as "an important means to assist the Saudis in their desire to industrialize and diversify their economy."

The Working Groups are made up of senior officials from the National Science Foundation and the Departments of State, Agriculture and Interior. Among the items to be discussed are: integrating the development of science and solar technology in the industrialization program for Saudi Arabia, desalination technology, and methods of developing an agriculture infrastructure.

Parsky will depart from Washington, D.C., Wednesday, September 11, and return to Washington on Thursday, September 19.

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FOR IMMEDIATE RELEASE September 11, 1974

TREASURY ISSUES
COUNTERVAILING DUTY ORDERS
IN THREE COUNTERVAILING DUTY
INVESTIGATIONS

Assistant Secretary of the Treasury David R. Macdonald announced today the issuance of countervailing duty orders with respect to imports of non-rubber footwear from Brazil and Spain, and bottled green olives from Spain.

These actions were taken pursuant to Section 303 of the Tariff Act of 1930 (19 U.S.C. 1303). Under this section, the Secretary of the Treasury is required to assess an additional duty equal to the amount of a "bounty or grant" paid or bestowed on merchandise imported into the United States. In all three cases such bounties or grants were found. Accordingly, the countervailing duty orders set forth the rates of the additional duties required to offset the export incentives.

These actions will be published in the Federal Register of Thursday, September 12, 1974. Countervailing duties will become applicable 30 days after publication of the orders in the Customs Bulletin.

In the case of non-rubber footwear from Brazil, a Countervailing Duty Proceeding Notice was published in the Federal Register on March 8, 1974. Based upon the information presented and the nature of the Brazilian subsidy system, the countervailing duty rate has been estimated to be 12.3 percent for imports from manufacturers which export 40 percent or less of the value of their total sales and 4.8 percent on imports from manufacturers which have exports accounting for more than 40 percent of total sales. Since these rates have been calculated on a representative sample of Brazilian exporters, the Treasury Department is prepared to consider precise information with respect to any firm involved and adjust the countervailing duty rate as appropriate. During calendar year 1973, imports of non-rubber footwear from Brazil were valued at $81 million.

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In the proceedings on non-rubber footwear and bottled green olives from Spain, Countervailing Duty Proceeding Notices were published on July 16, 1974. Based upon the information presented, the countervailing duty rates have been ascertained to be 3.0 percent for non-rubber footwear and 2.9 percent for bottled green olives. During calendar year 1973, imports of non-rubber footwear and bottled green olives from Spain were valued at approximately $189 million and $38 million respectively.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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September 10, 1974

MEMORANDUM FOR CORRESPONDENTS:

Secretary of the Treasury William E. Simon will open a meeting of Federal officials and key representatives from the state public regulatory commissions on the financial problems facing the electrical utility industry, at 3:00 p.m., Wednesday, September 11, 1974, at the Federal Power Commission in Hearing Room A.

Other Federal officials who will participate include: Arthur Burns, Chairman, Federal Reserve Board; L. William Seidman, Executive Director, Summit Conference on Inflation; Rogers C. B. Morton, Secretary of the Interior; Russell E. Train, Administrator, Environmental Protection Agency; Dixy Lee Ray, Chairman, Atomic Energy Administration; John C. Sawhill, Administrator, Federal Energy Administration; John N. Nassikas, Chairman, Federal Power Commission; Arthur F. Sampson, Administrator, General Services Administration; and Richard E. Wiley, Chairman, Federal Communications Commission.

The meeting will be open to the press.

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Department of the TREASURY NEWS
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FOR RELEASE 6:30 P.M. September 9, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on September 12, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 12, 1974		26-week bills maturing March 13, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	97.720 a/	9.020%	95.464	8.972%
Low	97.686	9.154%	95.452	8.996%
Average	97.700	9.099% 1/	95.460	8.980% 1/

a/ Excepting 1 tender of $50,000

Tenders at the low price for the 13-week bills were allotted 92%.
Tenders at the low price for the 26-week bills were allotted 59%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 54,720,000	$ 44,320,000	$ 47,105,000	$ 30,710,000
New York	3,015,035,000	1,926,830,000	3,094,640,000	1,459,490,000
Philadelphia	47,450,000	47,450,000	97,990,000	21,985,000
Cleveland	61,115,000	60,615,000	71,025,000	42,675,000
Richmond	71,345,000	64,345,000	59,805,000	36,455,000
Atlanta	54,220,000	53,120,000	44,680,000	36,370,000
Chicago	262,525,000	171,725,000	221,510,000	41,835,000
St. Louis	51,490,000	44,490,000	57,520,000	22,970,000
Minneapolis	16,310,000	16,310,000	15,775,000	5,525,000
Kansas City	58,895,000	51,060,000	50,755,000	37,860,000
Dallas	39,655,000	29,055,000	46,330,000	20,730,000
San Francisco	217,795,000	90,795,000	260,425,000	43,800,000
TOTALS	$3,950,555,000	$2,600,115,000 b/	$4,067,560,000	$1,800,405,000 c/

b/ Includes $ 576,165,000 noncompetitive tenders accepted at average price.
c/ Includes $ 434,335,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank discount basis. The equivalent coupon issue yields are 9.44 % for the 13-week bills, and 9.54% for the 26-week bills.

Department of the TREASURY
ASHINGTON, D.C. 20220 TELEPHONE WO4-2041
NEWS

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REVISED

MEMORANDUM TO THE PRESS September 9, 1974

FINANCIAL CONFERENCE ON INFLATION

There are three attachments to this memorandum:

1. A revised list of individuals who have accepted invitations to participate in the "Financial Conference on Inflation" September 20, 1974 in the Federal Room, Statler Hilton Hotel, Washington, D.C. (This list now includes U.S. Senators, etc.)

2. The text of the letter sent to conference delegates by Secretary of the Treasury William E. Simon. (This text--reproduced here as a convenience to you--was included with the September 6 delegate list.)

3. The agenda for the September 20 meeting. (This was also part of the material released on September 6.)

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MEMBERS OF BANKING AND FINANCE COMMUNITY WHO WILL ATTEND THE FINANCIAL CONFERENCE ON INFLATION WASHINGTON, D.C. SEPTEMBER 20, 1974

HELD AT THE REQUEST OF
PRESIDENT GERALD R. FORD
AND THE CONGRESS OF THE UNITED STATES

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The Honorable William E. Simon
Secretary of the Treasury
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. Roy Ash
Director
Office of Management and Budget
Old Executive Office Building
17th and Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dr. George Leland Bach
Professor of Economics and Public Policy
Stanford University
Stanford, California 94305

Mr. Robert H.B. Baldwin
President
Morgan Stanley and Company
1251 Avenue of the Americas
New York, New York 10020

The Honorable Jack F. Bennett
Under Secretary for Monetary Affairs
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. Robert H. Bethke
President
Discount Corporation of New York
58 Pine Street
New York, New York 10005

Mr. Archie R. Boe
Chairman of the Board
Allstate Insurance Company
Allstate Plaza
Northbrook, Illinois 60062

Mr. Thomas R. Bomar
Chairman, Federal Home Loan Bank Board
320 First Street, N.W.
Washington, D.C. 20552

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The Honorable Arthur F. Burns
Chairman
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dr. Gwen Bymers
Professor and Chairman of the
Department of Consumer Economics
Cornell University
Ithaca, New York 14850

Mr. Richard P. Cooley
President and Chief Executive Officer
Wells Fargo Bank, National Association
San Francisco, California 94120

Mr. Howard Coughlin
President
Office of Professional Employees
International Union
265 West 14th Street
New York, New York 10011

Mr. Morris D. Crawford, Jr.
Chairman of the Board
Bowery Savings Bank
110 East 42nd Street
New York, New York 10017

The Honorable Carl T. Curtis
United States Senate
New Senate Office Building
Room 2213
Washington, D.C. 20515

Dr. Robert G. Dederick
Senior Vice President and Economist
Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60690

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Mr. Robert Ray Dockson
President
California Federal Savings and
Loan Association
5670 Wilshire Boulevard
Los Angeles, California 90036

Dr. Otto Eckstein
Department of Economics
Harvard University
231 Littaner Center
Cambridge, Massachusetts 02138

Mr. Gilbert R. Ellis
President
Household Finance Corporation
3200 Prudential Plaza
Chicago, Illinois 60601

Dr. Grover W. Ensley
Executive Vice President
National Association of Mutual
Savings Banks
200 Park Avenue
New York, New York 10017

The Honorable Edgar R. Fiedler
Assistant Secretary for Economic Policy
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. William H. Franklin
Chairman
Caterpillar Tractor Company
100 N.E. Adams Street
Peoria, Illinois 61629

Mr. Gaylord Freeman
Chairman of the Board
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Dr. Tilford C. Gaines
Senior Vice President and Economist
Manufacturers Hanover Trust
350 Park Avenue
New York, New York 10022

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The Honorable Stephen S. Gardner
Deputy Secretary
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. Ray Garrett, Jr.
Chairman
Securities and Exchange Commission
500 North Capitol Street, Room 812
Washington, D.C. 20549

Mr. Richard G. Gilbert
President of Citizens Savings
Association
100 South Central Plaza
Canton, Ohio 44702

Mr. Alan Greenspan
Chairman
Council of Economic Advisors
Old Executive Office Building
Washington, D.C. 20506

Mr. David B. Harper
President
First Independence National Bank
234 State Street
Detroit, Michigan 48226

Mr. Milton J. Hayes
Chairman
Government Fiscal Policy Committee
Independent Bankers Association of America
American National Bank of Chicago
33 N. LaSalle Street
Room 1619
Chicago, Illinois 60602

Mr. M.R. Hellie
President
Credit Union National Association, Inc.
1730 Rhode Island Avenue, N.W.
Suite 810
Washington, D.C. 20036

Mr. Richard D. Hill
Chairman of the Board
First National Bank of Boston
100 Federal Street
Boston, Massachusetts 02110

Mr. J. Henning Hilliard
Chairman
J.J.B. Hilliard, W.L. Lyons, Inc.
545 South Third Street
Louisville, Kentucky 40202

Mr. Frank J. Hoenemeyer
Executive Vice President
Prudential Insurance Company of
America
Prudential Plaza
Newark, New Jersey 07101

The Honorable Ernest F. Hollings
United States Senate
Old Senate Office Building
Room 432
Washington, D.C. 20510

The Honorable Jacob Javits
United States Senate
Old Senate Office Building
Room 326
Washington, D.C. 20510

Mr. Paul R. Judy
Chairman and President
A.G. Becker & Company, Incorporated
2 First National Plaza
Chicago, Illinois 60670

Mr. Harvey E. Kapnick, Jr.
Chairman and Chief Executive Officer
Arthur Anderson and Company
69 West Washington Street
Chicago, Illinois 60602

Mr. W.J. Kennedy, III
President
North Carolina Mutual Life Insurance Co.
P.O. Box 201
Durham, North Carolina 27702

Mr. Ralph F. Leach
Chairman of the Executive Committee
Morgan Guaranty Trust Company
23 Wall Street
New York, New York 10015

Mr. Gustav L. Levy
Partner
Goldman, Sachs and Company
55 Broad Street
New York, New York 10015

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The Honorable Russell B. Long
United States Senate
Old Senate Office Building
Room 217
Washington, D.C. 20510

Mr. Bruce K. MacLaury
President
Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55480

Dr. Paul W. McCracken
Senior Consultant
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. Rex J. Morthland
President
American Bankers Association
The Peoples Bank and Trust Company
Post Office Box 799
Selma, Alabama 36701

Mr. James J. Needham
Chairman of the Board
New York Stock Exchange
11 Wall Street
New York, New York 10005

Mr. Herman Nickerson, Jr.
Administrator
National Credit Union Administration
2025 M Street, N.W.
Washington, D.C. 20456

Dr. Arthur M. Okun
Senior Fellow
The Brookings Institute
1775 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Mr. J. Charles Partee
Managing Director
Office of Research and
Economic Policy
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

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The Honorable Wright Patman
U.S. House of Representatives
Rayburn House Office Building
Room 2328
Washington, D.C. 20515

Ms. Sylvia Porter
Syndicated Financial Columnist
30 East 42nd Street
New York, New York 10017

Mr. Donald T. Regan
Chairman of the Board
Merrill, Lynch, Pierce, Fenner and
Smith, Inc.
One Liberty Plaza
165 Broadway
New York, New York 10006

The Honorable Henry S. Reuss
U.S. House of Representatives
Rayburn House Office Building
Room 2186
Washington, D.C. 20515

The Honorable John J. Rhodes
U.S. House of Representatives
Rayburn House Office Building
Room 2310
Washington, D.C. 20515

Mr. David Rockefeller
Chase Manhattan Bank, National Association
One Chase Manhattan Plaza
New York, New York 10015

Mr. Robert V. Roosa
Partner
Brown Brothers Harriman and Company
59 Wall Street
New York, New York 10005

Mr. Ralph S. Saul
Vice Chairman
Insurance Company of North America
1600 Arch Street
Philadelphia, Pennsylvania 19101

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Dr. Raymond J. Saulnier
Professor Emeritus of Economics
Barnard College
Columbia University
5-A Lehman Hall
New York, New York 10027

The Honorable George P. Shultz
Executive Vice President
Bechtel Corporation
50 Beale Street
San Francisco, California 94119

The Honorable J. William Stanton
U.S. House of Representatives
Rayburn House Offfice Building
Room 2448
Washington, D.C. 20515

Mr. Robert H. Stewart III
Chairman of the Board
First International Bancshares, Incorporated
Post Office Box 6031
Dallas, Texas 75283

Mr. Thomas I. Storrs
Chairman of the Executive Committee
North Carolina National Bank
Post Office Box 120
Charlotte, North Carolina 28255

Mr. Norman Strunk
Executive Vice President
U.S. League of Savings Associations
11 East Wacker Drive
Chicago, Illinois 60601

Mr. John Tomayko
Director, Insurance Pension
United Steelworkers of America
5 Gateway Center
Pittsburgh, Pennsylvania 15222

The Honorable Charls E. Walker
President
Charls E. Walker Associates
1730 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

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The Honorable Frank Wille
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Mr. Carlton Wilson
Chairman of the Board and Director
Robert W. Baird and Company, Inc.
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53201

Dr. Charles J. Zwick
President
Southeast Banking Corporation
100 South Biscayne Boulevard
Miami, Florida 33131

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TEXT OF THE LETTER
SECRETARY OF THE TREASURY
WILLIAM E. SIMON
HAS SENT TO PARTICIPANTS IN THE
"FINANCIAL CONFERENCE ON INFLATION"
BEING HELD
IN WASHINGTON, SEPTEMBER 20, 1974

Dear:

I am pleased to learn that you have accepted the President's invitation to the Conference on Inflation on September 27 and 28 and the Financial Conference on Inflation on September 20.

At the banking and finance meeting, we will concentrate on a broad range of issues relating to inflation. We are anxious to have your thinking on this, the nation's number one problem--on its causes, its effects, and its cures. Special emphasis will be devoted to fiscal and monetary policy, the capital markets, the international situation, and financial institutions.

Attached is a preliminary agenda which outlines the format of the meeting and the major subjects that will be covered. We are preparing a compendium of selected papers on each of these topics. We invite you to submit a one-page summary of your views on any of the agenda items for inclusion in this document. We need to receive these summaries by September 13, so that we can distribute the compendium to all participants in advance of the meeting.

An outstanding group of congressional leaders, government officials, economists, and business and financial leaders have accepted our invitation. I am confident that we in government will benefit from your advice and discussions, and I am going to conduct the meeting with that goal in mind.

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The meeting on the 20th will be held at the Statler-Hilton beginning at 9:00 a.m. I would also like to invite you to a reception and dinner for the participants on the evening of the 19th. This dinner will be held in the Executive Dining Room at the Federal Deposit Insurance Corporation, 550 Seventeenth Street, N.W., at 7:00 p.m. We will keep you advised of any other details of the Conference, and I want to say again how much I appreciate your acceptance.

Sincerely,

/S/

William E. Simon

Agenda for September 20
Financial Conference on Inflation

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9:00 AM - Introduction

9:10 AM - Economic Situation and Policy Briefing - Council of Economic Advisers

9:25 AM - Briefing on the Budget - Office of Management and Budget

9:40 AM - Fiscal Policy

Major Fiscal Objectives and Options for Fiscal Years 1975, 1976, and Beyond

Possible Cuts in Federal Spending

Possible Changes in Federal Taxation: Current Levels, Incentives, Deterrents, Equity

11:30 AM - Monetary Policy

Current State of Domestic Financial Markets

Current Monetary Policy: Given the Circumstances, has it been too Tight or about Right? What Should the Future Course of Monetary Policy be?

1:00 PM - Lunch

2:00 PM - Capital Markets and Capital Formation

Discussion of the Dimensions of Future Capital Requirements for Energy, Mass Transit, Housing and All Other Needs of the Economy

-- Policies to Increase the Total Volume of Saving and Investment

-- Policies to Insure Adequate Financing through the Equity and Long-Term Debt Markets

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3:00 PM - International Economic Policy and Inflation

Discussion of the Appropriate U. S. Role in International Economic Policy

International Financial Aspects of World Inflation

4:00 PM - Financial Institutions and Inflation

Possible Changes that should be made in Laws and Regulations Affecting Financial Institutions to Assist in the Fight Against Inflation

4:30 PM - Wage-Price Policy

How Should the Wage-Price Monitoring System be Operated?

5:00 PM - Other Suggestions to Combat Inflation

6:00 PM - Adjournment of Formal Session

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Corrected Copy

MEMORANDUM TO THE PRESS September 11, 1974

On September 20, 1974, Secretary of the Treasury William E. Simon will chair the "Financial Conference on Inflation." The meeting will take place in the Federal Room, Statler Hilton Hotel, Washington, D.C., beginning at 9:00 a.m.

The meeting is open to news media, but seating space is limited. Print media should contact Charles Arnold on 964-2041 and electronic media should contact James Parker on 964-2041 by Monday, September 16 if you wish to cover this event. We will issue invitations on a first come--first serve basis.

To aid you in making a decision you should know that we will be providing written transcripts of the meeting periodically throughout the day. Our best estimate is that transcripts of the entire morning session--which ends at 1:00 p.m.--will be available at approximately 3:00 p.m. And, if all goes as planned, transcripts of the afternoon session will be available at 8:30 or 9:00 p.m.

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FOR IMMEDIATE RELEASE 59 September 10 1974

EMERGENCY LOAN GUARANTEE BOARD
APPROVES LOCKHEED LOAN

The Emergency Loan Guarantee Board approved today the request of Lockheed Aircraft Cooperation and its lending banks for permission for the Company to borrow from the banks up to an additional $25 million under Government guarantee, which, when drawn down, will bring total borrowings permitted under Government guarantee up to $245 million.

Lockheed is authorized under the terms of its agreement with the Emergency Loan Guarantee Board to borrow up to a maximum of $250 million under Government guarantee.

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE September 10, 1974

REMARKS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE NATIONAL PETROLEUM COUNCIL
AT THE U.S. DEPARTMENT OF THE INTERIOR AUDITORIUM
WASHINGTON, D. C., SEPTEMBER 10, 1974

One of the most important tasks facing our Government is the development of a sound energy policy. In this effort, the Federal Government must work with industry. Our choices have been quite clear: either we make the necessary commitments to develop our natural resources or we will become increasingly vulnerable to further economic and political coersion from foreign suppliers.

As we all know for many years, energy policy was based on the assumption that we would always be able to get all the energy we wanted at bargain rates. Foreign oil was inexpensive and limitless in quantity.

This policy proved to be a double-edged sword, however. It resulted in a decline in exploration and production here at home and an increase in our dependency on supplies from other nations. In fact, domestic oil exploration has declined since 1956 and production since 1971, as American producers took advantage of the economic incentives offered abroad. At the same time, our demand for energy was increasing rapidly at an annual rate of 4 to 5 percent a year. The result was that at the time of the embargo, we were dependent on foreign oil for over one-third of our petroleum needs.

Exploration for natural gas, our cleanest burning fuel, has also been discouraged, by artificially low prices. Low rates, regulated at the wellhead, inflated the demand for natural gas, and reduced the market share for competing fuels, especially coal.

We have been working hard to convince the Congress to deregulate prices for "new" natural gas. This may be the most important energy legislation today. It would permit prices to seek competitive levels, stimulating exploration and production, and reducing demand. In time, a free market would allocate supplies to the most efficient and highest priority users.

Looking at the mistakes over the last two decades -- and there were many -- we can see how a legacy of government action and inaction has systematically eroded our production systems. It is clear that in the past we have failed to understand or anticipate the wide variety of factors which determine total energy supplies, and have failed to exercise the political will to provide the necessary legislative climate. We also miscalculated the skyrocketing demand for oil as a replacement for other available or unusable sources of energy.

In some ways, the Arab oil embargo should be viewed as a blessing in disguise. It highlighted the potential vulnerability of the United States because of our growing dependence on foreign oil, and thus transformed America's energy picture from a long-range problem into an immediate one. In fact, it telescoped for everyone historic trends that developed through a generation of decisions by government -- by the private sector -- and by the American people as a whole. We were fortunate that it occurred at a point in time when we were not yet too reliant on foreign supply. We are still 85 percent self-sufficient in energy. It's true that with respect to petroleum, we rely on imports to the extent of about 38 percent of our needs. However, it is better to have had an embargo when our reliance was at 38 percent than to have one when that dependence is at 50 or 60 percent. And that's exactly what will happen if we don't make the necessary commitments now to develop our domestic resources. I am concerned, however, that all of us are forgetting too quickly about the embargo. It's quite easy to get action in the midst of a crisis. It's not so easy when the crisis is behind you. What we must do is not to allow the American people to forget. The thrust of our efforts must be toward energy self-sufficiency.

The first major objective must be to eliminate waste through energy conservation programs. We must aim to reduce the growth in our energy demand from the four to five percent annual rate, heretofore approximately three percent. We believe this can be done without disrupting some economic growth.

-- Second, we must renew all of our efforts to conserve and reduce our overall consumption.

-- Third, we must move towards the removal of price controls from oil and natural gas, and we must phase out the regulations and allocation programs which have so disrupted marketing patterns.

-- Fourth, we need to greatly accelerate our Federal leasing programs on Federal Lands for both oil and coal.

-- Finally, and related to all of these, we must decide on a package of energy legislation and work with the Congress to ensure that it will be passed during the next year. This effort is desperately needed to break the log jam of energy bills which are pending in Congress.

Let the economists have their dispute on the costs. None has ever been able to measure the cost of our national security.

In my judgment, we really have no alternative to achieving the goals of self sufficiency. If our energy industries are not able to meet the challenges of increasing supplies, and if we cannot succeed in reducing demand, our dependence on foreign nations for vital energy commodities will continue to grow. We cannot afford to let this happen. We have the resources and the will -- all we need to do is to make the necessary decisions.

Thank you.

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The second major objective must be to stimulate the development of domestic energy resources. We must accelerate the development of oil and natural gas; we must boost coal production and bring on-line coal liquefaction and gasification capacity; we must develop the promise of our vast oil shale reserves; and expand our nuclear and geothermal power. We must develop a realistic, believeable program to accomplish this -- not only because it will bring us self-sufficiency, but as important because the OPEC nations are looking to see if we are willing to make the necessary decisions to achieve this self-sufficiency.

I suggest that immediately we begin an all-out effort to remove the Governmental restraints which have held back our domestic industry in recent years. Now I am sure that each of you could compile his own list of Governmental impediments. The National Petroleum Council has warned of many in the past, but only now is there growing recognition of just how bad government controls have been. Clearly, the Government has posed, and continues to pose the major obstacle in the short and medium-term to efficient market allocation in energy. We regulate the price and distribution of natural gas; we manipulate the pricing and distribution system in oil; we require lengthy and cumbersome processes for obtaining licenses and rate approvals; and impose environmental restraints of questionable validity upon both the production and combustion of fossil fuels.

As we develop our long range energy policies, we must also set some short term goals. These goals should be clearly understood and stated and explained at each step to the American people. In my mind, the framework should involve several major areas of action, including passage of a legislative package, changing of existing regulatory procedures, and conservation efforts.

-- First, we must make an all-out attempt to produce additional supplies of oil. The potential for this production could be met through a variety of measures such as: maximizing production at Elk Hills and proceeding with exploration on Naval Petroleum Reserve #4 reopening the Santa Barbara Channel, reevalauting upward the maximum effective rate of certain oil fields and increasing secondary and tertiary recovery from existing fields.

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EMBARGOED FOR RELEASE AT 3:00 P.M., EDT
WEDNESDAY, SEPTEMBER 11, 1974

OPENING REMARKS BY WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
FEDERAL OFFICIALS AND REPRESENTATIVES FROM
STATE PUBLIC REGULATORY COMMISSIONS ON THE
FINANCING PROBLEMS FACING THE ELECTRIC UTILITY INDUSTRY
AT THE FEDERAL POWER COMMISSION
SEPTEMBER 11, 1974, 3:00 P.M.

Good afternoon,

I don't have to tell you that the financial plight of the utility industry is a matter of utmost importance to our nation and our economy. Without adequate utility service, business cannot expand its productive capacity and consumers cannot enjoy the standard of living we have accepted as the American right. It will require a new partnership of Federal and State officials to return this vital industry to good health. I am glad to open this meeting which I hope will mark the beginning of a number of discussions to improve consensus and cooperation toward solving a national issue.

Most of you know that the financial condition of the utility industry has been deteriorating steadily for the last several years. But with the explosion in oil prices and other inflationary pressures the industry's financial problems have been intensified. Rate increases, while considerable, have not been enough to meet the surging costs of fuel, construction and money. As the industry's liquidity, earnings and fixed charge coverages have weakened, utilities have lost the ability to raise essential capital. Without normal access to long-term financing, utilities have been forced to turn to short-term sources of credit, a dangerous and limited practice. Continued reliance upon financing of this sort has seriously weakened the creditworthiness of these companies.

The utility industry today requires massive capital investment for needed additional facilities. It is ironic that at a time when our nation desperately needs to increase its nuclear generating capacity, construction programs are being slashed.

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It is estimated that in the next five years, the electric utility industry alone will spend $90 billion, up 46 percent over the preceding five years. To finance this, it is necessary to increase sales of long-term debt securities and new common equity 52 percent and 75 percent, respectively, over the same period.

Unfortunately, the entire utility industry is facing these immense capital needs at a time when our capital markets are depressed and troubled by inflation and the profitability and liquidity of the industry is diminishing alarmingly.

The cash flow of the electric utility industry as a percentage of its capital outlays has dropped from 59 percent in 1964 to 31 percent in 1973. Between 1964 and 1973 the industry's after-tax profits increased only 2 percent per year. During that same period, interest costs have increased 14 percent per year. It is little wonder then that interest coverage has been cut in half from about 5 times in 1963 to about 2.5 times in 1973. But that is the average. Many utilities are not earning enough to cover interest twice, which is the minimum amount of safety investors will normally accept. These companies are effectively barred from both the bond market and the equity market. Since April 1974, 44 utilities have had to postpone or change the terms of planned securities offerings. The cause in every case was investor concern over the safety, liquidity and return offered by utilities securities.

Lack of access to the capital markets has forced at least 18 major electric utilities to delay or cancel outright significant portions of their construction programs. The kilowatts of planned capacity in plants being delayed represent 29 percent of their total generating capacity in service. The managements of these companies attribute inadequate cash flow and return on equity as the principal reasons for the deferrals. Unless these projects are restored in the near future, more brownouts and blackouts are likely in the next few years. It must be recognized that until load factors are improved and demand peaks are reduced, electric utilities will require continuing improvement in their internal cash flow. In the same vein, gas and other utilities will need cash flow improvement as long as the cost of capital and inflation continue at current levels.

Fuel costs have quadrupled since the beginning of 1973 and construction costs for fossil and nuclear plants are growing at a rate of 9 percent and 12.5 percent, respectively. At the same time, internal cash flow is growing at only 7 percent per year. Clearly the industry cannot withstand a continuation of these trends for very long and survive.

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Twenty-six bond rating reductions or suspensions during 1974 have added to the financing problems of utilities. The fact that there has been not a single bond upgrading this year confirms my belief that this unhealthy trend is worsening.

Of course, one of the major problems is that the regulatory process was not designed to function in a highly inflationary environment. Many states have experimented successfully with ad hoc procedures: interim and make-whole mechanisms, automatic pass-throughs and permitting construction work-in process to be used in rate calculations. We applaud these thoroughly constructive innovations and urge that all state regulators adopt such processes.

There is little disagreement that bringing inflation under control commands the highest national priority. It is a terribly difficult challenge, which requires painful decisions both at the Federal and State level. Without a sound utility industry, business, jobs and services to the public cannot expand and Project Independence cannot succeed. To achieve these goals, the users of electric, gas and telephone service must pay the economic cost of providing that service. That is a good part of your challenge -- to adjust the rate structure in a manner approved by your State Legislature so that utilities can finance their expansion in an orderly fashion and investors will again support the industry. A reasonable return on investment cannot be constrained by an artificially low ceiling -- it must be sensitive to changing economic conditions.

I believe this critical problem must be solved, within the utility rate structure, the tax system and the regulatory processes we will discuss today.

The Federal Government must take a leadership role and assist the regulatory commissions in every way that it can. We need to work together to find the solutions. The American people will not accept and the American economy cannot survive a diminishing supply of energy that threatens our entire way of life. We cannot go through the trauma of more blackouts and brownouts, and worse, economic stagnation, that inevitably will follow if we foolishly restrict the construction of the generating capacity essential to our present and future energy needs.

You will hear from my distinguished colleagues during this meeting. We are here to share our views and thoroughly explore the issues I have described. This meeting could be the first of a larger series to overcome the problems we face and to preserve and strengthen an essential industry.

Thank you.

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FOR IMMEDIATE RELEASE September 12, 1974

TREASURY'S 52-WEEK BILL OFFERING

The Treasury Department, by this public notice, invites tenders for $1,800,000,000, or thereabouts, of 364-day Treasury bills to be dated September 24, 1974, and to mature September 23, 1975 (CUSIP No. 912793 WT9).

The bills will be issued for cash and in exchange for Treasury bills maturing September 24, 1974, outstanding in the amount of $1,802,240,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $925,385,000. These accounts may exchange bills they hold for the bills now being offered at the average price of accepted tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding as hereinafter provided, and at maturity their face amount will be payable without interest. They will be issued in bearerform in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to the closing hour, one-thirty p.m., Eastern Daylight Saving time, Wednesday, September 18, 1974. Tenders will not be received at the Treasury Department, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used. It is urged that tenders be made on the printed forms and forwarded in the special envelopes which will be supplied by Federal Reserve Banks or Branches on application therefor.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions

(OVER)

with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of Treasury bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Immediately after the closing hour, tenders will be opened at the Federal Reserve Banks and Branches, following which public announcement will be made by the Treasury Department of the amount and price range of accepted bids. Only those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank on September 24, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 24, 1974. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of Treasury bills (other than life insurance companies) issued hereunder must include in his income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Treasury Department Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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FOR IMMEDIATE RELEASE September 11, 1974

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MEMORANDUM TO THE PRESS

Attached for immediate release is a letter Secretary of the Treasury William E. Simon sent today to the President of the Senate and the Speaker of the House transmitting proposed legislation on access to income tax returns.

Also enclosed is the text of the proposed law and a technical explanation of the legislation.

Attachment

WS-100

THE SECRETARY OF THE TREASURY
WASHINGTON

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SEP 11 1974

Dear Mr. President:

There is forwarded herewith a draft bill "To amend the Internal Revenue Code of 1954 to restrict the authority for inspection of returns and the disclosure of information with respect thereto, and for other purposes." It would be appreciated if you would lay the proposed legislation before the United States Senate. This proposal has been developed in conjunction with current Administration initiatives in the privacy area. The proposal is also being sent to the Speaker of the House.

Inspection and disclosure of tax returns and tax return information is presently governed by section 6103 of the Internal Revenue Code and by Executive Orders and Treasury Regulations adopted pursuant to the authority provided in that section. This statutory and regulatory apparatus has generally worked very well. The number of complaints or allegations of abuse has been very small, particularly when one considers the immense volume of returns and associated information processed each year by the Internal Revenue Service.

Nevertheless, we believe it is important that the American taxpayer know who will have access to information reported on his tax returns and under what circumstances the law makes that information available to others. Therefore, we have completely reexamined the existing rules with a view to ensuring the maximum confidentiality of tax returns and tax return information consistent with effective tax administration and legitimate needs of other federal agencies to obtain tax information for law enforcement and statistical purposes and of states for purposes of their own tax administration.

The proposed legislation would establish a general rule that all tax returns and related information are confidential and may not be disclosed except as authorized by this legislation. The principal instances in which tax return information would be made available to agencies or persons outside the Internal Revenue Service are described below.

Specific statutory authority for access to tax returns by the tax writing committees of Congress would be continued as under present law. Other committees would be permitted access to tax returns only by Congressional resolution substantially in accordance with present procedure. The practice under which a number of committees have obtained tax returns pursuant to Executive Orders would be terminated, and control of Congressional access to tax returns would be placed in the Congress itself.

Federal agencies seeking access to tax returns or other information concerning a taxpayer from the IRS for law enforcement purposes would have to satisfy new statutory criteria which would be both more specific and more restrictive than under present law. The items of information that could be supplied pursuant to a request for a tax check would be strictly limited and would be specified in the statute.

The Social and Economic Statistics Administration in the Department of Commerce would continue to have full access to tax return data for the purpose of its use of information on tax returns for statistical purposes. Other agencies, as well as the states and any other person, could contract for special statistical studies to be undertaken by the Internal Revenue Service but would, of course, have to bear the cost of such studies. In recognition that facility or other limitations might make it impractical for Internal Revenue Service personnel to conduct all such special studies that might be requested, provision is made for the Service to contract with other federal agencies or persons (which might include the requesting party) to carry out such studies. Where such contracts are executed, the outside contractor would be fully subject to all of the safeguards, including the criminal penalties for unlawful disclosure, that are provided to ensure maximum protection of the confidentiality of tax information.

In general, the proposed statutory provisions would be more detailed than under present law, under which most restrictions are contained in regulations or Executive Orders. This statute would narrowly restrict the discretionary authority of the Internal Revenue Service to disclose tax information. The Service would, however, be authorized to withhold disclosure on a finding that the administration of the Federal tax laws would be seriously impaired by such disclosure.

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The draft legislation also contains provisions respecting access to tax returns by states and by other persons, procedures that must be followed in requesting tax information and in handling tax information, and record keeping requirements respecting requests for tax information and the disposition of such requests.

A separate Executive Order will be issued to impose limitations on access by White House employees to tax returns and tax return information. Such access will be permitted only upon a request signed personally by the President.

The provisions of the bill are discussed more completely and in greater detail in the enclosed explanation.

The Office of Management and Budget has advised that, from the standpoint of the Administration's program, there is no objection to the presentation of this proposal for the consideration of the Congress.

Sincerely yours,

William E. Simon

William E. Simon

The Honorable
James O. Eastland
President pro tem of the
United States Senate
Washington, D. C. 20510

Enclosure

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PROPOSAL TO AMEND SECTION 6103 AND RELATED CODE SECTIONS HAVING TO DO WITH DISCLOSURES OF FEDERAL TAX RETURNS AND RETURN INFORMATION

As a general rule, section 6103(a) of the Code presently makes tax returns a matter of public record but authorizes inspection only upon order of the President and under regulations based upon his Executive Orders. Section 6103(b) specifically authorizes disclosure of income tax returns to State and local tax authorities upon request by a State governor for purposes of State or local tax administration. Section 6103(c) authorizes inspection of corporate income tax returns by shareholders owning 1 percent or more of the corporate taxpayer's stock. Section 6103(d) authorizes inspection of returns or return information by the tax writing committees of Congress and by any select committee authorized to inspect returns or return information by Congressional resolution. Finally, section 6103(f) compels the Secretary or his delegate to tell any inquirer whether or not a person has filed an income tax return for a particular year.

Section 7213(a) imposes criminal penalties on any Federal officer or employee who makes an unlawful disclosure of income tax return information and on any person who unlawfully prints or publishes income tax return information. Section 7213(b) imposes corresponding penalties on officers, employees, or agents of a State or political subdivision of a State who unlawfully disclose such information.

The maximum effort has been made under the existing statute and regulations to assure the confidentiality of tax returns and tax return information consistent with effective Federal tax administration and the legitimate needs of other Federal agencies for tax information for law enforcement and statistical purposes and of the States for purposes of their own tax administration. Nevertheless, the existing statutory and regulatory apparatus does not adequately inform the American taxpayer as to who will have access to his tax return and tax return information and for what purposes. Accordingly, the proposed revision of section 6103 reflects a complete reexamination of the present rules and is based on the fundamental principle that tax returns and return information should be held confidential and private except as otherwise clearly provided by statute.

Set out below is a description of existing law and practice under sections 6103 and 7213 in major areas and an explanation of how this proposal would affect the present situation.

1. Definition of Tax Return and Return Information

Existing regulations define "return" to include information returns, schedules, lists, and other written statements which are designed to be a supplement to a return or a part of a return. The term is also defined to include "[o]ther records, reports, information received orally or in writing, factual data, documents, papers, abstracts, memoranda, or other evidence . . . relating to [a return]."

Because disclosure standards properly applicable to a return itself may, in varying circumstances, be different from those applicable to Internal Revenue Service files relating to a return and to information in Service files relating to a taxpayer's past, present, or future tax liability, the legislative proposal makes a definitional distinction between a tax return and tax return information.

The proposed definition of "return" is not significantly different from the basic definition of "return" in existing regulations. The proposed new definition of "return information," however, is considerably more specific and detailed than the existing supplemental definition of "return" quoted above from existing regulations. The proposed new definition of "return information" is intended to cover information of any kind filed with, or compiled by, the Service which relates to a taxpayer's past, present, or future tax liability. The new definition would specifically cover private letter rulings issued pursuant to a request made before enactment of this legislative proposal and all requests for technical advice made by Service personnel to the National Office, regardless of when made. Future private ruling letters generally would be confidential only to the extent permitted by the Freedom of Information Act or other Federal legislation. Also protected is tax information furnished to the Secretary or his delegate in connection with tax administration and accepted by him as confidential pursuant to regulations.

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2. Federal Tax Law Administration

Under existing regulations, tax returns and return information are freely available to officers and employees of the Treasury Department whose official duties require such access. By the same token, tax returns and return information are open to Justice Department attorneys and U.S. attorneys where necessary in the performance of official duties relating to Federal tax administration.

While the existing rule applicable to Treasury Department officers and employees has been retained, the rule applicable to Justice Department attorneys and U.S. attorneys has been clarified. The use to which tax returns and return information are appropriately put by these attorneys in a tax context is in preparation for tax litigation or in an investigation pointing toward tax litigation. As will be described below, the proposal restricts actual disclosure in an administrative or judicial tax proceeding of a third party's return or return information as to a third party. Accordingly--and logically--access by Justice Department attorneys and U.S. attorneys to returns and return information in preparation for tax litigation should be limited in a similar fashion. These attorneys would have access, of course, to returns of, and return information regarding, a taxpayer who is or may be a party to litigation. In the case of a third party, returns and return information would be made available only if the third party consents or if such returns and return information have or may have a bearing on the outcome of the possible or actual litigation for particular reasons specified by the statute.

3. Federal Non-Tax Law Administration

By regulation based upon an Executive Order, any Federal department or agency may, upon request and subject to the approval of the Secretary or his delegate, inspect tax returns and return information in connection with a matter officially before that department or agency.

This access to tax returns and return information has resulted in extensive disclosure of tax returns and return information for use in a variety of Federal activities. While access to tax returns is undoubtedly useful, and perhaps essential, to the proper functioning of some Federal departments and agencies, the volume of data and other information obtainable has reached such proportions as to prompt legitimate concern over the ability to maintain the appropriate degree of confidentiality.

Because of the obviously demonstrable need of the Social and Economic Statistics Administration for returns and return information for research and for statistical purposes, the legislative proposal would make returns and return information available for such purposes upon request by the Secretary of Commerce. No statistical study could be made public, however, if it in any way identified a particular taxpayer or could be so used. Likewise, because of the close relationship between the collection of Social Security taxes and administration of the Social Security Act by the Department of Health, Education, and Welfare, the legislative proposal would continue existing HEW access to returns and return information for this purpose; and access would also be extended to the Labor Department and the Pension Benefit Guaranty Corporation for purposes of administering the Employee Retirement Income Security Act.

In the case of other Federal departments and agencies, access to returns and return information in something other than statistical form would be limited to returns and return information which, for particular reasons specified by statute, have or may have a bearing upon the outcome of an administrative or judicial proceeding (or investigation leading to such a proceeding) in a matter relating to the enforcement of a Federal statute. Because the actual use of returns and return information in such a proceeding is restricted as described below, the initial access by the Federal department or agency for purposes of preparing for a proceeding is restricted in a similar fashion. This pattern thus corresponds generally to that proposed for disclosure to Justice Department attorneys and U.S. attorneys in tax matters which has just been described. It is further provided that the Secretary or his delegate may withhold requested returns and return information to the extent that he finds that disclosure would seriously impair Federal tax law administration.

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In the event that such a determination were made, the proposed statute calls for a consultation on the matter between the head of the requesting Federal department or agency and the Secretary of the Treasury. If, after such consultation, the issue of disclosure has not been resolved, a final determination would be made by the President or his delegate.

Because a number of Federal departments and agencies may well need tax return information in statistical form for various purposes, new section 6108 would authorize the Commissioner to provide statistical studies upon request, provided such statistics did not reveal, directly or indirectly, any taxpayer's identity. Further, a proposed amendment to section 7513 would authorize the Commissioner to contract with any Federal agency, including the requesting agency, to prepare the statistical study if the Internal Revenue Service were unable to do the work itself.

4. State and Local Tax Law Administration

Under section 6103(b) of existing law, income tax returns and income tax return information are, upon the written request of a State governor, open to inspection by any official, body, or commission lawfully charged with the administration of State tax laws for the purpose of such administration. Further, section 6103(b) authorizes the governor to direct that tax returns and return information be furnished to local taxing authorities for use in administering local tax laws.

Tax returns and return information which are supplied to tax officials at, say, a county or city level may not be invariably subject to appropriate safeguards on confidentiality which the Service has the right to expect and a duty to protect. Likewise, political considerations may produce unwarranted interest in tax information at even higher levels for non-tax purposes. The legislative proposal would limit access to tax returns and return information to a State body, agency, or commission lawfully charged with State tax law administration and only for purposes of such administration. It is further provided that returns and return information would be available to State tax officials only to the extent that the Secretary or his delegate does not determine that disclosure would seriously impair Federal tax law administration.

5. Judicial and Administrative Tax Proceedings

Under existing regulations, tax returns and return information are available upon request by attorneys of the Justice Department and U.S. attorneys for use in any Federal or State tax litigation if the Federal Government is interested in the result. This broad right of access can result in seriously breaching the confidentiality of tax returns and return information relating to taxpayers who are not parties to the litigation. This can come about through the introduction in evidence of third party returns and return information where such returns or information may be considered relevant in some way to the outcome of the litigation.

For this reason, the legislative proposal imposes strict conditions upon the use of third party returns and return information in Federal tax litigation where the third party does not consent to such use. Essentially, the proposal would restrict the use of third party returns and return information to those instances where the return or return information has or may have a bearing on the outcome of the litigation for reasons specified by the proposal, and then only to the extent of such bearing. Additionally, third party returns and return information (a) could be used to impeach the testimony of the third party if he were a witness in the proceeding or to impeach the testimony of any other witness regarding a transaction with the third party and (b) could be disclosed to the extent required by the Constitution or, in a criminal proceeding, 18 U.S.C. 3500 or Rule 16 of the Federal Rules of Criminal Procedure. Even if a third party's return and return information could otherwise be disclosed by application of these rules, they could not be used if the Secretary or his delegate determined that disclosure would seriously impair Federal tax law administration. Once again, any such determination would be subject to the procedure described above calling for consultation between the Attorney General and the Secretary of the Treasury with a final determination to be made, if necessary, by the President or his delegate

6. Judicial and Administrative Non-Tax Proceedings

Here again, present regulations effectively provide that the Department of Justice may, upon request, use third party

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returns and return information in non-tax litigation where the Federal Government is interested in the result.

The necessity for protecting any taxpayer's right to privacy with respect to his tax affairs is even more acute in this area than in that of tax litigation since Federal tax administration is in no way involved in the litigation. Accordingly, the proposal would limit the use of any taxpayer's returns and return information in non-tax judicial and administrative proceedings to a Federal proceeding to which the United States is a party and then only if the taxpayer himself is a party to the proceeding or consents to the use or if the information has a bearing upon the outcome of the proceeding because of a transactional relationship between the taxpayer and a party to the proceeding. As in tax litigation, a third party's return or return information could also be used in the litigation under certain circumstances to impeach a witness and to the extent required by the Constitution, 18 U.S.C. 3500, or Rule 16 of the Federal Rules of Criminal Procedure. Once again, the returns and return information could be withheld, subject to the procedure outlined above, upon a finding by the Secretary or his delegate that Federal tax law administration would be seriously impaired.

7. <u>Prospective Jurors and Possible Criminal Activities</u>

Under existing regulations, attorneys of the Department of Justice cannot have access to tax returns for purposes of examining prospective jurors but are authorized to determine from the Internal Revenue Service whether or not a prospective juror has been under tax investigation. The statutory proposal would broaden these rules to permit use of return information by these attorneys to impeach a prospective juror in Federal litigation, while retaining the present rule applicable to inquiries regarding tax investigations of prospective jurors.

In the interest of serving the basic ends of criminal justice, the proposal would direct the Secretary or his delegate to notify the Attorney General as to possible violations of Federal criminal laws which come to his attention as the result of his own access to return information. The proposal would also give the Secretary or his delegate discretionary authority to so notify State or local law enforcement agencies of a possible violation of State criminal laws.

8. Strike Force Participation

The proposal would specifically authorize disclosure of certain return information by Treasury Department employees who participate jointly with another Federal agency in an enforcement activity relating to Federal criminal laws. This proposal is principally directed to Service participation with the Department of Justice in the Federal Organized Crime Strike Force program. The statute would only permit disclosure by participating Service employees to other Federal employees involved in the enforcement program of return information received or developed from sources other than the taxpayer himself and then only to the extent required by the investigation.

9. Congressional Committees

Section 6103(d) authorizes unlimited disclosure of returns and return information to the three tax writing committees of Congress and to any select committee authorized by Congressional resolution to inspect returns and return information. Returns and return information may be furnished to any such committee sitting in executive session. Numerous Congressional committees other than those referred to in section 6103(d) have traditionally sought and obtained returns and return information through specific Executive Orders.

The legislative proposal would tighten existing law in some respects and broaden it in others. The three tax writing committees of Congress would continue to have access to any tax returns and return information upon request, and this right would be specifically extended to the Chief of Staff of the Joint Committee on Internal Revenue Taxation. Any other Congressional committee's access to tax returns and return

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information, however, would have to be by way of a resolution of the appropriate house of Congress. Further, returns and return information furnished to any Congressional committee would have to be furnished in closed executive session.

10. The President

Since tax returns and return information are presently disclosable to the extent authorized by the President, it stands to reason that he now has the right to inspect such returns and return information as he may determine. Because the proposal removes Presidential discretion in the disclosure of tax returns and return information, it grants to him specific authority to see returns and return information pursuant to Executive Order and grants to him the further authority to designate in his Executive Order an employee or employees of the White House Office to receive the returns or return information on his behalf.

11. Persons With a Material Interest

Section 6103(c) authorizes the inspection of a corporation's income tax returns by any holder of 1% or more of the corporation's stock. In an attempt to head off possible mischief, the regulations deny this right to a shareholder who acquired his stock interest for that purpose. Income, estate, gift, unemployment, and certain excise tax returns are presently open to the filing taxpayer, the beneficiary of a trust, a trustee in bankruptcy, and a member of a partnership. Income tax returns of a deceased taxpayer are also open to the representative of his estate and, along with estate and gift tax returns, to certain other persons upon a satisfactory showing of a material interest.

The proposal deletes the "1% stockholder" rule of section 6103(c) because the rule encourages inherently improper and severely damaging disclosures and because SEC rules now require much of the information contained in many corporate returns to be made public. The regulatory rules regarding disclosure to persons with a material interest have been largely retained but tightened to prohibit disclosure of tax return information where disclosure would seriously impair Federal tax law administration.

12. Contractors

Under the authority of section 7513, the Secretary or his delegate may contract for the photographic reproduction of tax returns and return information, and disclosure is, of course, authorized for this purpose. At the same time, disclosure must necessarily be made to certain other contractors and their employees who furnish property and services in connection with the general administration of the tax laws by the Treasury Department and the Internal Revenue Service.

The legislative proposal deals with this problem under current law by specifically authorizing the disclosure of tax returns and return information to any person to the extent necessary in, or to facilitate, the contractual procurement of property or services by the Treasury Department or the Service for tax administration purposes. At the same time, however, the proposal would amend section 7213 to extend to these persons the criminal penalties provided for unauthorized disclosure.

13. Misstatements of Fact

Existing law does not provide clear authority permitting the Secretary or his delegate to disclose return information with respect to a particular taxpayer in order to correct a misstatement of fact published or disclosed with respect to that taxpayer's return or his dealing with the Service. The proposal would permit the Secretary or his delegate to disclose tax return information, or any other information, with respect to that taxpayer under these circumstances to the extent necessary to correct his public misstatement in the interests of Federal tax administration.

14. Tax Checks

Although there is no specific authorizing provision under existing law, tax check information on prospective appointees

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to, and employees of, the Federal Government is presently being furnished upon request. Occasionally, such information is also furnished to a State Government in connection with a prospective appointee to State office.

The legislative proposal restricts tax checks to prospective appointees of the Executive or Judicial branch of the Federal Government, and then only upon written request of the White House, a cabinet officer, or the head of a Federal establishment. The information to be disclosed in a requested tax check is then limited to whether the individual has filed income tax returns for the last 3 years, has failed in the current year or preceding 3 years to pay any tax within 10 days after notice and demand or has been assessed a negligence penalty during this period, has been under any criminal tax investigation and the result of any such investigation, and has been assessed a civil penalty for fraud or negligence.

15. Taxes Imposed by Subtitle E

Existing law affords no specific statutory protection to returns and return information relating to alcohol, tobacco, and firearms taxes imposed by subtitle E of the Internal Revenue Code. In connection with its own law enforcement programs, the Department of Justice has traditionally had access to such returns and return information. Accordingly, the proposal would grant specific statutory access to these returns and return information by a Federal officer or employee whose official duties require such access.

16. Waivers of Confidentiality

No authority presently exists which would permit the Secretary or his delegate to disclose returns or return information with respect to a taxpayer to someone to whom the taxpayer himself wanted his return or return information disclosed. The legislative proposal would permit disclosure in the discretion of the Secretary or his delegate if requested by the taxpayer involved but then only to the extent that such disclosure would not seriously impair Federal tax law administration.

17. Section 6103(f)

The required disclosure to any person of information as to whether another taxpayer has filed an income tax return for a particular year is plainly contrary to the most basic principle of taxpayer privacy. For this reason, the proposal would delete present section 6103(f) of the Code.

18. Judicial Review

The proposal provides that the exclusive remedy for an alleged violation of section 6103 shall be a proceeding under section 7213. Judicial review of any determination permitted or provided by statute to disclose or not to disclose a return or return information is thus limited to a proceeding under section 7213.

19. Penalties for Unauthorized Disclosure

Section 7213 makes it unlawful for any Federal or State official or employee to make a disclosure of income tax return information which the Code does not authorize and makes it unlawful for any person to print or publish any such information except as authorized by the Code.

The legislative proposal expands the scope of section 7213 in three significant respects. First, section 7213 would apply to unauthorized disclosure of any tax returns or return information. Second, the criminal sanctions are extended to former officials or employees of the Federal or a State Government. Third, the criminal sanctions are extended to private contractors and their officers and employees (or former officers and employees) who make unauthorized disclosure of returns and return information to which they have been given statutory access.

A BILL

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TO amend the Internal Revenue Code of 1954 to restrict the authority for inspection of returns and the disclosure of information with respect thereto, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. AMENDMENT OF 1954 CODE.

Whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference is to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. CONFIDENTIALITY AND DISCLOSURE OF RETURNS AND RETURN INFORMATION.

Section 6103 (relating to publicity of returns and disclosure of information as to persons filing income tax returns) is amended to read as follows:

"SEC. 6103. CONFIDENTIALITY AND DISCLOSURE OF RETURNS AND RETURN INFORMATION.

"(a) General Rule.--

"(1) Confidentiality and disclosure.--Returns and return information shall be confidential and no person described in section 7213 (a) shall permit inspection of or disclose returns or return information, nor shall a court, administrative body, or other person order such inspection or disclosure, except to such persons and for such purposes as are authorized by this title.

"(2) Definitions.--For purposes of this section--

"(A) Return.--The term 'return' means any tax or information return or declaration of estimated tax required by, or provided for or permitted under, the provisions of this title filed by, on behalf of, or with respect to any person with the Secretary or his delegate, and any amendment or supplement thereto or claim for refund, including supporting schedules, attachments, or lists which are designed to be supplemental to, or become part of, the return so filed.

"(B) Return information.--The term 'return information' means--

(i) any data including a taxpayer's identity, the nature, source, or amount of his income, payments, receipts, deductions, exemptions, credits, assets, liabilities, net worth, tax liability, tax withheld, deficiencies, overassessments, or tax payments, whether the taxpayer's return was, is being, or will be examined or subject to other investigation or processing, or any particular of any data, in whatever form (whether as a report, investigative file, memorandum or other document, including a registration statement described in section 6057) or manner received by, recorded by, prepared by, or furnished to the Secretary or his

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delegate with respect to a return as described in subparagraph (A) or with respect to the existence of the amount of the liability of any person under this title for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense, but, for purposes of this subdivision (i), not including any such data (or particular thereof) included in a document (or request or correspondence for or with respect thereto) described in (ii) (without regard to the date limitation therein) or (iii);

(ii) any letter, advice, or other document issued by the Secretary or his delegate pursuant to a request made therefor on or before , by, or on behalf of, any person other than an officer or employee of the Department of the Treasury acting in his official capacity, and any such request, or any correspondence for or with respect to such document or any portion thereof, which is intended to be used to determine or affect the application of any rule contained in this title, related law, or tax treaty to the facts and circumstances of a particular transaction, arrangement, or return filed or to be filed by the person to whom such document is furnished;

"(iii) any memorandum, advice, or other document issued by the Secretary or his delegate pursuant to a request by, or on behalf of, any officer or employee of the Department of the Treasury acting in his official capacity, and any such request, or any correspondence for or with respect to such document or any portion thereof, which is intended to be used by him to determine or affect the application of any rule contained in this title, related law, or tax treaty to the facts and circumstances of a particular transaction, arrangement, or return filed or to be filed by any person to whom such document relates or may relate; and

"(iv) any other data of the type described in (i) which is furnished to the Secretary or his delegate in connection with tax administration and accepted as confidential pursuant to regulations prescribed by the Secretary or his delegate,

whether or not such data (or particular thereof) described in (i) or such document (or request or correspondence for or with respect thereto) described in (ii) or (iii) may be in any manner inspected or disclosed under the provisions of section 6104 or any other provision of this title.

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"(C) Tax administration.--The term 'tax administration' means the administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws or related statutes (or equivalent laws and statutes of a State) and tax conventions to which the United States is a party and the development and formulation of Federal tax policy relating to existing or proposed internal revenue laws, related statutes, and tax treaties, and includes assessment, collection, enforcement, litigation, publication, and statistical gathering functions under such laws, statutes, or conventions.

"(D) State.--The term 'State' means the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, possessions of the United States, and other places under the sovereignty of the United States.

"(E) Taxpayer identity.--The term 'taxpayer identity' means the name of a person with respect to whom a return is filed, his mailing address, and his taxpayer identifying number (as described in section 6109) or a combination thereof.

"(F) Inspection.--The terms 'inspected' and 'inspection' mean the visual examination of a return or return information.

"(G) Disclosure.--The term 'disclosure' means the making known to any person in any manner whatever a return or return information.

"(b) Disclosure to State Tax Officials.--Returns and return information, except with respect to taxes imposed by chapters 35 and 53, shall be open to inspection by or disclosure to any State agency, body, or commission lawfully charged with tax administration for the purpose of, and only to the extent necessary in, the administration of a specific tax law of such State and shall be used only for such tax administration. The inspection shall be permitted, or the disclosure made, only upon written request of the head of such State agency, body, or commission, designating the representatives of such agency, body, or commission to make the inspection or to receive the return or return information on behalf of such agency, body, or commission. However, such return information shall not be disclosed to such State agency, body, or commission to the extent that the Secretary or his delegate determines that such disclosure would seriously impair the administration of Federal tax laws.

"(c) Disclosure to Persons Having Substantial Interest.--

"(1) The return of a person with respect to whom the return is filed shall, upon written request, be open to inspection by or disclosure to--

"(A) in the case of the return of an individual, that individual;

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"(B) in the case of an income tax return filed jointly, either of the individuals with respect to whom the return is filed;

"(C) in the case of the return of a partnership, any person who was a member of such partnership during any part of the period covered by the return;

"(D) in the case of the return of a corporation--

"(i) any person designated by resolution of its board of directors, or other similar governing body,

"(ii) any officer or employee of such corporation upon written request signed by any principal officer and attested by the secretary or other officer,

"(iii) if the corporation was an electing small business corporation under subchapter S of chapter 1, any person who was a shareholder during any part of the period covered by such return during which an election was in effect, or "(iv) if the corporation has been dissolved, any person authorized by applicable State law to act for the corporation or any person who the Secretary or his delegate finds to have a material interest which will be affected by information contained therein;

"(E) in the case of the return of an estate--

"(i) the administrator, executor, or trustee of such estate, and

"(ii) any heir at law, next of kin, or beneficiary under the will, of the decedent but only if the Secretary or his delegate finds that such heir at law, next of kin, or beneficiary has a material interest which will be affected by information contained therein; and

"(F) In the case of the return of a trust--

"(i) the trustee or trustees, jointly or separately, and

"(ii) any beneficiary of such trust but only if the Secretary or his delegate finds that such beneficiary has a material interest which will be affected by information contained therein.

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"(2) If an individual described in paragraph (1) is legally incompetent, the applicable return shall be open to inspection by or disclosure to the committee, trustee, or guardian of his estate.

"(3) If an individual described in paragraph (1), other than an individual described in subparagraph (E) (i) or (F) (i) of such paragraph, has died, the applicable return may be inspected by or disclosed to--

"(A) the administrator, executor, or trustee of his estate; and

"(B) any heir at law, next of kin, or beneficiary under the will, of such decedent, or a donee of property, but only if the Secretary or his delegate finds that such heir at law, next of kin, beneficiary, or donee has a material interest which will be affected by information contained therein.

"(4) If substantially all of the property of the person with respect to whom the return is filed is in the hands of a trustee in bankruptcy or receiver, such return or returns for prior years of such person shall be open to inspection by or disclosure to such trustee or receiver, but only if the Secretary or his delegate finds that such receiver or trustee has a material interest which will be affected by information contained therein.

"(5) Any return to which this subsection applies shall also be open to inspection by or disclosure to the attorney in fact, duly authorized in writing, of any of the persons described in paragraph (1), (2), (3), or (4) to inspect the return or receive the information on his behalf, subject to the conditions provided for therein.

"(6) Return information with respect to any return shall also be open to disclosure to any person authorized by this subsection to inspect such return but only to the extent that the Secretary or his delegate determines that such disclosure would not seriously impair the administration of Federal tax laws.

"(d) Disclosure to Committees of Congress. --

"(1) Committee on Ways and Means, Committee on Finance, and Joint Committee on Internal Revenue Taxation. --Upon written request from the Chairman of the Committee on Ways and Means of the House of Representatives, the Chairman of the Committee on Finance of the Senate, or the Chairman of the Joint Committee on Internal Revenue Taxation, the Secretary or his delegate shall furnish such committee sitting in closed executive session with any return or return information.

"(2) Chief of Staff of Joint Committee on Internal Revenue Taxation. --Upon written request from the Chief of Staff of the Joint Committee on Internal Revenue Taxation, the Secretary or his delegate shall furnish him with any return or return information. Such

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Chief of Staff shall have the right to submit any relevant or useful information thus obtained to any committee described in paragraph (1) sitting in closed executive session.

"(3) Other committees.--Upon written request from the chairman of a committee of the Senate or House (other than a committee specified in paragraph (1)) specially authorized to inspect returns or return information by a resolution of the Senate or House or, in the case of a joint committee (other than the committee specified in paragraph (1)), by concurrent resolution, the Secretary or his delegate shall furnish such committee sitting in closed executive session with any return or return information which such resolution so authorizes the committee to inspect.

"(4) Agents of committees and submission of information to Senate or House.--Any committee described in paragraph (1), (2), or (3) or the Chief of Staff of the Joint Committee on Internal Revenue Taxation shall have the right, acting directly, or by or through such examiners or agents as the Chairman of such committee or such Chief of Staff may designate or appoint in writing, to inspect returns and return information at such time and in such manner as he may determine. Any relevant or useful information obtained by or on behalf of such committee pursuant to the provisions of this subsection may be submitted by the committee to the Senate or the House, or to both the Senate and the House, as the case may be. The Joint Committee on Internal Revenue Taxation may also submit such information to any committee described in paragraph (1) sitting in closed executive session.

"(e) Disclosure Pursuant to Executive Order. --Upon order of the President, the Secretary or his delegate shall furnish the President, or such employee or employees of the White House Office as the President may designate in such order to receive on his behalf, any return or return information.

"(f) Disclosure to Certain Federal Officers and Employees for Purposes of Tax Administration, etc. --(1) Returns and return information shall, without written request, be open to inspection by or disclosure to officers and employees of the Department of the Treasury whose official duties require such inspection or disclosure.

"(2) A return or return information with respect to any tax imposed by this title upon a taxpayer shall, without written request, be open to inspection by or disclosure to attorneys of the Department of Justice (including United States Attorneys) personally and directly engaged in, and solely for their use in, preparation for any proceeding (or investigation which may result in a proceeding) before a Federal grand jury or any Federal or State court in a matter involving tax administration but only--

(A) if the taxpayer is or may be a party to such proceeding;

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(B) if the taxpayer consents; or

(C) if such return or return information has or may have a bearing on the outcome of such proceeding because--

(i) treatment of an item with respect to a person who is or may be a party to such proceeding is or may be determined, in whole or in part, by reference to the treatment of an item on such return;

(ii) such return or return information relates or may relate to an issue in the proceeding; or

(iii) the liability of the party under this title for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense, which is or may be the subject of the proceeding is or may be determined, in whole or in part, by reference to such return or return information.

"(g) Disclosure to Federal Officers and Employees for Purposes of Federal Law Administration (Other Than Tax Laws).--(1) Upon request in writing by the Secretary of Commerce, the Secretary or his delegate shall furnish any return or return information reflected on such return to officers or employees of the Social and Economic Statistics Administration (or successor administrations or establishments thereof) of the Department of Commerce for the purpose of research and statistical studies and compilations to be conducted or prepared by such Administration as authorized by law, provided that no such officer or employee shall publish or otherwise disclose any return or return information except in statistical form which cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

"(2) A return or return information with respect to any tax imposed by this title upon a taxpayer shall, upon request, be open to officers or employees of a department, agency, or other Executive establishment of the Federal Government personally and directly engaged in, and solely for their use in, preparation for any administrative or judicial proceeding (or investigation which may result in such a proceeding) pertaining to the enforcement of a specifically designated Federal statute (not involving tax administration) to which the United States (or a department, agency, or other Executive establishment of the Federal Government) is or may be a party before any Federal grand jury, court, department, agency, or other Executive establishment but only--

"(A) if the taxpayer is or may be a party to such proceeding;

"(B) if the taxpayer consents; or

"(C) if such return or return information has or may have a bearing on the outcome of such proceeding because--

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"(i) there was or may have been a transactional relationship between a person who is or may be a party to the proceeding and the taxpayer,

"(ii) such person is or may be a successor in interest of the taxpayer, or

"(iii) such return or return information will or may corroborate or contradict other information obtained in such proceeding or investigation.

The inspection or disclosure shall be permitted only upon written request setting forth the reasons for such request, the authority under which the proceeding or investigation is being conducted, and the particular subparagraph of this paragraph upon which the request is based and signed by the head of such department, agency, or establishment or, in the case of the Department of Justice, signed by the Attorney General, Deputy Attorney General, or an Assistant Attorney General, or by the Director of the Federal Bureau of Investigation. However, such return or return information shall not be disclosed to the extent that the Secretary or his delegate determines that such disclosure would seriously impair the administration of Federal tax laws. In the event that the Secretary or his delegate makes such a determination, the Secretary shall consult with the head of the requesting department, agency, or establishment, or, in the case of a request by the Department of Justice, with the Attorney General. If, after such consultation, the issue has not been resolved, a final determination shall be made by the President or his delegate.

"(3) An officer or employee of the Department of the Treasury participating with officers or employees of another department, agency, or other Executive establishment of the Federal Government in a joint investigation pertaining to the enforcement of Federal criminal laws may, to the extent required by such investigation, disclose to such other officers or employees return information with respect to a tax imposed by this title upon a taxpayer other than return information furnished to the Secretary or his delegate by such taxpayer.

"(h) Disclosure of Certain Returns and Return Information for Tax Administration Purposes. --

"(1) Disclosure by internal revenue officials and employees for investigative purposes. --An internal revenue official or employee may, in connection with his official duties with respect to a tax imposed by this title, disclose return information to the extent that such disclosure is necessary in arriving at a correct determination of tax, liability for tax, or the amount to be collected, or otherwise in the enforcement of any provision of this title.

"(2) Disclosure of accepted offers-in-compromise. --Return information shall be disclosed to members of the general public to the extent necessary to permit inspection of any accepted offer-in-compromise under section 7122, relative to the liability for a tax imposed by this title.

"(3) Disclosure of amount of outstanding lien. --If a notice of lien has been filed pursuant to section 6323 (f) or corresponding provision of prior internal revenue laws, the amount of the outstanding obligation secured by such lien is authorized to be disclosed as a matter of public record and may be disclosed to any person who furnishes satisfactory written evidence that he has a right in the property subject to such lien or intends to obtain a right in such property.

"(4) Disclosure in judicial and administrative tax proceedings. --A return or return information with respect to any tax imposed by this title upon a taxpayer may be disclosed in a Federal or State judicial or administrative proceeding pertaining to tax administration before any Federal or State grand jury, court, department, or Executive establishment, but only--

"(A) if the taxpayer is a party to such proceeding;

"(B) if the taxpayer consents;

"(C) if such return or return information has or may have a bearing on the outcome of such proceeding because--

"(i) treatment of an item with respect to a party to the proceeding is or may be determined, in whole or in part, by reference to the treatment of an item on such return,

"(ii) such return or return information relates or may relate to a transaction at issue in the proceeding, or "(iii) the liability of the party under this title for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense which is the subject of the proceeding is or may be determined by reference to such return or return information;

"(D) to the extent necessary to impeach a witness in the proceeding respecting testimony as to a transaction with the taxpayer if the taxpayer is neither a party to, nor a witness in, such proceeding;

"(E) to the extent necessary to impeach the testimony of the taxpayer if the taxpayer is a witness in the proceeding;

"(F) to the extent required by order of a court pursuant to 18 U.S.C. 3500 or Rule 16 of the Federal Rules of Criminal Procedure, such court being authorized in the issuance of such order to give due consideration to Congressional policy favoring the confidentiality of returns and return information as set forth in this title; or

"(G) to the extent required by the Constitution of the United States.

However, such return or return information shall not be disclosed to the extent that the Secretary or his delegate determines that such disclosure would seriously impair the administration of Federal tax laws. In the event that the Secretary or his delegate makes such a determination with respect to disclosure in a judicial proceeding to which the United States is a party, the Secretary shall consult with the Attorney General. If, after such consultation, the issue has not been resolved, a final determination shall be made by the President or his delegate.

"(5) Disclosure of return information to correct misstatements of fact. --The Secretary or his delegate may, in his discretion, disclose such return information or any other information with respect to any specific taxpayer as he considers advisable for purposes of tax administration, and to the extent necessary, to correct a misstatement of fact published or disclosed with respect to such taxpayer's return or his dealing with the Internal Revenue Service.

"(6) Disclosure to competent authority under income tax convention. --A return or return information may be disclosed to a competent authority of a foreign government which has an income tax convention with the United States but only to the extent provided in, and subject to the terms and conditions of, such convention.

"(7) Federal and State agencies regulating tax return preparers. -- Taxpayer identity information of any tax return preparer (as defined in section 6690 (e)) may be disclosed to any Federal or State agency, body, or commission charged under the laws of the United States or any State or political subdivision of a State with licensing, registration, or regulation of tax return preparers.

"(i) Disclosure of Returns and Return Information for Purposes Other Than Tax Administration. --

"(1) Disclosure in nontax judicial and administrative proceedings. --A return or return information with respect to any tax imposed by this title upon a taxpayer may be disclosed in a judicial or administrative proceeding pertaining to a specifically designated Federal statute (not involving tax administration) to which the United States (or a department, agency, or other Executive establishment of the Federal Government) is a party before any Federal grand jury, court, department, agency, or Executive establishment but only--

"(A) if the taxpayer is a party to such proceeding;

"(B) if the taxpayer consents;

"(C) if such return or return information has or may have a bearing on the outcome of such proceeding because--

"(i) there was a transactional relationship between a party to the proceeding and the taxpayer, or

"(ii) such party is a successor in interest of the taxpayer;

"(D) to the extent necessary to impeach a witness in the proceeding respecting testimony as to a transaction with the taxpayer if the taxpayer is neither a party to, nor a witness in, such proceeding;

"(E) to the extent necessary to impeach the testimony of the taxpayer if the taxpayer is a witness in the proceeding;

"(F) to the extent required by order of a court pursuant to 18 U.S.C. 3500 or Rule 16 of the Federal Rules of Criminal Procedure, such court being authorized in the issuance of such order to give due consideration to Congressional policy favoring the confidentiality of returns and return information as set forth in this title; or

"(G) to the extent required by the Constitution of the United States.

However, such return or return information shall not be disclosed to the extent that the Secretary or his delegate determines that such disclosure would seriously impair the administration of Federal tax laws. In the event that the Secretary or his delegate makes such a determination, the Secretary shall consult with the Attorney General if the United States is a party to the proceeding or the Department of Justice represents a department, agency, or other Executive establishment of the Federal Government which is a party to the proceeding, or with the head of such department, agency, or establishment if the Department of Justice does not so represent the department, agency, or establishment. If, after such consultation, the issue has not been resolved, a final determination shall be made by the President or his delegate.

"(2) Disclosure of certain returns and return information to Social Security Administration and Railroad Retirement Board. --The Secretary or his delegate is authorized to disclose returns and return information--

"(A) with respect to taxes imposed by chapters 2, 21, and 24, to the Social Security Administration for purposes of its administration of the Social Security Act;

"(B) with respect to a plan to which part I of subchapter D of chapter 1 applies, to the Social Security Administration for purposes of carrying out its responsibility under section 1131 of the Social Security Act; and

"(C) with respect to taxes imposed by chapter 22, to the Railroad Retirement Board for purposes of its administration of the Railroad Retirement Act.

"(3) Disclosure of returns and return information to the Department of Labor and Pension Benefit Guaranty Corporation. --The Secretary or his delegate is authorized to furnish returns and return information to the proper officers and employees of the Department of Labor and the Pension Benefit Guaranty Corporation for purposes of the administration of Titles I and IV of the Employee Retirement Income Security Act.

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"(4) Disclosure of return information as to Presidential appointees and certain other Federal Government appointees.--The Secretary or his delegate is authorized to disclose to a duly authorized representative of the Executive Office of the President or to the head of any department, agency, or other Executive establishment of the Federal Government, upon written request of such representative or head, or to the Federal Bureau of Investigation on behalf of such representative or head, return information with respect to an individual who is designated as being under consideration for appointment to a position in the Executive or Judicial Branch of the Federal Government. Such return information shall be limited to whether such an individual--

"(A) has filed returns with respect to the taxes imposed under chapter 1 for not more than the immediately preceding 3 years;

"(B) has failed to pay any tax within 10 days after notice and demand, or has been assessed any penalty under this title for negligence, in the current year or immediately preceding 3 years;

"(C) has been or is under investigation of possible criminal offenses under the internal revenue laws and the result of any such investigation; and

"(D) has been assessed any penalty under this title for fraud.

The official to whom such return information is disclosed is authorized to disclose such information to his superior officers.

"(j) Disclosure of Taxpayer Identity Information.--The Secretary or his delegate is authorized, upon written request, to disclose taxpayer identity information to--

"(1) any Federal agency for purposes of assisting such agency in locating a person with respect to whom a return has been filed;

"(2) any State agency, body, or commission described in section 6103 (b) for purposes of assisting such agency, body, or commission in locating a person with respect to whom a return has been filed or communicating with such person to advise him that he may be entitled to a refund, or to assist such agency, body, or commission in its administration of the tax laws of such State;

"(3) the Department of Health, Education, and Welfare, or appropriate State and local welfare agencies reporting to such Department, for purposes of assisting Federal, State, and local welfare agencies in locating an individual described in 42 U.S.C. 610 with respect to whom a return has been filed; and

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"(4) the press and other media for purposes of notifying persons entitled to tax refunds when the Secretary or his delegate, after reasonable effort and lapse of time, has been unable to locate such persons.

"(k) Disclosure of Returns and Return Information to Designee of Taxpayer.--The Secretary or his delegate may, subject to such requirements and conditions as may be prescribed by regulations, disclose the return of any taxpayer, or return information with respect to such return, to such person or persons as such taxpayer may designate in a written request for such disclosure, or to any other person at the taxpayer's request to the extent necessary to comply with a request for information or assistance made by the taxpayer to such other person. However, return information shall not be disclosed to such person or persons to the extent that the Secretary or his delegate determines that such disclosure would seriously impair the administration of Federal tax laws.

"(l) Certain Other Persons.--The Secretary or his delegate is authorized to disclose returns and return information to any person, including any person described in section 7513 (a), to the extent necessary in connection with contractual procurement of services or property for purposes of tax administration.

"(m) Disclosure of Return Information Concerning Prospective Jurors and Possible Criminal Activities.--

"(1) Prospective Jurors.--

"(A) Return information with respect to any tax imposed by this title upon a taxpayer shall be disclosed to an attorney of the Department of Justice (including a United States attorney) in connection with a judicial proceeding described in paragraph (h)(4) or (i)(1) of this section to the extent necessary to answer an inquiry by such attorney as to whether a prospective juror has, or has not, been investigated by the Secretary or his delegate.

"(B) Return information with respect to any tax imposed by this title upon a taxpayer shall, upon request, be disclosed to an attorney of the Department of Justice (including a United States attorney) in connection with a judicial proceeding described in paragraph (h)(4) or (i)(1) of this section for use by him solely for purposes of impeaching a prospective juror upon examination of such prospective juror, and such return information may, in the discretion of such attorney, be delivered to the court for such use or action by the court as the court may deem appropriate.

"(2) Possible Criminal Activities.--

"(A) Return information with respect to any tax imposed by this title upon a taxpayer shall, if such return information comes to the attention of the Secretary or his delegate, be

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disclosed by the Secretary or his delegate to the Attorney General or his delegate to the extent necessary to apprise the Attorney General or his delegate of activities which may constitute, or may have constituted, a violation of Federal criminal laws.

"(B) Return information with respect to any tax imposed by this title upon a taxpayer may, if such return information comes to the attention of the Secretary or his delegate, be disclosed, in the discretion of the Secretary or his delegate, to an officer of any department, agency, body, or commission of a State (or political subdivision of a State) charged with the enforcement of criminal laws of such State to the extent necessary to apprise such officer of activities which may constitute, or may have constituted, a violation of such criminal laws.

"(n) Disclosure of Returns and Return Information With Respect to Taxes Imposed by Subtitle E.--Returns and return information with respect to taxes imposed by subtitle E of this title (relating to taxes on alcohol, tobacco, and firearms) shall be open to inspection by or disclosure to officers and employees of a department, agency, or other Executive establishment of the Federal Government whose official duties require such inspection or disclosure.

"(o) Remedy for Unauthorized Disclosure. --The exclusive remedy for an alleged violation of this section shall be a proceeding under section 7213, and no court shall have jurisdiction to review a determination that a return or return information is or is not open to inspection or disclosure or to determine the lawfulness of any such inspection or disclosure except in such a proceeding.

"(p) Procedures. --

"(1) Manner, time, and place of inspections. --Request for inspection and the disclosure of a return or return information shall be made in such manner and at such time and place as shall be prescribed by the Secretary or his delegate.

"(2) Copies of returns. --A copy or certified copy of a return shall, upon written request, be furnished to any person to whom disclosure of such return is authorized or who is authorized to inspect the return. Such copy shall have the same legal status as the original; and any such copy shall, if properly authenticated, be admissible in evidence in any judicial or administrative proceeding as if it were the original, whether or not the original is in existence. A reasonable fee may be prescribed for furnishing such copy.

"(3) Disclosure of return information. --Return information disclosed to any person under the provisions of this subchapter may be provided in the form of written documents, reproductions of such documents, films or photoimpressions, or electronically-produced tapes, disks or records, or by any other mode or means which, in

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the opinion of the Secretary or his delegate, are necessary or appropriate. A reasonable fee may be prescribed for disclosing such return information.

"(4) Records of inspection and disclosure.--The Secretary or his delegate shall maintain a record of all requests for inspection and disclosure of returns and requests for return information and of returns inspected and return information disclosed under this section (other than returns and return information inspected or disclosed under the authority of subsection (f), (h), (i) (1) or (j)), and such records shall be available for examination by the Joint Committee on Internal Revenue Taxation or the Chief of Staff of such Joint Committee. The Secretary or his delegate shall, at the request of such Chief of Staff, furnish to him a summary of such records at such time or times and in such form and containing such information as the Chief of Staff may designate in such request.

"(5) Safeguards.--Any department, agency, or other Executive establishment of the Federal Government described in subsection (f) (2) or (g) or any State agency, body, or commission described in subsection (b) shall, as a condition for receiving returns or return information--

"(A) establish and maintain a secure area or place in which such returns or return information shall be stored;

"(B) restrict access to the returns or return information only to those persons whose duties or responsibilities require access and to whom disclosure may be made under the provisions of this title,

"(C) provide such other safeguards as are necessary or appropriate to protect the confidentiality of the returns or return information; and

"(D) when the returns or the return information provided by the Secretary or his delegate in the form of written documents, reproductions of such documents, films or photoimpressions, or electronically-produced tapes, disks or records has served its purpose--

"(i) in the case of a State agency, body, or commission described in subsection (b), return to the Secretary or his delegate such returns or return information (along with any copies made therefrom) or furnish a written report to the Secretary or his delegate that the returns or return information has been destroyed or otherwise made undisclosable in any manner whatever; and

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"(ii) in the case of a department, agency, or establishment described in subsection (f) (2) or (g), either--

"(a) return to the Secretary or his delegate such returns or return information (along with any copies made therefrom),

"(b) otherwise make such returns or return information undisclosable in any manner whatever, or

"(c) to the extent not so returned or made undisclosable, ensure that the conditions of subparagraphs (A), (B), and (C) of this paragraph continue to be met with respect to such returns or return information,

except that the conditions of subparagraphs (A), (B), (C), and (D) shall cease to apply with respect to any return or return information if, and to the extent that, such return or return information is disclosed in the course, or made a part of the record, of any judicial or administrative proceeding described in paragraph (h)(4) or (i)(1) of this section.

"(6) Regulations. --The Secretary or his delegate is authorized to prescribe such regulations as are necessary to carry out the provisions of this section."

SEC. 3. STATISTICAL PUBLICATIONS AND STUDIES

Section 6108 (relating to publication of statistics of income) is amended to read as follows:

SEC. 6108. STATISTICAL PUBLICATIONS AND STUDIES

"(a) Publication or Other Disclosure of Statistics of Income.--The Secretary or his delegate shall prepare and publish annually, and may in his discretion publish or otherwise disclose at any time, statistics reasonably available with respect to the operations of the internal revenue laws, including classifications of taxpayers and of income, the amounts claimed or allowed as deductions, exemptions, and credits, and any other facts deemed pertinent and valuable.

"(b) Special Statistical Studies.--The Secretary or his delegate is authorized, upon written request by any person or persons, to make special statistical studies and compilations of return information (as defined in section 6103 (a) (2) (B)), and to furnish to such person or persons any data obtained from such special statistical studies and compilations in statistical form. The cost of performing such special statistical studies and compilations shall be paid by such person or persons.

"(c) Other Publications.--The Secretary or his delegate may prepare and publish such official rulings, procedures, and similar information of the Internal Revenue Service as he, in his discretion, considers necessary to promote uniform application of the tax laws.

"(d) Taxpayer Identity.--No publication or other disclosure of statistics or other information required or authorized by subsection (a), special statistical study authorized by subsection (b), or information authorized by subsection (c) shall in any manner permit the statistics, study, or any information so published, furnished, or otherwise disclosed to be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

SEC. 4. INSPECTION OF CERTAIN RECORDS BY LOCAL OFFICERS.

Section 4102 (relating to inspection of records, returns, etc., by local officers) is amended to read as follows:

"SEC. 4102. INSPECTION OF RECORDS BY LOCAL OFFICERS.

Under regulations prescribed by the Secretary or his delegate, records required to be kept with respect to taxes under this part shall be open to inspection by such officers of a State, the Commonwealth of Puerto Rico, the District of Columbia, a possession of the United States, or a political subdivision of any of the foregoing, as shall be charged with the enforcement or collection of any tax on gasoline or lubricating oils."

SEC. 5. PENALTY FOR UNAUTHORIZED DISCLOSURE OF INFORMATION.

Section 7213 (relating to unauthorized disclosure of information) is amended by striking out subsection (c), redesignating subsections (d) and (e) as (c) and (d) respectively, and by amending subsection (a) to read as follows:

"(a) Returns and Return Information. --

"(1) Federal employees and other persons. --It shall be unlawful for any officer or employee of the United States or any person described in section 6103 (l) (or an officer or employee of any such person), or any person who was formerly any of the foregoing, to disclose or make known in any manner whatever to any person, except as authorized in this title, any return or return information (as defined in section 6103(a)(2)); and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any return or return information as so defined; and any person committing an offense against the foregoing provision shall be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $1,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution, and if the offender be an officer or employee of the United States, he shall be dismissed from office or discharged from employment.

"(2) State employees. --Any officer, employee, or agent, or former officer, employee, or agent, of any State (as defined in section 6103 (a) (2)) who discloses or makes known in any manner whatever to any person, except as authorized in this title, any return or return information (as defined in section 6103 (a) (2)) acquired by him or

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another person under section 6103 (b) shall be guilty of a misdemeanor, and upon conviction thereof, shall be fined not more than $1,000, or imprisoned not more than 1 year, or both, together with the costs of prosecution.

SEC. 6. PROCESSING OF RETURNS, RETURN INFORMATION, AND OTHER DOCUMENTS.

Section 7513 (relating to reproduction of returns and other documents) is amended to read as follows:

"SEC. 7513. MAKING SPECIAL STATISTICAL STUDIES OR PROCESSING OR REPRODUCING OF RETURNS, RETURN INFORMATION, AND OTHER DOCUMENTS.

"(a) In General.--The Secretary or his delegate is authorized to contract, in accordance with regulations to be prescribed by the Secretary or his delegate, with any department, agency, or other Executive establishment of the Federal Government, any State agency, or any person for the purpose of making special statistical studies (as defined in section 6108 (b)) or of processing or making reproductions by any means whatever of any return or return information (as defined in section 6103 (a) (2)), document, or other matter. For purposes of this section, the term 'processing' includes services involving system design; advice, maintenance, and training in connection with such systems (and operation to the extent necessary or desirable for such purposes); or other assistance in connection with such processing.

"(b) Regulations.--The Secretary or his delegate is authorized to prescribe regulations to provide such safeguards as in the opinion of the Secretary or his delegate are necessary or appropriate to protect returns, return information, documents, or other matter (and reproductions of any of the foregoing in any form whatever) described in subsection (a) against any unauthorized use or any unauthorized disclosure.

"(c) Penalty.--For penalty for unauthorized use or unauthorized disclosure of information contained in returns, return information, documents, or other matter, see section 7213.

SEC. 7. TECHNICAL AND CONFORMING AMENDMENTS.

(1) Section 6106 (relating to publicity of unemployment tax returns) is hereby repealed.

(2) Section 6110 (relating to cross references) is amended by striking out paragraphs (2), (3), (4), and (5), and by inserting in lieu thereof "(2) For inspection of certain records concerning gasoline or lubricating oils by local officers, see section 4102."

(3) Section 6323 (relating to validity and priority of tax liens against certain persons) is amended by striking out paragraph (3) of subsection (i).

(4) Subsection (e) of section 7213 (relating to cross-references) is amended by striking out paragraph (1) and inserting in lieu thereof "(1) Penalties for disclosure of information by preparers of returns.--For penalty for disclosure or use of information by preparers of returns, see section 7216."

(5) Section 7515 (relating to special statistical studies and compilations and other services on request) is hereby repealed.

(6) Subsection (c) of section 7809 (relating to deposit of collections) is amended by striking out in paragraph (1) the words "section 7515 (relating to special statistical studies and compilations for other services on request;" and inserting in lieu thereof "section 6103 (p) (relating to furnishing of copies of returns or of return information) and section 6108 (b) (relating to special statistical studies and compilations;"

Technical changes to change table of contents to be added.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE REPUBLICAN TRUNK 'N TUSK CLUB
PHOENIX, ARIZONA SEPTEMBER 13, 1974
DEL WEBB'S TOWN HOUSE 9:00 P.M.

It will be no news to you when I say that inflation is our number one economic problem. I have been saying that, over and over again, ever since my first day as Secretary of the Treasury. But I'm not the only one. Almost everyone holds that view, because inflation dominates our everyday lives.

The inflation has gone on so long and become so intense that it has done damage to every sector of our society. It has hurt everyone -- people at all income levels, corporations, financial institutions, local governments -- everyone. And most of all, it has hurt the elderly and the poor.

Inflation is unfair. Those who are least able to protect themselves frequently end up bearing the heaviest burden. Individuals and families who have depended upon the Federal Government to preserve the purchasing power of the dollar feel frustrated. People are disillusioned with their government. They are losing confidence that the government will be able to solve the inflation problem.

It is not going to be easy to bring inflation under control. But we are going to do it. I have no doubt about that. However, we must have a better understanding of the causes and cures.

For example, we must understand that inflation is not just an economic problem, it is a political problem as well. I don't mean politics in the partisan, how-do-we-get-elected sense, but in terms/of Government leaders of whatever political persuasion representing and responding to the will of their constituents. That is politics at its best.

The Origins of Inflation

The industrialized countries of the world have all suffered an horrendous bout of inflation over the past decade -- the United States less than most (although I take little comfort from that fact.)

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I think it is fair to conclude that in almost every case a major cause of the inflation was political.

In saying that, I do not mean to imply that inflation has only the single dimension of government economic policy. Inflation is a complex process with many causes. For example, we are all aware of the series of outside shocks that hit our price level during the past two years.

- World production of wheat and coarse grains declined a disastrous 3 1/2 percent in 1972, which resulted in a 36 percent increase in farm prices and a 20 percent increase in consumer food prices during 1973.

- Every industrialized nation in the world experienced strong growth in 1973, and this unusual simultaneity put strong pressure on all internationally-traded raw materials. In the United States, wholesale prices of crude materials, excluding food, increased 31 percent during 1973.

- The devaluations of the dollar made the food and industrial raw material price explosion even worse, because the United States suddenly became the most favorable place for other nations to obtain those hard-to-get raw materials. This was good news for our international trade position, but it put substantial additional pressure on domestic prices.

- And of course, at the end of 1973, the Arab Nations quadrupled the price of crude oil, which put great pressure on the prices of almost all goods and services produced in the United States.

- And finally, the end of wage and price controls just a few months ago added a new burst of price pressures to the current situation.

All of those forces, however, are one-time events. While they are with us, they have an enormous influence on the general price level. For the most part, however, the influence of those events is temporary. And when these special forces have passed -- and most are in the phase-out stage now -- we find that the problem of inflation is still with us, as strong as ever. At the end of this year, after the food and fuel and other special factors have receded, our price level will probably still be rising by something in the neighborhood of 9 percent per year, perhaps more.

And the reason we still find such a horrendous rate of inflation in the system after the special factors have run their course is that over a long period of time political decisions have been tilted in the direction of inflation. We have increased Government spending faster than we have been willing to pay for it through taxation. We have created too much new money and credit, so that more borrowing has taken place than could be financed out of savings. By those actions we permitted, encouraged, even forced the demand for goods and services to outrun the productive capacity of our economy. The inevitable result was inflation.

What this boils down to is that our economic reach has been greater than our grasp of how the economy works. Our eyes have been bigger than our stomach. We have not learned that the standard of living in an economy cannot grow more rapidly than productivity. We do not want to accept the idea that resources are scarce and that if we make a decision to give more to some people in the society we are at the same time deciding to take those resources away from somebody else. Moreover, if we do not make the take-away decision explicitly -- by cutting Federal spending elsewhere, for example -- we do not escape that decision. It is accomplished instead by the tax of inflation.

My basic point is that in making many of the decisions that are so crucially important for inflation we act through our political system. It is a political decision whether or not a government spending program is accelerated or throttled back. It is a political decision whether or not taxes are raised or lowered. It is a political decision whether or not we use a Federal program to funnel cheap credit to special sectors of the economy. And for too many years now, too many of these political decisions have been going the wrong way. From a political point of view, it is always easier to spend than to tax. From an economic point of view, that excessive spending levies the cruelest and most indiscriminate tax of all -- inflation.

The Cure

To correct the inflation problem is every bit as difficult and complex as the inflation itself. There are no simple quick solutions. Back in 1971, some of us thought there might be, but now that controls have had their try we know better.

No, if we are to lick this inflation, we will have to go back to fundamentals. One such fundamental is more savings and investment. As I mentioned earlier, the demands of the American people go far beyond the capacity of the economy. It is of vital importance, therefore, that we continue, and accelerate the upward trend of productivity.

It is no accident that economies, such as Japan or Germany, that devote a large proportion of their output to capital formation have also experienced rapid gains in output per man-hour. By contrast, the United States has put a rather small share of its output into new plant and equipment -- about 15 percent versus an average of about 19 percent in the other industrialized nations -- and we have also had a much slower rate of productivity advance. The need for emphasizing capital formation should be clear.

In addition, however, there are important new investment requirements that go beyond the normal need to replace and expand the existing stock of productive capital. There are many of these new investment requirements, including pollution control, new systems of urban transportation, and energy. The latter is the most important by far. Project Independence is estimated to take from three-quarters to one trillion dollars of new investment over the next decade or so. In recent years energy has accounted for about one-fifth of total investment; in the forseeable future, however, that proportion will have to rise to about one-third.

It is clear, therefore, that our future needs for saving and investment represent an enormous challenge above and beyond what is normal for the American economy. Indeed, investment will have to take a rising share of economic output at the expense of consumption and government spending.

To do this, we will have to make several important changes in our policies. First, Government spending will have to be curbed to make economic room for the added investment. Second, profits will have to grow to provide both the incentive and the wherewithal for investment. We cannot look upon profits as an unnecessary evil, as I fear many Americans now do. We must avoid legislation and regulation that is punitive of profits honestly earned. If we do not, capital formation will be inhibited and the real purchasing power or workers' earnings will grow more slowly.

Third, we must reverse our long-held policies that penalize saving and encourage consumption. Our tax system should be re-examined to this end. Federal Reserve Regulation Q, which limits interest paid on savings accounts, should be revised at the earliest opportunity. And we should permit the normal incentives of the price system to operate freely. We must not impose artifical government constraints, as for example we have done for so many years, and are still doing, in regulating the price of natural gas.

It is instructive to recall what took place after August 1971, when we removed the artifical constraint of fixed exchange rates that had produced an overvalued dollar for so many years. In the free market, the dollar moved to new, more competitive levels and our trade balance, which had been in a nose dive for many years, returned to surplus. Similarly, when we changed agricultural policy 180 degrees to permit maximum production, American farmers responded to the incentives of the market place by planting large amounts of additional acreage. Food prices are high, and the drought in the Midwest this summer has aggravated the situation, but food prices would have been higher still without the shift in policy. These are just two examples of what the market place, given reasonable freedom and time, can achieve in overcoming serious economic problems.

That Old-Time Religion

Another fundamental part of the fight against inflation is sufficient monetary and fiscal restraint to keep the demands for economic output within our capacity to meet them. Indeed, if we are to squeeze out the high rate of inflation that is now thoroughly embedded in our system, we will have to operate with a margin of slack in the economy.

This does not mean that economic policy should be harsh and brutal. Not at all. A deep recession would not help the cause of price stability -- quite the contrary, because a deep recession would force us back into strongly stimulative policies that in the end would create still more inflation. Frequent and abrupt changes in economic policy are almost as disastrous as no restraint at all.

We did not get into this situation overnight. It took years of economic, financial, and monetary excesses. It will take time to cure. The anti-inflation fight has its costs. We will have to take some unpleasant-tasting medicine, and we will have to continue to take it for a prolonged period. We will have to give up some Government spending programs, and unless growth in Federal spending can be cut back appreciably we will have to forego the pleasures of a tax cut. Credit will have to be less easily available. Business profits cannot grow quite so buoyantly. Unemployment will have to average slightly higher than it otherwise would.

These are not negligible costs. But if we are to regain control over inflation, there is no other way. The costs of continued rapid inflation, which is the alternative, are far greater.

And that brings us back to politics again. For a long time, my major concern has been whether the American people and their Government would have the sustained political will for this fight. I think there is more hope now than ever before. The double-digit inflation of this past year has frightened many people, and made them more willing to support tough anti-inflation policies. Good economics is getting to be good politics.

Even this pendulum can swing too far. We must fight and win the battle against inflation, but not by forcing a heavy sacrifice on the economically weak and disadvantaged. Some increase in unemployment from present levels is inevitable. But we can, and must, cope with that problem more imaginatively than in the past. Other sectors of the economy -- such as housing -- may need some special and temporary assistance.

In short, the burden of dealing with inflation should be shared as equitably as we can manage it through the political process. But there is no escape from the need to pursue basic economic policies that will bring inflation under better control. Inflation is the economic problem of our times as surely as deflation and mass unemployment was the economic problem of the 1930s. To deal with it effectively we must be willing to bear the cost of fiscal and monetary restraint.

Conclusion

But we must always remember that we can deal effectively with inflation. Fighting inflation is not just a spectator sport, but a serious endeavor that will require a complete

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team effort. And that team is all of us, Congress, the Executive Branch, business, labor and the American people.

We have a great system of government -- the best system in the world. This country has always been able to solve its problems by working together, and I am confident we will unite in this fight and by doing so we will beat inflation.

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Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
NEWS
TELEPHONE 634-5248

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FOR IMMEDIATE RELEASE
Friday, September 13, 1974

STATE OF TENNESSEE AND
OFFICE OF REVENUE SHARING
CONCLUDE AGREEMENT

The U. S. Treasury Department's Office of Revenue Sharing and the State of Tennessee concluded a joint audit agreement in Washington, D. C. this week. According to the terms of the pact, the Comptroller of the Treasury of the State of Tennessee will audit general revenue sharing funds in Tennessee state agencies and more than 400 units of local government.

The audits will be performed by Tennessee State auditors or independent public accountants, using standards and procedures put forward by the Office of Revenue Sharing in its publication "Audit Guide and Standards for Revenue Sharing Recipients".

The Tennessee agreement was signed on Tuesday, September 10, by William R. Snodgrass, Tennessee's Comptroller of the Treasury and Graham W. Watt, Director of the U. S. Treasury Department's Office of Revenue Sharing.

Tennessee is the third state to sign a joint audit agreement with the Office of Revenue Sharing. Similar pacts were concluded earlier this year with the states of New York and Michigan.

In accepting responsibility for making revenue sharing audits of state departments and agencies and local units of government, Tennessee has joined the Office of Revenue Sharing's Cooperative State Audit System, a program authorized by revenue sharing law.

"The Cooperative State Audit System we are developing with the assistance of state governments will make it possible to audit units of government that receive shared revenues at the least possible cost to all," according to Graham Watt. "The Federal government will not be required to duplicate an audit system already in place," he said.

Audits include both financial practices and compliance with civil rights and other provisions of the revenue sharing law.

In addition to information provided by states through the Cooperative State Audit system, the Office of Revenue Sharing will perform its own audits on a random basis and investigate allegations of noncompliance with revenue sharing law whenever and wherever they may occur.

As presently authorized, the general revenue sharing program will distribute $30.2 billion to nearly 39,000 units of state and local government over a five-year period that ends with December 1976. Already,

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more than $14 billion have been returned to states and local governments. The next regular, quarterly payment of shared revenues will be issued in October.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE AT 6:00 P.M. EDST, September 16, 1974

REMARKS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE AMERICAN NEWSPAPER WOMEN'S CLUB
1607 - 22ND STREET, N.W., WASHINGTON, D.C.
MONDAY, SEPTEMBER 16, 1974 AT 6:00 P.M.

It is a pleasure to be in such talented and attractive company this evening. Despite the fact that it is such pleasant company, I want to discuss an unpleasant subject -- our current economic difficulties and what we should do about them.

In a little more than a year we will be celebrating our National Bicentennial. It will be a time to review the achievements of the past and to establish new goals for the future. We will want to look back to see where we have been and look ahead to see where we are going.

The American economic system has served us well. Great material progress has been achieved over these past two centuries. No other nation has known our material prosperity or abundance. No other people have enjoyed for so long that full measure of economic freedom that generations of Americans have enjoyed. We have attained a level of prosperity in which the "poverty line" in the United States is the threshhold of wealth in many nations of the world. What the socialist system promises its workers in some distant future the American system already provides our people.

It was an accident of history, but of symbolic significance, that the Wealth of Nations by Adam Smith was published the same year Thomas Jefferson penned the Declaration of Independence. For, just as the principles of Jefferson and his generation have guided the political life of this nation for two centuries, so the economic principles of Adam Smith and those that followed in his footsteps have been the guiding lights of our economic history.

That approach has been the path of progress. In material terms it has put this Nation in a position of unrivalled economic leadership in the world. Even more important, the system has helped us preserve our most cherished personal and political freedoms.

We have relied on markets rather than on detailed regulation of economic life by the government. We have depended more on the "invisible hand" of Adam Smith than on the heavy hand of economic planning. Competition, not coercion, has kept things moving. Not the exertion of government, but the ideas, energies and talents of individuals acting alone and acting together -- within our economic system -- have been the sources of our progress and prosperity.

All of this is familiar to you. Anyone who ever read a newspaper editorial -- and for all I know some of you have written reams of them -- is familiar with the case for free enterprise. What does that have to do with today's problem? Today's problem is inflation -- double-digit inflation. That is foremost in your government's concern -- and in the concerns of the American people. Every public opinion poll, indeed every trip to the supermarket, testifies to the dominating, almost overwhelming, importance of inflation as <u>the</u> economic problem of our times.

Inflation at these intolerable rates must be brought to an end. It is equally important that we deal with the inflation problem in a way that is equitable and consistent with our economic and political traditions. I think that we will. But we should not underestimate the difficulty of the task, or the threat that inflation poses for our economic system.

Our economic system is more vulnerable today than it has been at any time since the Great Depression of the 1930's. Then the problem was mass unemployment. Four decades ago, when we were in the grips of depression, we determined that we would never again permit a recurrence of mass unemployment. That was a correct decision -- and it is as correct today as it was then.

But in freeing the economy from the risk of mass unemployment, we have not yet solved the problem of preventing high rates of inflation. I am concerned that we have not yet fully recognized the dimensions of this new threat. I do not think it lies in the danger of financial collapse. Insurance and bank deposits and a vigilant Central Bank shield us from that risk.

Ironically, the danger lies more in what we may do to the economic system, rather than what it may do to us. For, if the rate of inflation is not reduced to tolerable levels, the American public will demand direct action to hold down wages, prices, profits and interest rates. Such action would not end the inflation but, if accepted as an economic way of life, it could mean the erosion of our economic system -- the system that has provided the American people with more and better homes, automobiles, leisure, education and almost everything else worth having -- especially personal and economic freedom -- than any other nation on earth.

I am not talking about economic ideology. This is the 20th century and we can't go back to laissez-faire, or some other mythical system. Government has always had an important role to play in our economic life. But we have also had the good sense in this country to allow maximum scope for competition and individual initiative.

The Case For Private Decisions

The case for private decision making in a market system is based upon a very basic and fundamental fact: it works. The marketplace is an efficient system when it is allowed to operate with the necessary freedom. Indeed, the price system is not only the most effective method of determining what, and where, and how economic activity shall take place in a free society, it is the only feasible method.

If we want the system to work for us, rather than us working for the system, we cannot do better than competitive markets. Once detailed economic planning is substituted for the market mechanism, most of our economic freedom is gone. And when economic freedom is gone, our chances of retaining political and other freedoms are close to zero.

Nothing in this life is perfect and the market system is no exception. The market system does not automatically dispense, or guarantee, social justice. The market does not insure that the collective needs of society will be met. Indeed, there are times -- the Depression was one -- when extraordinary circumstances prevent the market from operating well, at which time government intervention is not only wise, but critical.

It is clear that we must take care of those who are in need and try to insure that all of our citizens are in a position to live out their lives in dignity. Those who cannot help themselves must be helped. Further, the economy must function within an adequate framework of law. And if it is to operate properly, competition must be vigorous.

Government has many vital functions. It has the responsibility for guaranteeing the security of the Nation from foreign enemies, and the security of its citizens from domestic violence. It has the obligation of fairly enforcing the laws. It must provide basic public services. It must protect the environment. It must enforce standards to protect the public health and welfare. It must insure that competitive conditions are maintained. And it should step in and protect individuals against the extremes of economic adversity over which they have no control.

But I think it is most unwise for Government to attempt the detailed regulation of prices and costs. We have done so during and after wartime periods. We did so after August 1971 with our various freezes and phases. We now know from this recent experience, from our past history, and from our fund of economic knowledge, that wage and price controls do not work in a free society.

They have never worked. But while wage and price controls would fail miserably at curing the serious maladies in the American economy, they would succeed marvelously in crippling the economic system to which Americans owe so much.

It is upon the advocates of controls that the burden of proof must fall. Where are the historical examples of success to justify the price paid in the loss of individual freedom? What reason is there to believe that the collective decisions of ten thousand bureaucrats represent better the interests of the American consumer than the free decisions of millions of American citizens?

The decisions of the marketplace are to be preferred over controls imposed by men not because the marketplace produces ideal results but because controls have proven themselves, time and time again, to be costly, coercive, inefficient and unjust.

Certainly, no evidence has been unearthed in recent years to cause one to reverse that verdict.

But I am under no illusions. The American people are fed up with inflation. They want it stopped, and stopped soon. They are not going to be patient indefinitely. In the last analysis, the public wants results and will not be convinced of the inherent virtues of free markets if all they seem to prod

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is rising prices. Therefore, control of inflation demands the highest priority. We must remove the causes of inflation, not treat the results. Above all, we must avoid being drawn back into a maze of controls which would only make a bad situation worse.

Government and Inflation

Let me turn now to what I think we in Government should be doing. First, and perhaps most important of all, we should be listening and learning. We have every reason to be humble in the face of double-digit inflation. The ongoing series of conferences which will culminate in the White House Conference on Inflation later this month provide those of us in Government with an unparalleled opportunity to learn from others. I attach the highest importance to this series of conferences about which I will have more to say in a few minutes.

The other main thing we in Government must bear down on is the Federal budget. It ill behooves the Government to call for sacrifices until it puts its own fiscal house in order. Frankly, I think that Federal expenditures have been growing much too rapidly and that they must be restrained.

Let us look at the record. Not until 1961, when our Nation had been in existence for 185 years, did the Federal budget cross the $100 billion mark. Only nine more years were required for it to cross $200 billion, and it took only four years after that to cross the $300 billion mark. And this doesn't even take account of all the extensions of Federal credit through various guarantees and the like which caused total Federal and Federally-assisted borrowings to account for almost two-thirds of total funds raised in the capital markets in fiscal year 1973.

In 1929 the total expenditures of state, local, and federal government amounted to only 10 percent of the Nation's gross national product, today they consume almost a third of the GNP.

Nor is the much debated defense budget responsible for the growth in size and power of government. Except for a temporary interruption during the Vietnam years, the defense budget as a percent of gross national product has been declining steadily for two decades. Between fiscal years 1968 and 1974 defense expenditures did not rise at all, and they have declined by about one-fourth after rough correction for inflation. During that same period, so-called human resources spending mushroomed at a rapid rate. Of the $90 billion increase in federal spending, $60 billion went for social security, veterans' benefits and welfare. Another $15 billion went for health, education, and manpower. Most of the balance went to finance the rising interest bill on the ever-mounting national debt.

In the budgetary sense of the term, all of this might well be considered "uncontrollable." Indeed, when all the "uncontrollable" items are listed in the budget each year, there seems to be very little left to cut. Our budget, however, is uncontrollable, only if we accept the false assumption that once a law is enacted by Congress, it can never be altered or repealed. In a time when inflation, fueled partly by federal spending, has become the true scourge of the American working class, I do not accept that proposition.

Let me make my position clear. I am not opposed to government social programs. I am not opposed to increases in worthwhile programs -- nor the introduction of new endeavors. Ours is a prosperous and wealthy nation with the wherewithal to more than adequately meet its social obligations.

But we have been trying to have it both ways. We want the expensive social programs -- or seem to -- but we don't want to pay the taxes to support them. The bill is presented all the same and must be paid.

The inflation created in substantial part by the fiscal policies of the past dozen years is truly the cruelest of all taxes -- and the most insidious. Speculation and debt have been rewarded; savings and thrift penalized. Perhaps not even the Vietnam war itself has done more to sap confidence in the Government of the United States and the future than this inflation, this surreptitious tax which has quietly consumed the savings and pensions and insurance of the working people of this nation year in and year out for the last decade.

Not the Arab nations of the Middle East nor the drought of the Middle West created the inflation we know today. Yes, the rising price of oil and gas, and the rising price of food and fiber contributed materially to the intensity of our present inflation. But the ultimate burden of responsibility must rest squarely upon the Government of the United States. With the exception of these special one time factors, inflation is not an import; it is home-grown; it is produced right here in the United States, right in the Nation's capital.

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The time has finally come to bring federal spending under genuine control. President Ford has announced his intention to set a spending target of less than $300 billion for the current fiscal year. That will not be easy. It will require very painful political decisions. There is reason for some optimism since Congress has revised its own budgetary procedures and stands ready to cooperate in the essential effort. Yet it is a measure of how uncontrollable federal spending has become that even if we are successful -- and that is by no means certain -- federal spending will still rise by $30 billion over the previous year -- more than 10 percent.

Is it any wonder that we have inflation? The Federal budget is well on its way to becoming an economic juggernaut. We must bring it under control before it smashes all hope for our long-run financial stability.

The Conference on Inflation

The importance of controlling inflation is widely recognized. I have emphasized my own belief that we should avoid wage and price controls like the plague and work to bring our runaway federal budget under control. But the inflation problem is complex and worldwide. No simple remedies are at hand. If there were an easy way out, someone would have found it long ago.

I think we have taken a big step in the right direction by initiating the series of conferences on inflation leading up to the final sessions on September 27 and 28. These are, as you know, bipartisan in conception and execution. The conferences will draw on the best thinking this Nation can bring to bear on the inflation problem. They allow the public to see, and although on a necessarily limited scale, to participate directly in a dialog on the major economic problem of our time.

A cynic might say that government conferences and commissions are sometimes used to push problems out of sight. Or that government conferences are convenient ways to set a private stamp of approval on a course of action government is going to take away. Neither charge is valid in the present situation.

The conferences on inflation are a genuine effort to examine as intensively as we can the courses of action open to us. We do not expect unanimity of opinion. It may be that no clear consensus will emerge. But the process strikes me as very worthwhile. The conferences to this point have been interesting, stimulating, and even provocative at times. They have also had the beneficial result of contributing to the long slow process of educating the American people to how complex and difficult the inflationary problem is. I am looking forward with great anticipation to our own Treasury conference on banking and finance this Friday, and the other meetings to come. The entire process is in our best national tradition -- open, direct and oriented to solving a problem.

Conclusion

We have a most serious problem in the current inflation -- there is no doubt about that. I am confident, however, that by working together we can find a solution and over time get the economy back on a path of steady growth with reasonably stable prices.

Why am I optimistic? Primarily because the inflation problem is now beginning to get the undivided attention of the Nation and its Government. Perhaps by the time of our Bicentennial, we will have demonstrated that as in the time of Thomas Jefferson and Adam Smith good economics has once again become good politics.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE MONDAY, 1:00 P.M., CDT

WARREN F. BRECHT
ASSISTANT SECRETARY FOR ADMINISTRATION
U. S. DEPARTMENT OF THE TREASURY

REMARKS BEFORE THE AMERICAN BANKERS ASSOCIATION NATIONAL PERSONNEL CONFERENCE

MINNEAPOLIS, MINNESOTA
SEPTEMBER 16, 1974
1:00 P.M., CDT

I. Introductory Remarks

A. I am honored to participate with you in the opening day of the ABA National Personnel Conference. In preparing for this address, I read the conference program and its focus on the decision maker. The planning committee is to be commended for developing such a substantive personnel conference. The need for communication and exchange of ideas has never been so critical as now.

B. Just over a year ago, I was assigned the overall responsibility for the equal employment opportunity program at the Treasury Department. The program is made up of two parts: the in-house program for Treasury's 110,000 employees, and the program all of you are more familiar with, which assures that the commercial banks and savings institutions are meeting their contractual obligations under Executive Order 11246 and Treasury regulations governing equal employment. I have taken my new responsibilities seriously and welcome this opportunity to share with you some of my thoughts, concerns and what I see in the future.

C. Since it was first introduced in 1961, affirmative action toward equal employment opportunity has become an accepted principle of national policy. In practice, however, affirmative action has been assailed by criticism from two divergent points of view. One view clamors that affirmative action plans have been so ineffective and half-heartedly pursued that they only scratch the surface of inequality in employment for minorities and women. The other view holds that affirmative action has developed into a system of possible discrimination in reverse.

D. Furthermore, depending on what kind of study one reviews, diverse results are portrayed. Some studies indicate disquietingly that in the 13 years of affirmative action policy, blacks, other minorities and women are still drastically underemployed in every category except in the most poorly paid and undesirable jobs. Such studies indicate that in the highest paid and most highly regarded levels of jobs, minorities and women are found in only the rarest of incidents. From these kinds of studies, it might follow that if equality is ever to be achieved, affirmative action efforts will have to be pursued with much greater vigor, commitment and competence.

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E. On the other hand, other studies indicate that opportunities for blacks and other minorities in the past 13 years have increased notably--that fewer black families now live below the poverty level and that blacks and other minorities are moving more and more into the mainstream of the world of work and job opportunities.

F. I suspect the real status today is somewhere between these divergent views. In any case, I believe the government's mission and your mission in carrying out equal employment opportunity is becoming increasingly complex. These days we are finding more militancy and less patience; and it is not just among the blacks. In fact, women's groups have been among the more active and vocal in the past year. Then we have the problems of the Spanish speaking, the American Indians and more recently, clamors from the coalitions of Oriental people. Within the last several weeks, affirmative action employment requirements for the handicapped have been added. If we also consider the special emphasis programs for Vietnam veterans, the problems of age discrimination, and the potential backlash of white male employees and the impact of unions, we begin to see the full scope of the problems currently being faced by you as decision makers. And I haven't even mentioned the disclosure problems under the Freedom of Information Act and recent court decisions. So, while the record to date, particularly in the banking industry has been impressive in many cases, I believe we really have our work cut out for us in the months and years ahead.

II. Progress in the Banking Industry

A. Before looking at what is ahead, however, I would like to comment on the progress and accomplishments of the banking industry to date. Overall, you are to be commended on the efforts and results over the past decade and particularly the last 5 years. We in Treasury are aware that in recent years decision makers in the banking industry have become involved and have made decisions which have had a real impact on employment problems of minorities. We are aware that a number of banks beginning about 1968 moved aggressively to get involved in urban problems, to develop meaningful equal opportunity programs for minorities, and to become involved in a way that was both in their enlightened self-interest and in assuring compliance with the public policy and laws governing equal employment.

B. In terms of numbers alone, the results have been excellent. In the period of approximately 5 years, employment of minorities in the banking industry tripled--going from about 40,000 to about 120,000. We in Treasury are aware

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of a number of progressive and innovative programs individual banks and in some cases groups of banks or the ABA have developed and implemented. I would like to mention some of these special efforts:

1. Special skills training in reading, writing, math and clerical skills which young people need but too often minorities do not receive in the public schools.

2. Revamped training programs in the banks to deal with a new kind of work force, made up of people who are not trained and qualified, but who are trainable and qualifiable, thereby enabling thousands of minority young men and women to enter the working world previously beyond their hopes.

3. Participation in job fairs which have concentrated on recruiting and hiring minorities and women.

4. The efforts some banks have made in setting up recruiting vans which go out into the minority communities not only to hire those who want to work, but to encourage those who have not thought about working, at banks.

5. The films and film strips developed by some banks and the ABA directed toward convincing blacks and Spanish speaking that there is a future for them in banking careers.

6. Awareness programs for helping supervisors and managers deal with equal opportunity and minority problems more effectively.

7. Efforts to encourage minority and women employees to participate in the regular bank training programs both in-house, through the American Institute of Banking, and through tuition refund programs so that they will gain skills development and move up the career ladder.

8. A work-study program for high school youth, the purpose of which is to provide an income-producing exposure to work in an integral part of the bank's operation, and at the same time to provide a means by which the education of potential dropouts can be increased and made more meaningful.

9. The National Urban League study done for the ABA at black colleges to determine why blacks were not applying for jobs in banking, and the positive steps you have taken to do something about it.

10. And finally, perhaps a little late but nevertheless significant, the efforts many of you are now taking for the women on your work force, particularly those who have the skills and potential for management positions and who are now being encouraged to participate

in various training programs to gain upward mobility and higher positions in your bank. This is an essential first step toward women being promoted to management jobs. I also understand that women are now beginning to appear in much larger numbers at the various graduate schools of banking and at various AIB offerings.

C. While the above list of accomplishments is commendable, we must recognize that all is not sweetness and light. Many banks, probably the majority of banks, are doing a conscientious and effective job in setting and achieving their equal employment affirmative action plans. Yet, the overall performance is uneven and some members of the banking community still have done very little or have only given lip service to equal employment opportunity for their employees and prospective employees. In fact, in the last several months the Treasury Department has had to issue two show cause letters to banks whose performance up until then was sufficiently unacceptable that we had to threaten withdrawal of federal deposits unless immediate improvement was demonstrated.

D. Even for the banking industry as a whole, we cannot rest on our laurels. As I mentioned earlier, in terms of numbers, your results are indeed impressive. But numbers alone are no longer enough. Employees are increasingly clamoring to be developed and promoted to higher paying and more responsible positions. For bank management, this means you will have to give increasing attention to upward mobility and career development programs. This is particularly true for women who in terms of numbers alone have all along represented the majority of your employees.

E. As a special emphasis program, upward mobility especially appeals to me. We have just instituted a department-wide upward mobility program in Treasury, with emphasis on career counseling, specially tailored developmental programs, and movement of employees out of dead-end positions by restructuring jobs and career ladders. The upward mobility program appeals to me because it cuts across all levels and types of people, be they black or white, male or female, advantaged or disadvantaged. It is the one special emphasis program that potentially offers much to so many who are willing to put out that little extra to take advantage of the program.

III. <u>Future Trends--What I See Ahead</u>

A. I would now like to talk about some of the things I see ahead in the equal employment opportunity program, including compliance requirements and disclosure requirements.

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First, I would like to comment briefly on the Labor Department Orders No. 4 and 14, which implement the basic Executive Order 11246, as amended.

B. Order No. 4 essentially sets forth to federal contractors the specific requirements for developing and implementing an affirmative action program. Firms found not in compliance with Order No. 4 may face termination or cancellation of contracts or be barred from future contracts. For banks, the cancellation of a contract means the loss of federal depository status.

C. Order No. 14, on the other hand, provides instructions to compliance officers on the conduct of EEO compliance reviews. The Office of Federal Contract Compliance has issued these instructions to provide uniformity in the equal opportunity evaluation of all federal contractors by the 15 compliance agencies. As revised, Order No. 14 is now more stringent in requiring certain things to be done within a tighter time frame. It also sets forth additional items for our compliance officers to review. Consequently, it is important that you as bank management become as familiar with the requirements of Order No. 14 as you are with Order No. 4 to make sure you are fully prepared to satisfy the compliance requirements.

D. I understand an ABA task force has been working to develop a uniform reporting format to facilitate a bank's preparation for a Treasury Department compliance review; and that this format will comply with Orders No. 4 and 14. We are also pleased with the affirmative action guide book the ABA has developed to provide much needed guidance for smaller banks. You are to be commended on both these efforts.

E. Next, I would like to talk about a stronger enforcement posture on the part of the Treasury Department. If the Treasury is to be criticized for its performance as a major compliance agency, it may be because we have not been tough enough; or at least in the eyes of some critics we have not evidenced our toughness by issuing show cause letters or cancelling a bank's federal depository status. Please understand that we have no intention of downplaying the positive approach of technical assistance and moral suasion which we believe has been most effective on the whole. In fact, I don't know of another trade association which has dealt as openly with its federal compliance agency as has the American Bankers Association and its member banks. Overall, I believe this has been an effective approach in the past and I do not intend to see it diminished.

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F. Yet, in any industry there are some who may not take things seriously unless a tougher enforcement stance is also exerted when warranted. Furthermore, there are increasing pressures on Treasury and other Federal Government agencies to do a more effective and more comprehensive job of enforcing EEO contractor compliance.

G. This past week, for example, you may have read about the recent GAO investigation prepared for Congresswoman Martha Griffiths' Joint Economic Subcommittee, which apparently shows that federal compliance officers have frequently allowed contracts to be awarded without determining if the companies have complied with non-discrimination regulations. According to GAO, of some 120 affirmative action plans accepted by government agencies, almost half did not meet criteria established by the Labor Department's Office of Federal Contract Compliance.

H. GAO concluded that the Labor Department has been lax in its performance of implementing the Executive Order and that most federal agencies are reluctant to enforce sanctions against companies that do not conform to the regulations. Congresswoman Griffiths, in commenting on the study, stated: "In the last year alone the Federal Government purchased over $50 billion worth of goods and services. The force which it could exercise in reducing discrimination among those firms which vie for $50 billion worth of business is tremendous. Yet the government's effort . . . can only be described as puny."

I. It should be noted that GAO's audit was concentrated at the Labor Department and two of the largest compliance agencies, the General Services Administration and the Department of Defense. Nonetheless, there is a clear message for the Treasury Department and all of you gathered here that if anything, our efforts to enforce the EEO and civil rights acts must be conducted with increasing vigor.

J. I would now like to comment on the disclosure requirements under the Freedom of Information Act and the proposed amendment to that Act. As many of you know, requests for EEO compliance information on banks have become increasingly troublesome to both the Treasury Department and the banks involved. We have increasingly received requests from public interest groups for data which had previously been submitted in confidence but since the Alameda County case have now been determined as releaseable. As some of you are aware, I recently was required to release to a women's group certain bank EEO data which previously had been furnished in good faith with the understanding it would be held in confidence.

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The Alameda County case changed all that and after much agonizing and several meetings with the Labor Department, the Justice Department and representatives of the banks themselves, I finally determined I had no choice but to release certain of these data.

K. Now a pending amendment to the Freedom of Information Act would set time limits that agencies must meet on information requests they receive from the public. Furthermore, as the bill now stands, the government would be liable for payment of court and attorney fees if it loses a Freedom of Information case to a private citizen. On top of that, government employees could be suspended for up to 60 days without pay if their decision to withhold information is overruled by a court.

L. Although the authors of the legislation contend that these tightened provisions are intended more as a prod than a punishment to eliminate the foot dragging techniques many agencies have used in the past, there are certainly some sobering aspects to this pending amendment. It is increasingly clear that agencies must review material very carefully in conjunction with the Justice Department before deciding to exempt it under terms of the Freedom of Information Act.

M. Finally on future trends, you all must be aware of the increasing number of corporations that are winding up on the losing end of federal discrimination suits. In the banking industry alone, the court decrees on the Bank of America and the Bank of California are a costly trend. I am aware of two major banks that have recently taken the initiative to set up trust funds for special skills training and career development for minorities and women, as well as setting more vigorous recruiting goals. These banks, in effect, have said "we are not going to wait for a court decree; rather, we are going to move ahead on our own." Perhaps more of us should take similar initiatives.

IV. Closing Remarks

In closing I would like to leave with you a few thoughts about my philosophy and approach to the equal employment program:

A. The subject of Equal Employment Opportunity is sometimes thought of as a "can of worms"--we hear a lot about grievances and lack of progress. Let's think positively; let's focus on the good things we are trying to do and on successes we have achieved to date. We must recognize we can't turn things around over night; but we in management must make clear our serious intent--we need to "talk

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it up," and we can never rest on our laurels because the situation is so dynamic.

B. It is important that in establishing an equal opportunity program we develop a solid base and then build from there. I do not believe in a lot of shallow publicity or tokenism in high level positions. I am less concerned whether we have a lot of women and minorities in top management positions today, provided we are hiring meaningful numbers of minorities and women at the professional entry level and are developing individually tailored programs to move these individuals up the career ladder within a realistic time frame. I do not believe it is realistic to produce "instant executives" unless this groundwork has been laid previously.

C. As personnel directors, you have a most important role of assuring that your top management commit themselves to achieving the bank's affirmative action goals and timetables. I believe that top management in turn must impress upon each supervisor that his or her performance and consequently salary advancement will be determined not only on the basis of past performance, but on the basis of significant results in helping the bank achieve its goals and timetables in the equal employment field-- just as they are evaluated on their success in achieving many of the other goals and timetables management has established.

D. Thank you for inviting me to share these thoughts with you. Good luck on the remainder of this conference.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE AT 6:00 P.M. EDST, September 16, 1974

REMARKS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE AMERICAN NEWSPAPER WOMEN'S CLUB
1607 - 22ND STREET, N.W., WASHINGTON, D.C.
MONDAY, SEPTEMBER 16, 1974 AT 6:00 P.M.

It is a pleasure to be in such talented and attractive company this evening. Despite the fact that it is such pleasant company, I want to discuss an unpleasant subject -- our current economic difficulties and what we should do about them.

In a little more than a year we will be celebrating our National Bicentennial. It will be a time to review the achievements of the past and to establish new goals for the future. We will want to look back to see where we have been and look ahead to see where we are going.

The American economic system has served us well. Great material progress has been achieved over these past two centuries. No other nation has known our material prosperity or abundance. No other people have enjoyed for so long that full measure of economic freedom that generations of Americans have enjoyed. We have attained a level of prosperity in which the "poverty line" in the United States is the threshhold of wealth in many nations of the world. What the socialist system promises its workers in some distant future the American system already provides our people.

It was an accident of history, but of symbolic significance, that the Wealth of Nations by Adam Smith was published the same year Thomas Jefferson penned the Declaration of Independence. For, just as the principles of Jefferson and his generation have guided the political life of this nation for two centuries, so the economic principles of Adam Smith and those that followed in his footsteps have been the guiding lights of our economic history.

That approach has been the path of progress. In material terms it has put this Nation in a position of unrivalled economic leadership in the world. Even more important, the

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system has helped us preserve our most cherished personal and political freedoms.

We have relied on markets rather than on detailed regulation of economic life by the government. We have depended more on the "invisible hand" of Adam Smith than on the heavy hand of economic planning. Competition, not coercion, has kept things moving. Not the exertion of government, but the ideas, energies and talents of individuals acting alone and acting together -- within our economic system -- have been the sources of our progress and prosperity.

All of this is familiar to you. Anyone who ever read a newspaper editorial -- and for all I know some of you have written reams of them -- is familiar with the case for free enterprise. What does that have to do with today's problem? Today's problem is inflation -- double-digit inflation. That is foremost in your government's concern -- and in the concerns of the American people. Every public opinion poll, indeed every trip to the supermarket, testifies to the dominating, almost overwhelming, importance of inflation as <u>the</u> economic problem of our times.

Inflation at these intolerable rates must be brought to an end. It is equally important that we deal with the inflation problem in a way that is equitable and consistent with our economic and political traditions. I think that we will. But we should not underestimate the difficulty of the task, or the threat that inflation poses for our economic system.

Our economic system is more vulnerable today than it has been at any time since the Great Depression of the 1930's. Then the problem was mass unemployment. Four decades ago, when we were in the grips of depression, we determined that we would never again permit a recurrence of mass unemployment. That was a correct decision -- and it is as correct today as it was then.

But in freeing the economy from the risk of mass unemployment, we have not yet solved the problem of preventing high rates of inflation. I am concerned that we have not yet fully recognized the dimensions of this new threat. I do not think it lies in the danger of financial collapse. Insurance and bank deposits and a vigilant Central Bank shield us from that risk.

Ironically, the danger lies more in what we may do to the economic system, rather than what it may do to us. For, if the rate of inflation is not reduced to tolerable levels, the American public will demand direct action to hold down wages, prices, profits and interest rates. Such action would not end the inflation but, if accepted as an economic way of life, it could mean the erosion of our economic system -- the system that has provided the American people with more and better homes, automobiles, leisure, education and almost everything else worth having -- especially personal and economic freedom -- than any other nation on earth.

I am not talking about economic ideology. This is the 20th century and we can't go back to laissez-faire, or some other mythical system. Government has always had an important role to play in our economic life. But we have also had the good sense in this country to allow maximum scope for competition and individual initiative.

The Case For Private Decisions

The case for private decision making in a market system is based upon a very basic and fundamental fact: it works. The marketplace is an efficient system when it is allowed to operate with the necessary freedom. Indeed, the price system is not only the most effective method of determining what, and where, and how economic activity shall take place in a free society, it is the only feasible method.

If we want the system to work for us, rather than us working for the system, we cannot do better than competitive markets. Once detailed economic planning is substituted for the market mechanism, most of our economic freedom is gone. And when economic freedom is gone, our chances of retaining political and other freedoms are close to zero.

Nothing in this life is perfect and the market system is no exception. The market system does not automatically dispense, or guarantee, social justice. The market does not insure that the collective needs of society will be met. Indeed, there are times -- the Depression was one -- when extraordinary circumstances prevent the market from operating well, at which time government intervention is not only wise, but critical.

It is clear that we must take care of those who are in need and try to insure that all of our citizens are in a position to live out their lives in dignity. Those who cannot help themselves must be helped. Further, the economy must function within an adequate framework of law. And if it is to operate properly, competition must be vigorous.

Government has many vital functions. It has the responsibility for guaranteeing the security of the Nation from foreign enemies, and the security of its citizens from domestic violence. It has the obligation of fairly enforcing the laws. It must provide basic public services. It must protect the environment. It must enforce standards to protect the public health and welfare. It must insure that competitive conditions are maintained. And it should step in and protect individuals against the extremes of economic adversity over which they have no control.

But I think it is most unwise for Government to attempt the detailed regulation of prices and costs. We have done so during and after wartime periods. We did so after August 1971 with our various freezes and phases. We now know from this recent experience, from our past history, and from our fund of economic knowledge, that wage and price controls do not work in a free society.

They have never worked. But while wage and price controls would fail miserably at curing the serious maladies in the American economy, they would succeed marvelously in crippling the economic system to which Americans owe so much.

It is upon the advocates of controls that the burden of proof must fall. Where are the historical examples of success to justify the price paid in the loss of individual freedom? What reason is there to believe that the collective decisions of ten thousand bureaucrats represent better the interests of the American consumer than the free decisions of millions of American citizens?

The decisions of the marketplace are to be preferred over controls imposed by men not because the marketplace produces ideal results but because controls have proven themselves, time and time again, to be costly, coercive, inefficient and unjust.

Certainly, no evidence has been unearthed in recent years to cause one to reverse that verdict.

But I am under no illusions. The American people are fed up with inflation. They want it stopped, and stopped soon. They are not going to be patient indefinitely. In the last analysis, the public wants results and will not be convinced of the inherent virtues of free markets if all they seem to produ

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is rising prices. Therefore, control of inflation demands the highest priority. We must remove the causes of inflation, not treat the results. Above all, we must avoid being drawn back into a maze of controls which would only make a bad situation worse.

Government and Inflation

Let me turn now to what I think we in Government should be doing. First, and perhaps most important of all, we should be listening and learning. We have every reason to be humble in the face of double-digit inflation. The ongoing series of conferences which will culminate in the White House Conference on Inflation later this month provide those of us in Government with an unparalleled opportunity to learn from others. I attach the highest importance to this series of conferences about which I will have more to say in a few minutes.

The other main thing we in Government must bear down on is the Federal budget. It ill behooves the Government to call for sacrifices until it puts its own fiscal house in order. Frankly, I think that Federal expenditures have been growing much too rapidly and that they must be restrained.

Let us look at the record. Not until 1961, when our Nation had been in existence for 185 years, did the Federal budget cross the $100 billion mark. Only nine more years were required for it to cross $200 billion, and it took only four years after that to cross the $300 billion mark. And this doesn't even take account of all the extensions of Federal credit through various guarantees and the like which caused total Federal and Federally-assisted borrowings to account for almost two-thirds of total funds raised in the capital markets in fiscal year 1973.

In 1929 the total expenditures of state, local, and federal government amounted to only 10 percent of the Nation's gross national product, today they consume almost a third of the GNP.

Nor is the much debated defense budget responsible for the growth in size and power of government. Except for a temporary interruption during the Vietnam years, the defense budget as a percent of gross national product has been declining steadily for two decades. Between fiscal years 1968 and 1974 defense expenditures did not rise at all, and they have declined by about one-fourth after rough correction for inflation. During that same period, so-called human resources spending mushroomed at a rapid rate. Of the $90 billion increase in federal spending, $60 billion went for social security, veterans' benefits and welfare. Another $15 billion went for health, education, and manpower. Most of the balance went to finance the rising interest bill on the ever-mounting national debt.

In the budgetary sense of the term, all of this might well be considered "uncontrollable." Indeed, when all the "uncontrollable" items are listed in the budget each year, there seems to be very little left to cut. Our budget, however, is uncontrollable, only if we accept the false assumption that once a law is enacted by Congress, it can never be altered or repealed. In a time when inflation, fueled partly by federal spending, has become the true scourge of the American working class, I do not accept that proposition.

Let me make my position clear. I am not opposed to government social programs. I am not opposed to increases in worthwhile programs -- nor the introduction of new endeavors. Ours is a prosperous and wealthy nation with the wherewithal to more than adequately meet its social obligations.

But we have been trying to have it both ways. We want the expensive social programs -- or seem to -- but we don't want to pay the taxes to support them. The bill is presented all the same and must be paid.

The inflation created in substantial part by the fiscal policies of the past dozen years is truly the cruelest of all taxes -- and the most insidious. Speculation and debt have been rewarded; savings and thrift penalized. Perhaps not even the Vietnam war itself has done more to sap confidence in the Government of the United States and the future than this inflation, this surreptitious tax which has quietly consumed the savings and pensions and insurance of the working people of this nation year in and year out for the last decade.

Not the Arab nations of the Middle East nor the drought of the Middle West created the inflation we know today. Yes, the rising price of oil and gas, and the rising price of food and fiber contributed materially to the intensity of our present inflation. But the ultimate burden of responsibility must rest squarely upon the Government of the United States. With the exception of these special one time factors, inflation is not an import; it is home-grown; it is produced right here in the United States, right in the Nation's capital.

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The time has finally come to bring federal spending under genuine control. President Ford has announced his intention to set a spending target of less than $300 billion for the current fiscal year. That will not be easy. It will require very painful political decisions. There is reason for some optimism since Congress has revised its own budgetary procedures and stands ready to cooperate in the essential effort. Yet it is a measure of how uncontrollable federal spending has become that even if we are successful -- and that is by no means certain -- federal spending will still rise by $30 billion over the previous year -- more than 10 percent.

Is it any wonder that we have inflation? The Federal budget is well on its way to becoming an economic juggernaut. We must bring it under control before it smashes all hope for our long-run financial stability.

The Conference on Inflation

The importance of controlling inflation is widely recognized. I have emphasized my own belief that we should avoid wage and price controls like the plague and work to bring our runaway federal budget under control. But the inflation problem is complex and worldwide. No simple remedies are at hand. If there were an easy way out, someone would have found it long ago.

I think we have taken a big step in the right direction by initiating the series of conferences on inflation leading up to the final sessions on September 27 and 28. These are, as you know, bipartisan in conception and execution. The conferences will draw on the best thinking this Nation can bring to bear on the inflation problem. They allow the public to see, and although on a necessarily limited scale, to participate directly in a dialog on the major economic problem of our time.

A cynic might say that government conferences and commissions are sometimes used to push problems out of sight. Or that government conferences are convenient ways to set a private stamp of approval on a course of action government is going to take away. Neither charge is valid in the present situation.

The conferences on inflation are a genuine effort to examine as intensively as we can the courses of action open to us. We do not expect unanimity of opinion. It may be that no clear consensus will emerge. But the process strikes me as very worthwhile. The conferences to this point have been interesting, stimulating, and even provocative at times. They have also had the beneficial result of contributing to the long slow process of educating the American people to how complex and difficult the inflationary problem is. I am looking forward with great anticipation to our own Treasury conference on banking and finance this Friday, and the other meetings to come. The entire process is in our best national tradition -- open, direct and oriented to solving a problem.

Conclusion

We have a most serious problem in the current inflation -- there is no doubt about that. I am confident, however, that by working together we can find a solution and over time get the economy back on a path of steady growth with reasonably stable prices.

Why am I optimistic? Primarily because the inflation problem is now beginning to get the undivided attention of the Nation and its Government. Perhaps by the time of our Bicentennial, we will have demonstrated that as in the time of Thomas Jefferson and Adam Smith good economics has once again become good politics.

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FOR RELEASE 6:30 P.M. September 16, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on September 19, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 19, 1974		26-week bills maturing March 20, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	97.942	8.142%	95.865 a/	8.179%
Low	97.923	8.217%	95.815	8.278%
Average	97.931	8.185% 1/	95.853	8.203% 1/

a/ Excepting 1 tender of $2,425,000

Tenders at the low price for the 13-week bills were allotted 21%.
Tenders at the low price for the 26-week bills were allotted 44%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 63,090,000	$ 42,865,000	$ 35,240,000	$ 22,205,000
New York	3,678,485,000	2,020,655,000	2,404,315,000	1,486,250,000
Philadelphia	47,975,000	40,830,000	34,450,000	17,995,000
Cleveland	83,215,000	58,195,000	52,465,000	41,225,000
Richmond	41,675,000	38,130,000	41,070,000	23,220,000
Atlanta	58,570,000	37,630,000	35,640,000	24,635,000
Chicago	234,140,000	47,140,000	167,335,000	75,540,000
St. Louis	50,285,000	29,670,000	42,060,000	24,850,000
Minneapolis	38,925,000	6,225,000	26,550,000	6,310,000
Kansas City	62,140,000	41,105,000	34,885,000	26,780,000
Dallas	35,060,000	24,060,000	26,745,000	14,745,000
San Francisco	211,515,000	114,460,000	169,315,000	36,330,000
TOTALS	$4,605,075,000	$2,500,965,000 b/	$3,070,070,000	$1,800,085,000 c/

b/ Includes $574,855,000 noncompetitive tenders accepted at average price.
c/ Includes $318,600,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 8.47% for the 13-week bills, and 8.68% for the 26-week bills.

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FOR IMMEDIATE RELEASE September 16,1974

TREASURY FINANCING TO USE NEW BIDDING METHOD

The Treasury will refund the $2.0 billion of notes maturing on September 30, 1974, by auctioning $2.0 billion of 2-year notes maturing September 30, 1976. This is the first rollover of the quarterly cycle of 2-year maturities started in 1972. The auction will be held on Tuesday, September 24.

For the first time in a Treasury auction, bidding will be on a yield basis rather than a price basis. Bidders are asked to state the percentage yield they will accept to two decimal places, for example 8.47 percent. The coupon will be set, after the auction, to the 1/8 of one percent which is nearest to the average yield on accepted tenders and which produces an average price at or below par. Each successful competitive bidder will pay the price equivalent to his bid. Noncompetitive bidders will pay the average price.

The new bidding method will permit pricing close to par and eliminate the risk of setting a coupon which, because of a change in the market between the coupon announcement date and the auction date, would result, on the one hand, in a price so far above par as to discourage bidders or, on the other hand, result in a price so low that the sale would have to be cancelled to avoid placing the purchasers in an unanticipated tax position in which the excess of the maturity value over the initial discount price would be taxable as ordinary income.

To shorten the time between the auction date and the issue date, coupon securities will not be delivered on the issue date of September 30. They will be delivered on or about October 8. However, any successful bidder who needs a security for trading, collateral or other purposes before the delivery date may request an interim certificate. Interim certificates will be bearer securities, equivalent in all respects to the 2-year Treasury notes except that they will not have coupons attached and must be exchanged for regular coupon securities in order to collect interest.

(Over)

Each tender for the notes must be in the amount of $10,000 or a multiple thereof, the same minimum tender required on Treasury bills of a maturity up to one year. Previous auctions of two-year notes have permitted tenders as low as $1,000, the minimum tender normally required on sales of longer term Treasury bonds. The decision to increase the minimum tender on this auction was taken in the light of current liquidity drains on thrift institutions upon which the nation depends for the bulk of its mortgage finance for housing.

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FOR IMMEDIATE RELEASE September 16, 1974

TREASURY FINANCING

The Treasury will auction under competitive and noncompetitive bidding $2.0 billion, or thereabouts, of 2-year notes to refund the same amount of notes maturing September 30, 1974. The coupon rate for the notes will be determined after tenders are allotted. Some of the notes will be allotted to Government accounts and the Federal Reserve Banks in exchange, on a noncompetitive basis, for any portion of their $0.2 billion holdings of the maturing notes that they choose to exchange.

The method of auction to be used for this issue of notes will differ from that used for previous auctions of Treasury securities. Competitive tenders for these new notes must be expressed in terms of annual yield in two decimal places, e.g., 8.47, rather than in terms of a price, as has been the procedure in other auctions. Tenders at the lowest yields, and noncompetitive tenders, will be accepted to the extent required to attain the $2.0 billion offered. After a determination is made as to which tenders are accepted, a coupon yield will be determined to the nearest 1/8 of 1 percent necessary to make the average accepted price 100.00 or less. That will be the rate of interest that will be paid on all of the notes. Based on such interest rate, the price on each competitive tender allotted will be determined and each successful competitive bidder will pay the price corresponding to the yield he bid. Price calculations will be carried to two decimal places on the basis of price per hundred, e.g., 99.92, and the determinations of the Secretary of the Treasury shall be final. Tenders at a yield that will produce a price less than 99.51 will not be accepted.

The notes to be issued will be Treasury Notes of Series J-1976 dated September 30, 1974, due September 30, 1976 (CUSIP No. 912827 DX7) with interest payable semiannually on March 31 and September 30. They will be issued in registered and bearer form in denominations of $10,000, $100,000 and $1,000,000, and in book-entry form to designated bidders. Delivery of bearer notes will be made on or about October 8, 1974. A purchaser of bearer notes may elect to receive an interim certificate on September 30, which shall be a bearer security exchangeable at face value for Treasury Notes of Series J-1976 when available.

Tenders will be received up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, September 24, at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Securities Transactions Branch, Washington, D. C. 20226; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than Monday, September 23. Each tender must be in the amount of $10,000 or a multiple thereof, and all tenders must state the yield, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender. The notation "TENDER FOR TREASURY NOTES" should be printed at the bottom of envelopes in which tenders are submitted.

The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, including the right to accept more or less than $2,000,000,000 of tenders, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less will be accepted in full at the average price of accepted competitive tenders, which price will be 100.00 or less.

Commercial banks, which for this purpose are defined as banks accepting demand deposits, and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, may submit tenders for the account of customers, provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of notes applied for.

Payment for accepted tenders must be completed on or before Monday, September 30, 1974. Payment must be made at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt in cash, 6% Treasury Notes of Series E-1974, which will be accepted at par, or other funds immediately available to the Treasury by that date. Where full payment is not completed in funds available by the payment date, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of notes allotted will be subject to forfeiture to the United States.

The Treasury will construe as timely payment any check drawn to the order of the Federal Reserve Bank or the United States Treasury that is received at such bank or at the Treasury by Wednesday, September 25, 1974, provided the check is drawn on a bank in the Federal Reserve District of the bank or office to which the tender is submitted. Other checks will constitute payment only if they are fully and finally collected by the payment date. Checks not so collected will subject the investor's deposit to forfeiture as set forth in the preceding paragraph. A check payable other than at a Federal Reserve Bank received on the payment date will not constitute immediately available funds on that date.

Commercial banks are prohibited from making unsecured loans, or loans collateralized in whole or in part by the securities bid for, to cover the deposits required to be paid when tenders are entered, and they will be required to make the usual certification to that effect. Other lenders are requested to refrain from making such loans.

All bidders are required to agree not to purchase or to sell, or to make any agreements with respect to the purchase or sale or other disposition of the notes bid for under this offering at a specific rate or price, until after 1:30 p.m., Eastern Daylight Saving time, Tuesday, September 24, 1974.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE September 17, 1974

REMARKS OF JOHN A. BUSHNELL
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
FOR DEVELOPING NATIONS FINANCE
BEFORE THE CONSULTING ENGINEERS COUNCIL AND
THE INTERNATIONAL ENGINEERING AND CONSTRUCTION
INDUSTRIES COUNCIL
AT THE INTERNATIONAL CLUB, WASHINGTON, D. C.
12:00 NOON, SEPTEMBER 17, 1974

The International Development Banks and Procurement

Mr. Chairman, Gentlemen:

As a newcomer to problems of the international development banks and procurement, I appreciate this opportunity to obtain your views and suggestions. We at the Treasury Department have found our relationships with the Consulting Engineers Council and the International Engineering and Construction Industries Council to be fruitful. Personal contacts -- and particularly the two Hershey Conferences on procurement -- have made possible the sort of dialogue between business and government that help us in our efforts to improve the procurement systems of the development banks.

Too often the role and the importance to economic development of the international development banks -- and of other aid programs -- is considered only in terms of the amounts of financing provided. This is not my view. The great advantage developing countries have today in comparison with economies which modernized a half-century ago is that they can tap the immense reservoir of technical and managerial expertise that has been built up in the developed economies. This knowledge and experience is what is really valuable for the less developed countries. The financial resources provided through the development banks and other assistance programs are mainly just a means of purchasing this knowledge -- whether the knowledge is transmitted through such services as your firms provide or in the machinery and equipment purchased with the loans.

In short, I believe the underlying basis of economic development is precisely the sort of knowledge and expertise which is your business. One need look no further than the eagerness of those countries with newly increased oil revenues to acquire such services to confirm the paramount importance of your services. Increasingly the communist countries are showing the same sort of eagerness to tap the cumulative experience of the U.S. technical community.

Given my philosophy on this point, a key question I would like to raise with you today is how well do the development banks do in maximizing the transfer of technical and management skills to the less developed countries? How could they do better? The bottom line on the annual statement for the development banks should be their total contribution to development through the provision of technology, funds, and encouragement to adopt economic policies to support economic and social development.

But the bottom line for your firms depends on how much business you can get in competition with your competitors from around the world. I have lots of opportunities to hear from various developing countries how they think the banks are doing. This is an opportunity for me to hear from you what your problems are.

We believe your organization is vital for articulating U.S. business needs to the various executive departments of the government. It is also important for explaining to the Congress the importance of the international development banks to long-range U.S. interests. In these times of rapid international political and economic change, the importance of these banks in fostering open market economies cannot be underestimated. Their efforts in the areas of institution building, good economic management, financial efficiency, rational economic planning, and international trade are conducive to the development of private enterprise. And all of this brings the borrowing countries into the international financial and commercial system.

Contrary to popular belief the banks actually help the U.S. economy, even in the short run. The net balance of payments result of U.S. participation in the World Bank, for example, has been positive in four of the last five fiscal years, with a combined net inflow of $1.5 billion. Procurement generated by the international financial institutions' loans is important not only for the U.S. trade account but also for market penetration and the transfer of American technology to the developing countries.

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I'm sure you are interested in the current lending outlook in the banks and the possible effects on U.S. procurement. In the fiscal year ending last June, World Bank and International Development Association lending commitments reached \$4.3 billion, an increase of about 27 percent over the previous year. Similarly, the Inter-American Development Bank increased lending in 1973 by 11 percent over 1972 to reach \$880 million. The Asian Development Bank, the youngest regional bank to which we belong, hopes to commit \$400 million this calendar year and to increase lending by \$50 million annually over the next few years.

The types of projects funded may be almost as important in determining the amount of U.S. procurement share as the overall lending level. Many of you may think that the policies being stressed to reach the poorest 40 percent of the world's population will lead to a reduction of lending for power, transportation, communications and large-scale industry as the banks increasingly commit themselves to rural development, education, rural water supply, population, and urban development projects. But the dollar amount of conventional infrastructure loans is not decreasing, and will likely not decrease in the near future even though lending for the so-called social sectors may rise as a percentage of total commitments.

It is, of course, true that loans for the social sector involve more local procurement than conventional infrastructure projects. But I understand that so far the United States has done reasonably well in procurement on projects in these sectors. To maintain this record American firms will need to be flexible and aggressive. Specifically for you consulting engineers, those firms which adapt to the multi-disciplinary approach implied in these projects will be particularly successful in working on the various bank projects in the years ahead.

The geographic distribution of loans by the international financial institutions with major increases for the poorest areas of the world -- mainly in Africa and Asia -- represents a challenge for the United States as we are not as strong, commercially, in these regions as we are in our traditional trade areas of Latin America and Europe.

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However, with this international financial institutions' expansion in Africa and Asia -- where historically Europe and Japan dominated trade -- I believe American exporters will come to appreciate more fully the objectivity of international competititve bidding system used by the banks. We believe that the banks' procurement systems ensure efficiency of public expenditures and equity as regards sources of supply among member countries. And while we, as a member country of the banks, will work to improve procurement operations, we do not believe that a superior alternative procurement system exists.

Specifically, we do not anticipate any change in the policy that, in general, procurement be open to all member countries of each respective bank. Tying contributions to procurement from a single country would be contrary to the international nature and economic goals of these institutions, and could work to our detriment. Under the current system, for each dollar the U.S. contributes to the banks, American firms are eligible for approximately three dollars on procurement contracts, because the U.S. contribution is matched by contributions from others. We have an equal opportunity to compete and our success will depend on our motivation and abilities.

Declining U.S. procurement shares during the recent past reflected, in large part, the over-valuation of the dollar relative to other major world currencies. However, with the dollar devaluation and rates of inflation in some other development countries even higher than ours, international competitive bidding rules have again begun to help American firms overcome European advantages in Africa and Japanese predominance in Asia. We just received the latest results on U.S. procurement from our executive director at the Asian Development Bank. As of June 30 of this year, the U.S. share or procurement, including consultant services, from the ADB's Ordinary Capital operations stood at 12.4 percent; this represents a steady increase from a level of about 8 percent a year ago. A recent General Accounting Office report credits exchange realignments for a 70 percent increase in foreign contracts won by American engineering and construction firms in 1973 in connection with projects financed from all sources, including the international financial institutions. A jump from a 1972 figure of $3.6 billion to $6.1 billion in one year is a welcome sign for all U.S. exporters.

Of course, the American consulting firms represented here are in a more enviable position than the remainder of American business. You represent an industry where our

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competitive advantage is particularly great and your share of bank-generated procurement was 36 percent for the International Bank for Reconstruction and Development in fiscal year 1973 and 34 percent for the Asian Development Bank in calendar year 1973. For the Inter-American Development Bank we do not have an exact figure, but the percentage is even higher because of our strong competitive position in this hemisphere. To the extent that American consultants get contracts, we may be assured that U.S. suppliers and contractors are not discouraged.

Turning to the U.S. Government's policy towards the international development banks, you can be confident that our support and leadership role in the multilateral development institutions will be continued. One of President Ford's first acts upon taking office was to sign the $1.5 billion International Development Association replenishment bill. Just last week in a message to the Congress, the President reiterated his support for the Asian and African Development Bank authorization bills. And yesterday, in a letter to Congressman Gonzalez President Ford wrote, "Like the other international development lending institutions in which the United States participates, the Asian Development Bank supports important international economic and foreign policy objectives of the United States."

As I said, the Administration supports the authorizing legislation before the House for $412 million for the Asian Development Bank and a $15 million contribution to the African Development Fund. Over the next few years we anticipate U.S. funding of these banks to continue on a scale reflecting our economic strength and interests in the developing countries of the world.

As with other members of these banks, we want to ensure our fair share of procurement. In the last two or three years the Departments of Treasury, State and Commerce have sought to increase government support of U.S. business efforts to obtain contracts arising from international financial institutions' loans. The State Department has invigorated its commercial representation abroad and Commerce has instituted a number of information programs -- the Exporters Information Reference Room and the the TOPS computerized information system should be known to you.

We at Treasury, through the Office of International Development Banks and through our executive directors at the international financial institutions, have sought to monitor and modify, where necessary, the international financial institutions' procurement policies.

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At Treasury's instigation, various studies of specific procurement practices have been undertaken; the quality, quantity, and promptness of early warning information has been improved; and data reporting on the U.S. procurement share has been upgraded. We will remain responsive to the views of organizations like the Consulting Engineers Council.

Along that line, I should say a few words about a recent General Accounting Office report, which some of you have seen, entitled "Improved Government Support Can Increase U.S. Share of Foreign Engineering and Construction Projects." One GAO recommendation was that Treasury seek a change in the World Bank guidelines that discourage the short-listing of more than two consulting firms from any one country. We have investigated this issue and are not sure that such a modification would be to your benefit. The rule is not now rigidly enforced and, as it stands, could work in favor of U.S. firms, given the increasing bank emphasis on Africa and Asia, where an expansion of the short-lists would probably hurt rather than help you to get more business. The existing policy gives borrowers the benefit of diversity in project experience and technical approach.

The GAO report also mentions a topic about which we have been deeply concerned -- accusations of bias in the banks. A consultant was hired by Treasury to investigate the problem and the International Bank for Reconstruction and Development has also explored the question. Neither the IBRD, Treasury, nor our executive directors have uncovered any evidence of bias. For the few instances of substantial improper behavior -- generally on the part of borrowers or consultants -- remedial machinery exists with in the institution and has been utilized by our executive directors. We are prepared to react most strongly if evidence of bias is produced.

Currently, U.S. nationals comprise 26.5 percent of the World Bank's professional staff, approximately 25 percent of Inter-American Development Bank's professional staff, and nearly 10 percent of the Asian Development Bank's professionals. But we want to see more Americans in the Bank's staffs -- not because we expect our own citizens to compromise the international character of the banks -- but because the institutions will benefit from American expertise and outlook.

You consulting engineers can be proud of your share of international financial institutions-generated procurement. But for ultimate American success, you and your colleagues in business and we in government must rededicate ourselves to aggressive marketing, hard work and Yankee ingenuity. You have a great deal to offer the developing countries. But a maximum contribution to development and to your own profits will require aggressive efforts on the spot in developing countries.

To continue helping you we must have your views on a regular basis, because it is only your practical experience that can give us realistic guidance in this matter of procurement. Since in my job I have a major responsibility for overseeing the U.S. Government role in relation to the international financial institutions, I would especially like to have your candid views.

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Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041
NEWS

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September 17, 1974

NOTE TO FINANCIAL WRITERS:

Jack F. Bennett, Undersecretary for Monetary Affairs of the Department of the Treasury, will hold a backgrounder on international monetary issues and the IMF/IBRD annual meeting Wednesday, September 25, at 4 pm. The backgrounder will take place in Room 4121, Main Treasury building.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE September 17, 1974

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TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,300,000,000 , or thereabouts, to be issued September 26, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,500,000,000, or thereabouts, representing an additional amount of bills dated June 27, 1974, and to mature December 26, 1974 (CUSIP No. 912793 VE3), originally issued in the amount of $ 1,900,585,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,800,000,000, or thereabouts, to be dated September 26, 1974, and to mature March 27, 1975 (CUSIP No. 912793 WB8).

The bills will be issued for cash and in exchange for Treasury bills maturing September 26, 1974, outstanding in the amount of $4,501,665,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,554,865,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, September 23, 1974. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

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securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on September 26, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 26, 1974. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY NEWS

WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY
10:00 A.M., SEPTEMBER 17, 1974

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STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
HOUSE BUDGET COMMITTEE
WASHINGTON, D. C.
SEPTEMBER 17, 1974

Mr. Chairman and Members of this Committee:

I am glad to be here this morning to participate in these first hearings of the House Budget Committee. I have been an enthusiastic supporter of budget reform since I first came to the Treasury, and I am pleased to see that you are moving so very promptly to implement the Budget Reform and Impoundment Control Act of 1974.

This is an important time for the Budget Committee to begin its work. In my judgment, there is nothing we can do that is more important for the economic welfare of the American people than to reduce the very rapid momentum that has built up in the growth of Federal expenditures. We need a strengthened decision making process to impose discipline on the budget. The need for more effective control over federal expenditures has been apparent for some years, but the emergence of intolerably rapid rates of inflation has recently brought the issues into much sharper focus.

How did we get into this inflationary mess? I will not try to retrace all the causes of the current inflation, or try to fix the blame one place or another. Without too much risk of oversimplification, I think it is fair to say that the price explosion of 1973-74 is primarily attributable to (a) a series of severe temporary shocks that originated mostly outside the U. S. economic system and (b) almost a decade of excessively stimulative fiscal and monetary policies.

The outside shocks are, by now, familiar to all of us: the world-wide agricultural crop failures of 1972, enormous pressures on the prices of internationally traded raw materials, two devaluation of the dollar, and the Arab oil embargo. In addition, the end of the controls program has been operating as an additional temporary force to raise some prices and wages faster than otherwise would have been the case. Taken together, these temporary factors may explain upwards of one-half of our current rate of inflation.

All these special factors, as important as they have been, are of a temporary, one-shot nature. Had our general economic policies not been too stimulative, the outside shocks would have had only a one-time effect. Once they had worked their way through the system, the inflation would have settled down again to a tolerable rate.

But our general economic policies have, in fact, been far too stimulative for a long period of time. Let me give you two examples of how policy changed in the mid-1960s.

First, on the fiscal side: from 1955 to 1965 Federal expenditures rose at roughly a 6 percent annual rate. From 1965 to 1974, however, Federal expenditures surged to a 10 percent annual rate of growth. This rapid spending growth created huge Federal deficits which, coming as they did during periods of high business activity, added enormously to economic demands. These deficits were, therefore, directly responsible for creating strong upward pressures on the price level.

Second, monetary policy also broke out of a previously established pattern. From 1955 to 1965 the money supply grew at a 2 1/2 percent rate. Since then, the growth rate has more than doubled to a 6 percent annual pace. It is no accident that during the earlier period we had a rather stable price performance, but since 1965 we have had the worst peacetime inflation in our history.

What has and is happening, then, is that the excessive budget deficits and the excessive growth of money and credit in recent years prevented the "temporary" price pressures from running their course and fading away. Instead, much of the inflation from the outside shocks is or soon will be deeply embedded in our entire system. It is or soon will be embedded into the pattern of wage settlements and into the structure of interest rates. It is or soon will be embedded into the economic expectations of consumers, of workers, of investors, of businessmen -- everybody.

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And because this inflation is becoming so deeply embedded, squeezing it out of the system will be a long, tough process. It is a most difficult challenge for economic policy.

Our only viable primary policy, in my opinion, is to apply the necessary fiscal and monetary discipline persistently and consistently to keep total demands on the economy within the limits of its capacity to produce.

This will also help us achieve the premier long-term goal of economic policy, which is to make sure that during the next decade our economy generates the enormous volume of savings and investment that will be necessary for Project Independence, new mass-transit systems, housing, environmental improvement, and all the other capital requirements of our society. I beleive that we will have to raise the share of national output devoted to savings and investment by a substantial margin.

It is not widely recognized that our investment performance has been relatively poor. Since 1960, plant and equipment spending in the United States was only 15 percent of total output, whereas France invested 18 percent, Germany 20 percent and Japan 27 percent. And furthermore, for gross domestic investment (which includes inventories, housing and public investment), the proportions for 1973 are: United States 17 percent, France 26 percent, Germany 25 percent and Japan 37 percent.

It will not be a simple matter to raise our investment share; quite the contrary. We will have to change our many policies that encourage consumption at the expense of savings and investment. Among the most important changes that we will have to make is to maintain regular surpluses in the budget, so that the Federal Government would be adding to the supply of savings available to the private economy, instead of using up those savings -- as we have been doing in 13 of the past 14 years. If we could maintain, on average, a budget surplus equal to even one-half percent of GNP, we would add about 3 percent to the flow of savings available to the private sector. And the chances are that over the longer term we will need an appreciable budget surplus to augment the stream of private savings.

On this point, I think we should remember that the Federal Government has a greater impact on the financial markets than is indicated by the deficit in the Unified Budget. For one thing, the Export-Import Bank and the Postal Service are not in the budget and, correspondingly, their credit demands do not get included in the budget deficit. Much more important, there is a large volume of credit that is guaranteed by Federal agencies -- to assist public and private housing, urban and rural development, shipbuilding and railroads, health, education, small business, and other functions. These all represent demands that we in the Government place on the financial markets. It is not often realized how large these demands are; in fact, in many years the net borrowings for these programs exceed the deficit in the Unified Budget, as shown in the table below. (Note that these figures do not include the borrowings of the Federally sponsored agencies: the Federal National Mortgage Association, the Home Loan Bank System, and the Farm Credit System.)

Fiscal Year	Unified Budget Deficit	Additional Federal Credit	Total
	(billions of dollars)		
1971	-23.0	-16.8	-39.8
1972	-23.2	-18.0	-41.2
1973	-14.3	-15.6	-29.9
1974	- 3.5	-16.8	-20.3
1975 (est.)	-11.4	-14.9	-26.3

If the sponsored agencies are also added in, the Federal presence in the credit markets reaches rather startling dimensions. In the fiscal year 1973, total Federal and Federally assisted borrowings accounted for about 60 percent of all the funds raised through borrowings in the capital markets. This is a trend which concerns me greatly. I hope that your Committee will take a large view of its responsibilities and look beyond the budget, as it is conventionally defined, to the off-budget outlays, credit guarantees, and government actions generally that commit economic resources and add to the already heavy pressures on our capital markets.

Let me emphasize that the fight against inflation will take years. There are no shortcuts, no acceptable quick solutions. The balanced application of fiscal and monetary restraint is the answer. Balance is the word I want to stress. When the budget is weak and overstimulates the economy, the monetary authorities have no choice but to bear the entire burden of stabilization policy. This places heavy strain on our financial markets and imposes a disproportionate adjustment on particular sectors, such as housing. More fiscal restraint would remove the need to press monetary restraint quite so hard.

There are those who question the effectiveness of restrictive fiscal policy to counter these fundamental inflationary pressures. In my view, however, the evidence of experience is clear that fiscal restraint applied consistently and in tandem with monetary restraint can bring inflation under control.

Inflation is an exceedingly complex process and no simple chart will ever be able to give us the answer to the inflation problem. I believe, however, that the attached chart captures the essence of the budget's contribution to the control of inflation. It can be seen that the actual budget position (top panel) does not correlate closely with the rate of infaltion (bottom panel). This is where the full employment budget proves itself to be a useful guide to economic policy. The full employment calculation adjusts the budget data to remove the impact of the economy on the budget, and thereby brings out the impact of the budget on the economy. When the full employment budget position (middle panel) is compared to the rate of inflation, a fairly striking pattern emerges. There is a strong general relationship between the two. In the broad sweep of things, it is clear that sustained and sizable budget surpluses are associated with below-average inflation and sustained and sizable budget deficits are associated with above-average inflation.

There are two years during the 26-year span covered by the chart in which the inflation is far higher than can be accounted for by fiscal policy. These years are 1950-1951 and 1973-1974, which were the two occasions when commodity inflation (food and industrial raw materials) had an extraordinarily large, one-time impact on the general price level. Aside from these two occasions, the relationship strongly supports the general notion that budget deficits are inflationary and budget surpluses are not inflationary.

ECONOMIC ADJUSTMENTS

Any well-conceived anti-inflation program must also have regard for the casualties of inflation and for those whose earnings may be interrupted for a time by a program of disinflation. Without getting into detail, let me say that I believe we can gradually reduce inflation without suffering massive unemployment. For a time, we will have to live with more unemployment than we would like, but it will not have to be a large amount. To deal with this contingency, we have proposed improvements in our system of unemployment compensation, and I again urge Congressional passage of that legislation. The Administration is also considering whether or not an expansion of the present public service employment program would make a useful contribution to economic stabilization. This is one of the issues on which there has been much discussion, and considerable controversy, at the Conference on Inflation held thus far.

Strains in the financial markets have had particularly adverse effects on the housing and utility industries. In May we put forward a $10 billion program to augment the supply of mortgage funds, and on September 11, Federal officials and state utility regulators met to explore solutions to the critical financial problems facing the utility industry.

The surging costs of fuel, construction and money have placed intense financial strains on both industries, producing dangerously low earnings for many companies. In the utility industry, regulatory lag has intensified the problems. While state and local regulatory bodies have jurisdiction to act, the Administration is examining what might be done to speed up the needed changes. The Administration believes that raising utility rates now to a level sufficient to cover the real economic costs of providing those services is deflationary in the long run.

The expansion of credit in the housing industry and tax and other Federal initiatives in the utility industry are exactly the kind of solutions which are required now to lay the foundation for gradual disinflation. Some of the necessary economic adjustments will be painful and at times will raise prices in the short run, but all will have a common long-term goal -- reducing and eventually eliminating inflation.

WHERE TO CUT

It is easy for me to come before you and say that we must cut the budget. The next step, however, is the tough one: Where should the cuts be made? What specific programs are to be eliminated or at least stretched out? This is the nub of the issue, and although the general idea of cutting the budget has gained in popularity, that is almost certainly not true for individual programs. Specific budget cuts are never popular. Nobody wants to see their own high-priority areas cut back; that is entirely understandable. But the time has come when we must make some hard choices.

President Ford has announced that our target is a figure in this fiscal year of under $300 billion. If we are to bring the budget in on target, there is no alternative but that some individual programs will have to give way. I think you will agree with me that this hearing is not the place to decide where to cut the budget. We now have a new mechanism that provides the Legislative and Executive Branches of Government with the means to cooperate closely on budget matters, and we should use this mechanism to determine our budget priorities.

Another evidence of closer cooperation in the economic area is the fact that the Congress and the Executive Branch have jointly set in motion the series of meetings which will lead up to the Conference on Inflation later this month. I believe these meetings are making an important contribution to the economic education of the American people; the difficult and complex nature of the inflation problem is clear for all to see.

I want to stress the cooperative nature of the vital effort to bring the runaway Federal budget under better control. We must strike a necessary balance between what is economically practical and what is politically practical. We must be sure that in making cuts in specific programs we do not turn back the clock on economic and social progress in this Nation. We must take a thoughtful, careful approach to the task of pruning the budget, rather than taking a meat-ax, across-the-board approach in which the good programs get cut along with the bad. And we also need the kind of tough give-and-take that is the hallmark of democratic government. It will not be an easy task but it is a vital one and I look forward to working on it with you, Mr. Chairman, and the other Members of this Committee.

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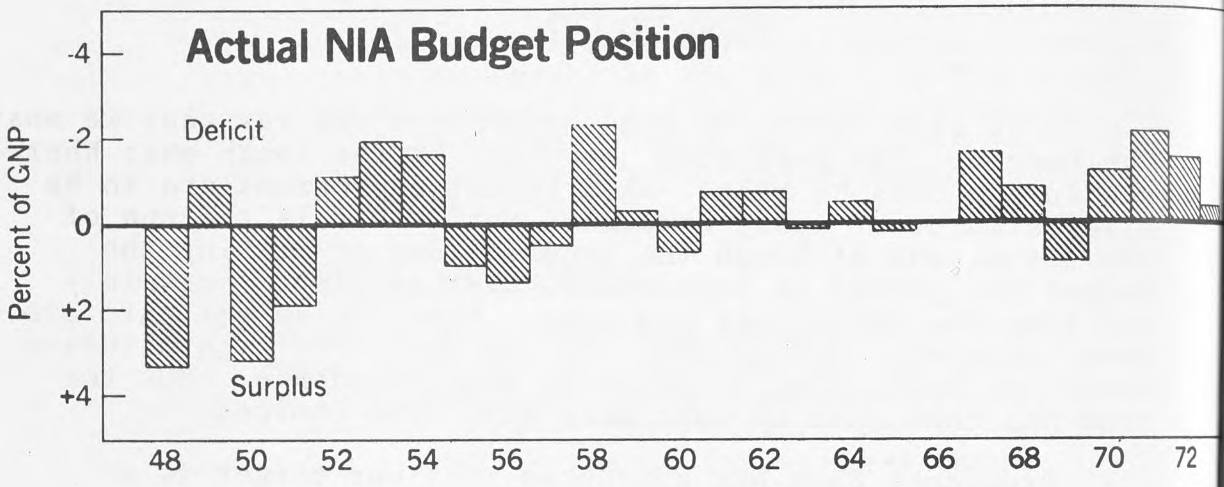
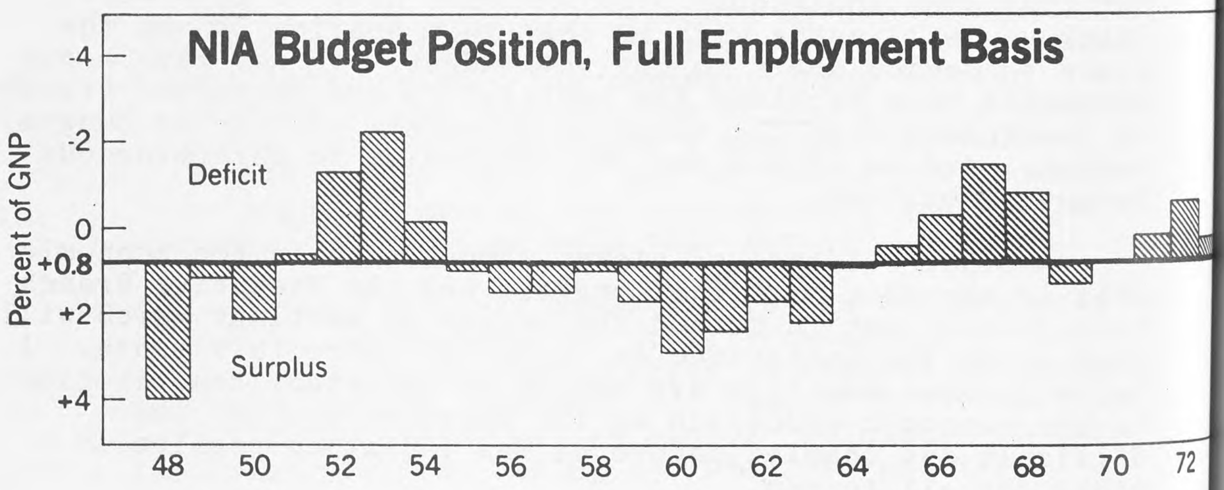
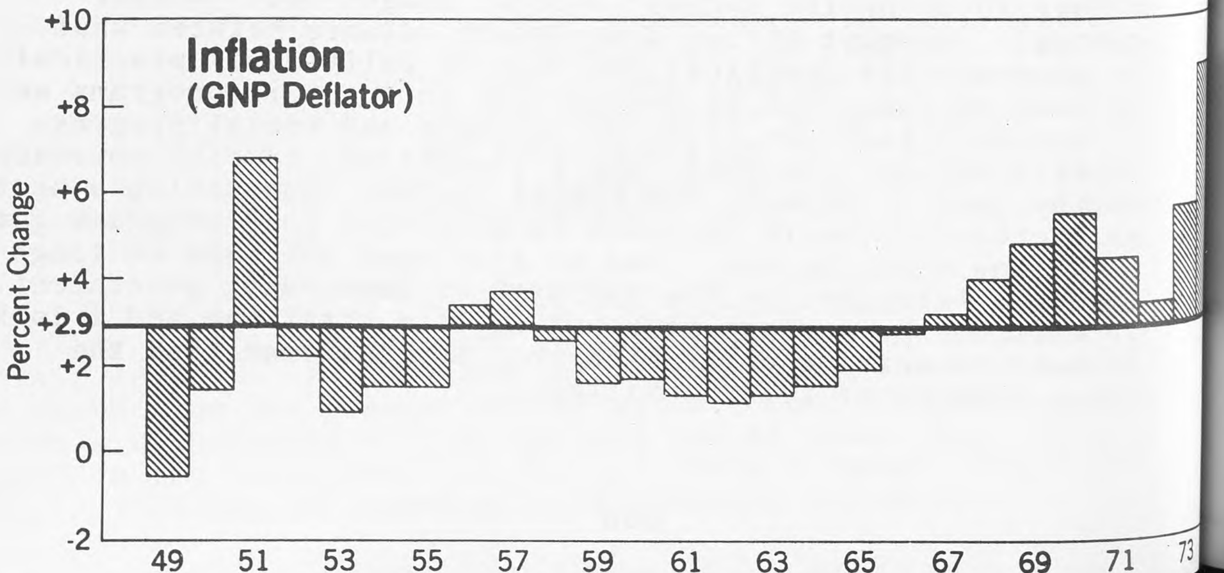
THE BUDGET AND INFLATION







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NOTES TO CHART

Panel 1 The budget data shown here are the actual surpluses and deficits, on a national income accounts basis, for calendar years expressed as a percent of Gross National Product. Note that these data are plotted on an inverted basis in order to provide an easier visual comparison with the inflation rate.

Panel 2 These budget data are the same as in Panel 1 except that the surpluses and deficits have been adjusted by the Federal Reserve Bank of St. Louis to a full-employment basis by standardizing the figures to a constant 4 percent unemployment rate. The bars are plotted -- for the purpose of better displaying the relationship between the budget and inflation -- as deviations from the average surplus for 1948-73 of 0.8 percent of GNP. (Panel 1 was not plotted this way because the average was virtually equal to zero.)

Panel 3 Inflation is represented here by percent changes in the GNP deflator from the previous year. In effect, therefore, the inflation measure is charted with a 6-month lag compared to the budget data in Panels 1 and 2. The bars are plotted as deviations from the 1949-74 average price increase of 2.9 percent.

Source of data: U.S. Department of Commerce

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NEWS

FOR IMMEDIATE RELEASE September 17, 1974

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DAVID R. MACDONALD HEADS DELEGATION TO INTERPOL

Washington, D.C.--Assistant Secretary of the Treasury David R. Macdonald announced today that the United States is participating in the 43rd General Assembly of the International Criminal Policy Organization - INTERPOL - to be held in Cannes, France, September 19-25.

The United States Delegation headed by Mr. Macdonald will consist of representatives of the Federal enforcement agencies of Treasury: H. Stuart Knight, Director, U.S. Secret Service; Vernon D. Acree, Commissioner, U.S. Customs Service; Rex D. Davis, Director, Bureau of Alcohol, Tobacco and Firearms; and Louis B. Sims, Chief, INTERPOL National Central Bureau. Other representatives will include: Glen E. Pommerening, Assistant Attorney General, and Carl W. Belcher, Chief, General Crimes Section, Department of Justice; Nicholas P. Callahan, Associate Director, Federal Bureau of Investigation, and John T. Cusack, Chief, International Operations Division, Drug Enforcement Administration; James F. Greene, Deputy Commissioner, Immigration and Naturalization Service; William J. Dailey, Acting Chief, Air Operations Security Division, Federal Aviation Administration; and Lauren J. Goin, Director, Office of Public Safety, Agency for International Development.

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Top criminal enforcement officers from the 120 INTERPOL member countries will be represented at the Assembly. Discussions will range from international crime and narcotic trafficking to counterfeiting, air hijacking and firearms trafficking.

INTERPOL is an inter-governmental organization designed to foster mutual international policy assistance on criminal violations and the prevention of crime.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY
SEPTEMBER 19, AT 1:30 P.M.

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STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE CONFERENCE BOARD
AT THE WALDORF ASTORIA HOTEL, NEW YORK, NEW YORK
THURSDAY, SEPTEMBER 19, 1974 AT 1:30 P.M.

"INTO THE NEXT DECADE"

As we meet here today, the nation is preoccupied with inflation. It is foremost in the concerns of government officials in Washington, and as the surveys clearly show, it is foremost in the minds of the American people.

And rightly so. For the current inflation is the worst in our peacetime history. Not only is it eroding the value of the savings, income, pensions, and insurance policies of our people, it is also destroying something more precious: The confidence of Americans in their government, their future, and their free enterprise system.

In the unwritten social contract between free citizens and their government, Americans place their faith in the central government to protect the value of the dollars they earn. And in that responsibility the United States Government has failed the American people.

A few people actually prosper during inflation. But for most of us, and especially for the poor and the pensioners, there is no safe harbor. To them, the only relevant questions are how long the storm will last -- how much the savings of a lifetime will be carried away. It is thus not only economic stability that dictates an early end to this double-digit inflation -- but social justice as well.

Bringing the current inflation under control will not be an easy or painless process. But it is a necessary process, because inflation is the most insidious, regressive and unjust tax a democratic government can impose.

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Some argue that the price of ending inflation is too high, that we cannot afford to cut back on Federal spending, that we cannot accept even slightly higher unemployment, that we cannot pay the kinds of interest rates we have now any longer.

Well, I say we cannot afford not to take this medicine now, because allowing the current inflation to continue will bring even more trouble to our economic system. Painful as the cure is going to be, it will be less traumatic and less costly than allowing this double-digit inflation to continue.

Over the past decade and a half, political men of both parties made some easy and popular decisions. Today, however, if we are to control inflation, political men of both parties are going to have to make some difficult and unpopular decisions.

But it is not the short-term crisis of inflation I want to discuss this afternoon. Rather, it is the long-run future, the prospects for continued prosperity into the next decade.

Policies for the Long Run

The late Lord Keynes had a famous retort to those who would venture to discuss economics over the long run. "In the long run," he observed, "we are all dead."

Well, certainly, that is true of men. But it is not necessarily true of nations and peoples. And if men in high office can resist the temptation to rely on politically attractive, short-term palliatives and can instead make the tough but right decisions here in 1974, we can help achieve prosperity for the American people in 1980 and 1985.

In this regard, the economic factor that we should be most concerned with is the growth in productivity of the American worker, the rate of increase in output per man hour. We know from both economic theory and from history that productivity is a crucial factor in the performance of our economy, because our standard of living cannot rise any faster than the productivity of our workers.

Let me repeat that statement for emphasis, because it is a fact of overriding importance: The standard of living of the American people cannot rise faster than the productivity of our workers. If everybody understood that fact, I believe our economic policies could be improved measurably, because

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we would spend much less time fighting about how to divide up the total economic pie, and more time taking the actions necessary to create a larger pie.

Before coming to New York, I reviewed a table containing figures for productivity growth of the major nations of the Western world. From that table, it is immediately evident that between 1960 and 1973, the growth in productivity of the average American worker was the lowest for any major industrial nation in the Western world. Our annual rate of growth in productivity amounted to only about 3% a year -- against almost 6% for the French and Germans, and more than 10% for the Japanese.

And the reason that the United States stands at the bottom of the scale is very clear. During the same dozen years the United States was devoting only about 18% of its total output to capital investment -- one of the smallest percentages of any nation in the Western world. Among those nations willing to devote a quarter or a third of their output to investment, the rates of productivity growth were double and triple that of the United States.

Of course, we want to remember that all investment is not in machines or mortar. We invest as well in our labor force, in making it more skilled and better educated. In fact, this investment in "human" capital probably has as much economic value as our stock of physical capital. And in knowledge and skill of our workers -- although no direct comparisons are available -- it is my guess that the United States is not behind. Each year, the new class of entrants into the labor force is more capable of coping with changing technology than the last.

In addition, we should note the uptrend in spending for new plant and equipment since 1971. At present, that uptrend shows no sign of abating. However, I don't think the present and prospective volume of capital investment is big enough. It is not enough to satisfy either the expectations of the public, or the promises of our politicians, or most important the basic needs of our economy.

Let me list just a few of the demands on our capital in the coming decade. There is an agreed-upon necessity to replenish the existing housing stock, to provide new rapid

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transit systems for many of our cities, to rebuild some of our basic industries to make them more competitive with those abroad. There is the political commitment to clean up the national environment, and there is Project Independence -- our national commitment to bring an end to an excessive American dependence upon foreign sources of energy and oil.

Each of these programs will require enormous sums. Each of these programs will have to compete for a limited supply of investment capital with our traditional requirements of replacing schools and plants and other conventional needs.

It was with these enormous demands for the investment dollar in mind, that the Council of Economic Advisers was directed to study the nation's future requirements for investment capital. Without predicting or anticipating the results of that study, let me give you my views.

A Reversal of Priorities

I believe there has to be a major reversal of economic priorities in the United States. We have to turn away from primary emphasis upon consumption, and toward a new emphasis upon saving and investment -- and away from a situation where government spending consumes more and more of the gross national product with each passing year.

The historical average of the past dozen years with only some 18% of the nation's product ploughed back into investment, is simply unsatisfactory. If we intend to maintain investment at no more than that level through the coming decade, then we should begin scaling down our hopes and hedging on our promises about new housing, meeting our energy and environmental needs, and re-invigorating American industry. If however, we are going to build for the future, then we have to start making sacrifices for that future.

Where is the new capital to come from? What are the sources upon which the United States must rely? The first source is the pool of profits earned annually by business and industry.

Historically, the role of profits in our system has been to provide both the incentive and the wherewithal for investment. In the political environment of the past decade, however, that role has become less and less understood by the American people.

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To many Americans, profits are not the legitimate and honest return on investment. They are rather the immoral rewards of corporate greed -- the conspicuous consumption of Big Business at the expense of the common man.

Today, not only the role of profits, but the historical level of profits is grossly misunderstood. In one major survey of U. S. opinion, Americans thought profits accounted for 28% of the sales of American corporations. The true figure is less than five percent. Less than one nickel out of every dollar in sales in this country goes into corporate profits -- a ratio that in many parts of this country is less than the take of the state government.

In some industries, like food retailing, profit margins are hovering around one percent. But, try to argue that position, in some political forums, or on some campuses in this country, and you will be fortunate if you are only called a liar.

Let's look at the figures.

In 1973, after-tax profits of all non-financial corporations increased $12 billion, 23 percent over the year previous. That is the official figure, and on the surface it would appear to represent a sparkling performance. But a huge slice of that increase amounted to nothing more than inflationary increases in the value of inventory and undervaluation of depreciation. Indeed undistributed corporate profits, after taking out the impact of inflation on inventory values and capital consumption allowances increased only $3 billion last year.

Furthermore, if the inflation of the intervening period is also taken into account, the undistributed profits of non-financial corporations in 1973 were less than one-fifth of what they were in 1965. And if this nation is going to accumulate the investment capital necessary to fund our domestic needs -- then that profit picture has to be dramatically improved.

The electric utilities industry presents a graphic case in point. Government rate-setters who regulate the profits of the electric utilities have -- for obvious political reasons -- been slow to react to the skyrocketing cost of fuel and other commodities the utilities need to use. As a consequence, after-tax profits of the utilities have been squeezed in the midst of an energy crisis when those profits are vitally needed for investment.

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From 1964 to 1973, the utilities industry cash flow rose from $3.3 billion to $5.9 billion. Capital outlays in the same period rose from $5.5 billion to $18.7 billion. As these figures suggest, the low rate of profit allowed by government authorities, is threatening to destroy the industry's ability to find the funds to do its jobs. If the utilities are continually denied necessary rate increases, then the country will pay one day for these temporarily reduced rates in blackouts and brownouts, in the midst of some summer hot spell or winter storm.

Summed up then, my concern is this. Profits are the fuel of the engine that pulls the train of American business and industry, the train that carries as cargo the jobs of two-thirds of the working men and women of this nation. If the nation doesn't understand that, if through hasty or unwise legislation we restrict or diminish these profits further, some Americans feel some short-term satisfaction at the distress of business -- but the nation will pay for that temporary gratification in lost jobs, in diminished prosperity, and in failure to achieve the grand goals we have set for ourselves as a people.

Let us look at those goals -- and what they require. Estimates of the capital requirements of the energy industry -- to achieve Project Independence -- range from 750 billion to a thousand billion dollars. Pollution control is estimated to require over the next decade another 100 billion dollars. The cost of rebuilding basic industries that have languished in recent years -- steel, paper, cement, fertilizer, zinc, others -- could require another $50 billion or more. The needs for urban transportation systems, housing and other major programs could add scores to that already astronomical sum. And these come on top of the conventional requirements.

Without doubt, then, one of the crucial economic questions of the coming decade is this: Where will the United States find the investment capital to meet the challenges that we have imposed upon ourselves?

In the traditional metaphor, we can go two ways: Either we re-slice the investment pie -- with a larger share going to energy, and less to traditional investment needs. Or we can enlarge that investment pie, by diverting resources away from consumption and into savings, away from government expenditure and into private investment.

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That last is the only workable approach with the prospect of success. And in encouraging savings, that most important step the United States Government can take is to get a grip on the double-digit inflation described at the outset of my address.

Inflation is the silent partner of speculation and the enemy of thrift. What reason on earth is there for a family to put its savings into a bank at five or six percent interest annually, when inflation is consuming 10 or 12 percent of the principal every year? So, if we are to increase the volume of savings, and the funds available for investment, we have to remove the greatest disincentive to savings today -- inflation.

That is priority number one; priority number two is a change in the budget policy that has guided the government for the past dozen years.

The basic budget objective has been to run a balanced budget over the cycle: to run deficits in years when there is slack in the economy, and surpluses in years when the economy is overheated. However, over the past 14 years, the United States Government has run one surplus, and thirteen deficits. The budget has not been balanced over the cycle. Indeed, in those years, we have added more than $100 billion to the national debt.

We have increased government spending faster than we have been willing to pay for it through taxes. We have created too much money and credit, so that more borrowing has taken place than can be financed out of savings. By these actions, we have permitted, encouraged, even forced the demand for goods and services to outrun our productive capacity.

We should not then be surprised that the inflation is embedded so deeply in this economy. After all, we have been planting the seeds for the better part of a decade.

In the long run, what can we accomplish by shifting to a balanced budget policy? First, we would enlarge the flow of savings available to the private sector, because the government could reduce its claims on the capital markets. Government would no longer pre-empt so vast a share of funds needed by home-builders and others, who are now shouldered out of the capital markets by the superior credit ratings of the Federal Government. Second, balanced budgets in the future would provide the necessary fiscal restraint critical to the control of inflation.

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And there are other steps government might take to encourage saving at the expense of consumption, to provide greater funds for investment.

Unproductive government restraints on industry -- such as maintaining artificially low prices for electricity and natural gas -- can and should be lifted. While politically popular in the short term, we pay the full economic price, inevitably, in the long run.

Today, government in this country consumes about 30 percent of the gross national product. We are paying, frankly, for more government than we need, more government than most of us want. The time has come to start moving in the other direction -- leaving more of the output of the nation in the hands of its people, and their private institutions.

To some people, that idea implies leaving more income and wealth in the hands of the rich, and less for the poor. Not so. Not at all. You only have to look quickly at the history of our economy to appreciate that the growing prosperity of America has been widely shared by all groups.

Thirty years ago, Joseph Schumpeter, the great disciple of American capitalism, wrote:

> "Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens, but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort."

Well, if not silk stockings, then certainly nylon stockings for the factory girls of America -- and washers and dryers and automobiles and television sets and packaged foods and all sorts of other things in a variety and abundance unknown in the history of man. And that prosperity can and will continue to grow, if government will only build its incentives toward saving, not spending -- and if government will start following that advice itself.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

AUTOMATIC RELEASE AT 8:00 P.M., September 18, 1974

REMARKS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY OF THE UNITED STATES
BEFORE THE
ANNUAL UNITED NATIONS AMBASSADOR'S DINNER
HELD UNDER THE SPONSORSHIP OF
"U. N. WE BELIEVE"
GRAND BALLROOM, WALDORF ASTORIA HOTEL
WEDNESDAY, SEPTEMBER 18, 1974 AT 8:00 P.M.

I am pleased and honored to be here with you tonight as we re-dedicate ourselves to the purposes of the United Nations. We have heard the moving words of the preamble to the U.N. Charter, reminding us eloquently of the basic principles we have sought to follow in the conduct of our affairs since the end of the Second World War. Those words remind us also that, whatever the difficulties we have experienced in seeking to apply these principles, the alternatives to a cooperative world order are far worse.

These principles reflect recognition of the interdependence of the peoples of the world, and I want to begin this evening by considering with you some of the common concerns that emerge from that interdependence.

This growing interdependence among all peoples has many dimensions. The existence of the United Nations, composed of nations and societies representing a great diversity and broad spectrum of ideologies, gives expression to our recognition that interdependence has a political dimension. Now I realize that in some circles "political" has almost a pejorative connotation, but I consider it to be an honorable word and representing a creative aspect of our lives. We in the United States have learned much from alternative systems abroad, and we hope that others are learning from ours.

We see this interdependence in its cultural and artistic dimensions all about us. Here an American home is landscaped in a way that reflects the lean and Spartan beauty of a Japanese garden. There an American University's concert series includes symphony orchestras from London, Warsaw, and Moscow. Eskimo carvings rest easily and artistically in homes from the Orient to the tropics. And the Colonel's Kentucky Fried Chicken is available to throngs of customers in Tokyo!

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You would expect any Secretary of the Treasury or Finance Minister to spend some time talking about the economic and financial dimensions of our growing interdependence, and I do not propose to make this evening an exception to that rule. There are some important things to say about these matters.

Let me give you my theme at the outset. The basic theme of my remarks is one of realism and also of hope. While the gravity of the world's current economic problems must be faced candidly, the present turbulence is the prologue to a new era of rising material levels of living widely shared. Historians will not be writing of these years as the descent into some new Dark Age. It is the Administration's firm objective to see that these years are antecedents to a period of new and vigorous economic progress, with its benefits widely diffused.

It is useful to stand back and get some perspective on current trends toward international economic interdependence. For some, such things as the oil embargo or bad crop yields in various parts of the world would come immediately to mind. These events have served to remind us all that the material well being of peoples separated by national boundaries is closely intertwined. And in this year in which our own crop prospects are disappointing we are fortunate that agricultural output in other regions will be relatively high. These, however are ad hoc events, and it is doubtful that they tell us much of enduring significance.

The current world inflation and its impact on the U.S. economy have shown all of us the persuasive nature of these relationships. If we were to turn the calendar back only three years to mid-1971, we would find ourselves looking at a world in which most of the major economies were operating with substantial slack. The United States, the United Kingdom, Japan, Canada, Italy -- in all these countries, economic activity was below full utilization of their labor and other productive resources. Then two things happened. The exchange rate of the dollar was readjusted, and the industrial world moved into a synchronized boom. The large and diversified U.S. economy then found itself influenced in a major way by external forces. Pressures on raw materials prices were world wide. During 1973, the rise in our own merchandise exports, responding to the world boom and more favorable exchange rates for the dollar, was equal to almost one-third of the rise in our production of goods, and during 1973 -- up to the oil embargo -- the rise in new exports in real terms was just over 40 percent of the rise in the U.S. production of goods. We cannot understand our domestic economic developments in recent months unless we take into account these external influences.

It is when one probes more deeply that we begin to see in perspective the almost relentless march of growing interdependence. Suppose we look at what has happened during, say, the 10 years from 1963 to 1973. During that decade the world's output of goods and services was increasing at the rate of just over 5 percent per year. When we turn to world trade, however, we find that in real terms its volume was rising at the rate of about 9 percent per year. The volume of trade, in short, was expanding nearly twice as rapidly as total output.

Now this, when you stop to think about it, is what we would expect from an international economic system performing reasonably well. With rising material levels of living we would expect consumers increasingly to reach beyond local and national boundaries for the things they buy, and we would expect businesses increasingly to internationalize their markets. In this way we gain the improved productivity that comes from increased specialization and enlarging markets.

Further, with the growing incomes that result, consumers internationalize their patterns of consumption. Thus a family in Japan can buy from an American mail order house, and a family in this country sits in Danish chairs, wearing Spanish shoes, listening to a record player made in Canada -- thereby enriching the material standards of all.

We are, however, painfully aware that a continuation of this progress is by no means automatic. The list of the common economic problems which challenge that progress is now familiar. We are confronted by a rapid inflationthat has proved as tenacious as it is pervasive. Nations struggle to adjust to sharply increased oil bills that pose difficulties for all oil importing countries but fall particularly cruelly on some. There is concern that the world may be thrown into deep recession, concern that our financial structures may be inadequate to the new tasks they face, concern that the world will retreat into an era of protectionism. While I find some of these concerns less immediate than others, I do not underestimate the dangers such concerns themselves represent.

These problems have become the more troublesome because they raise questions of equity and justice. In each of our countries suffering from rapid inflation, we see our tasks of restoring stability made more difficult by the efforts of groups disadvantaged by an inequitable inflation to regain lost ground. Internationally, serious men ask about the justice of allowing the power of a cartel to gain for a few at the expense of the many an accumulation of wealth unparalleled in the history of mankind.

Conseqeuntly, this maze of problems poses not only a challenge to our continued economic progress; it also constitutes a threat to the fundamental harmony among nations that the United Nations was designed to foster.

It is of the utmost importance that we keep our channels of communication open in these troubled times. Our experience within the framework of the cooperative institutions developed in the aftermath of World War II, although not unblemished, has been uniquely favorable. The ruins of war have been rebuilt. A liberal trade and payments order has been constructed within which trade and investment flows have served as a powerful motor of our prosperity. A concerted effort has been launched and maintained, to bring that prosperity to all nations of the world, where it had previously been reserved to the few.

A key element in that favorable experience has been the willingness of nations to reject narrow, short-sighted and highly nationalistic solutions in favor of mutually agreed answers. In the early postwar years, the United States, with the trauma of the 1930's still fresh in its memory, opted for an interdependent world. With an inordinate proportion of the world's wealth and productive capacity concentrated in the hands of this country, we might have done otherwise. But we did not, and now that world is a reality-- one from which there must be no retreat.

As we look ahead, vigorous and orderly economic progress for the peoples of the world can resume if we have the clear-eyed will to do the things that we know need to be done.

The first requirement of our response to the challenges of today is for the major world economies, including the United States, to restore order in their own domestic economies. We are all, of course, influenced by external economic developments, but governments tend to use that obvious fact to excuse inaction on the things that need to be done at home.

I can assure you of the firm resolve of this Administration to restore stability in the United States. We recognize that inflation has become so imbedded in our economy that to squeeze it out will be a long, tough process. There will be no quick solutions, no short-cuts. We recognize also that whatever the causes of our inflation, we must deal with it with the tools we have available. In the U.S., as around the world, that means basically fiscal and monetary policies.

The implication of our policies is that our economy will operate for some time at less than maximum capacity, so as to provide the framework in which inflationary pressures can be exorcised. For a time, we will have to live with more unemployment than we would like.

We are aware that excessive policies of restraint could plunge the United States into deep recession, and we will watch the evolution of economic activity closely. Should the balance of the dangers in the present situation shift unexpectedly from inflation to depression, we will act. But the present primary danger is inflation, and nothing could be more disastrous than to direct our policies to fighting a depression that does not exist at the expense of our efforts against a virulent inflation that does.

In this interdependent world, our efforts to contain inflation represent an essential, and perhaps our most important, contribution to the preservation of a cooperative economic order. There are, however, other pressing problems, in the main linked directly or indirectly to this past year's increases in oil prices, which challenge international harmony.

We find the international financial scene dramatically altered by the abrupt quadrupling of oil prices of the past year. It is now estimated that OPEC countries will this year accumulate $55 billion -- more or less -- in revenues beyond those needed to meet their current requirements for imports of consumer and investment goods. On the one hand, this implies a vast accumulation of wealth on the part of a small group of countries. On the other, it implies a corresponding reduction in the incomes of those nations which must pay the higher oil prices.

Much attention has been turned to the problems created by this drastic reallocation of income. In the United Nations General Assembly, the Economic and Social Council, the UNCTAD, the Committee of Twenty, the International Monetary Fund and the World Bank, the Organization for Economic Cooperation and Development -- the list is too long to complete -- we have sought to assess and deal with this problem.

What have we learned; what have we done?

We have learned first that the problem is cause for concern but not panic. Our Colleagues from the OPEC countries have proven themselves conservative and prudent investors, well aware of their own stake in the stability of the international financial system. Our private financial markets have adjusted in the face of large new capital flows, proving themselves willing to accept the challenges posed, and to do so in a responsible manner. We have seen governments respond individually and collectively: The OPEC countries have made encouraging steps to extend financial assistance to at least some of their customers; the resources of the International Monetary Fund have been expanded by the creation of a new oil facility; governments are devising new means of raising funds internationally.

At the same time, I believe most realize that the oil consuming countries cannot, and will not, continue indefinitely to pay the current oil bill. In part, this is because no country however strong it appears today -- can borrow indefinitely to finance current consumption. In part, this result will follow inevitably because utilization of oil has become less attractive. We have only to look at what has happened to oil consumption thus far this year to find clear evidence of a drop in demand. The result has been a swelling of oil inventories, and cutbacks in oil production. Further the development of alternative sources is just begun, but in time oil will be found from non-OPEC sources, and non-oil sources of energy will be developed.

To me, it is not a question of whether oil prices fall but when. If they fall before the redistribution of world income and wealth that present prices imply has too embittered the oil consuming countries; before the world becomes locked into the development of alternative sources to over priced oil; before the economic consequences become too severe; then we may some day look back and value the lessons we have learned. If oil prices fall later rather than sooner, serious damage -- perhaps irreparable damage -- will be done to our bright hopes that a rational world community can solve its problems in a cooperative manner.

In the meantime, we all seek to mitigate the dangers inherent in the present situation. For its part, the United States intends neither to make the financing problems of others more difficult by seeking out OPEC monies nor to restrict the outflows of funds from this country which may assist others. We have no desire to offer special incentives to OPEC monies, nor do we want to place impediments in their way.

In this regard, a good deal of confusion seems to persist about our expressed willingness to make available to OPEC countries special issues of U. S. treasury securities should they wish. It seems frequently to be overlooked that there are at present 23 - 24 billion dollars of similar issues outstanding -- issued to countries such as Germany and Canada as a matter of mutual convenience. For the investor, such issues offer the primary advantage of being able to move rather large sums of money without affecting market rates. For the United States, these arrangements mean we are able to organize our debt management policies in a more orderly fashion. But there are no special incentives -- no special interest rates, no indexation, no guarantees.

There has been a great deal of discussion in our international forums of the possibilities of mitigating the damage done to the poorest countries most seriously affected by the oil price increases. From these discussions has emerged a needed consensus on the priority to be given by the world community of nations to assisting these countries. There have also been encouraging steps by the oil exporting countries to provide some concessional aid to these countries directly. But much remains to be done.

Our efforts to mitigate the dangers of the present situation do not begin and end with financing questions. We can all be pleased with the action of the developed countries in the Organization for Economic Cooperation and Development last May to agree to avoid recourse to new restrictive actions affecting trade and other current account transactions. We can take satisfaction that the C-20 recommended last June that the full membership of the IMF adopt a similar resolution; and it is important that the members move promptly and broadly to subscribe to that pledge, as the U. S. has already done.

To mitigate problems is not to solve them. As we continue to work toward solutions we can be glad, however, that our channels of communication among nations are functioning and even expanding.

I particularly welcome the prospect that the government boards of the International Monetary Fund and the World Bank will at their forthcoming annual meetings establish a new Ministerial Committee on the Transfer of Real Resources and that this group will give priority attention to the problems created for the developing countries by the recent price changes. Their work will usefully complement the work going forward in other forums, including that begun at the Special Session of the General Assembly this past spring. Also at the IMF/IBRD annual meetings, we expect to establish a new Ministerial Committee on the International Monetary System to carry on and broaden the work of the Committee of Twenty.

Still other forms of cooperation are being developed. Since early this year, considerable progress has been made in establishing a new framework for cooperation on energy matters within the context of the Energy Coordinating Group. At the same time, the United States and other countries have been exploring new methods of cooperation with the countries of the Middle East. I myself made an extensive trip to that area this summer.

Informal as well as formal consultations are of great value in these times. Informal talks are, of course, a virtually continuous process. One such arrangement which I have found particularly useful is the quiet meeting with my fellow Finance Ministers and Central Bankers from several major countries. I returned from such a meeting in France only ten days ago convinced of the value of these talks over a range of problems.

Reasonable people sometimes ask whether the multiple channels of communications among governments and the peoples of the world really offer the answers to our common problems.

The essence of the answer to questions of this nature seems to me that each new channel opened brings the peoples of this world a step further toward commitment to cooperative solutions. In some instances, this is the result of involving additional individuals, ministries, or even countries, in the search for cooperative solutions. In others, the important thing is that a type of dialogue is possible in one forum that is not in another existing one.

The many ways in which such a senior level dialogue goes on bring together responsible officials and provide them with the opportunity to get to know each other and to learn to work together. In the process, each comes to understand better the problems, the goals and the policies of others. In the end, the result is -- hopefully -- that shocks, surprises, and unilateral actions taken without awareness of the impact on others are fewer. Nations are better able to anticipate the impact of their actions on others and thus to minimize the potential for conflict.

But I do not think I have to convince this group of the value of good communications among nations. For that is what the United Nations is all about; that is why we are here tonight; and that is why the United Nations will continue to play a vital role in promoting peace and understanding among peoples.

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FOR RELEASE 6:30 P.M. September 18, 1974

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1.8 billion of 52-week Treasury bills to be dated September 24, 1974, and to mature September 23, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 4 tenders totaling $3,940,000)

High	-	91.658	Equivalent annual rate 8.250%	
Low	-	91.469	Equivalent annual rate 8.437%	
Average	-	91.566	Equivalent annual rate 8.341%	1/

Tenders at the low price were allotted 27%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	
Boston	$ 17,670,000	$ 7,670,000	
New York	2,291,815,000	1,393,510,000	
Philadelphia	30,160,000	5,160,000	
Cleveland	41,565,000	16,535,000	
Richmond	47,190,000	31,190,000	
Atlanta	10,840,000	10,840,000	
Chicago	245,640,000	198,090,000	
St. Louis	30,405,000	22,405,000	
Minneapolis	9,255,000	9,255,000	
Kansas City	14,010,000	8,130,000	
Dallas	17,940,000	13,940,000	
San Francisco	130,435,000	83,435,000	
TOTALS	$2,886,925,000	$1,800,160,000	2/

1/ This is on a bank discount basis. The equivalent coupon issue yield is 9.03%.

2/ Includes $118,150,000 noncompetitive tenders accepted at the average price.

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MEMORANDUM TO THE PRESS September 18, 1974

Financial Conference on Inflation

The starting time of the Financial Conference on Inflation has been changed to 8:15 a.m., September 20, 1974. Close-up photography of participants while they are at the Conference table will be limited to a brief period at the opening of the meeting.

Also changed is the site of the meeting. It will now be held in the Presidential Room of the Statler-Hilton Hotel, Washington, D.C. Since this is a much larger room, there is no longer a limit on the number of seats available to the press.

The press room in the hotel will be the Ohio Room. At intervals throughout the day--approximately two hours after the close of each segment of the Conference--transcripts of the proceedings will be available in the Ohio Room. At the conclusion of the meeting--approximately 6:00 to 6:30 p.m.--there will be a summation of the day's activities. Transcripts of this summation and all preceding discussions will be available at both the Ohio Room and the 15th Street entrance of Main Treasury at approximately 9:30 p.m.

A final list of participants is attached.

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MEMBERS OF BANKING AND
FINANCE COMMUNITY
WHO WILL ATTEND
THE FINANCIAL CONFERENCE ON INFLATION
WASHINGTON, D.C.
SEPTEMBER 20, 1974

HELD AT THE REQUEST OF
PRESIDENT GERALD R. FORD
AND THE CONGRESS OF THE UNITED STATES

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The Honorable William E. Simon
Secretary of the Treasury
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. Edwin G. Alexander
President
First S&L Shares, Inc.
Denver, Colorado 80211

Dr. George Leland Bach
Professor of Economics and Public Policy
Stanford University
Stanford, California 94305

Mr. Robert H.B. Baldwin
President
Morgan Stanley & Company, Inc.
1251 Avenue of the Americas
New York, New York 10020

The Honorable Jack F. Bennett
Under Secretary for Monetary Affairs
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. Robert H. Bethke
President
Discount Corporation of New York
58 Pine Street
New York, New York 10005

Mr. Archie R. Boe
Chairman of the Board
Allstate Insurance Company
Allstate Plaza
Northbrook, Illinois 60062

Mr. Thomas R. Bomar
Chairman, Federal Home Loan Bank Board
320 First Street, N.W.
Washington, D.C. 20552

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The Honorable Arthur F. Burns
Chairman
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dr. Gwen Bymers
Professor and Chairman of the
Department of Consumer Economics
Cornell University
Ithaca, New York 14850

Mr. Richard P. Cooley
President and Chief Executive Officer
Wells Fargo Bank, National Association
San Francisco, California 94120

Mr. Howard Coughlin
President
Office and Professional Employees
International Union
265 West 14th Street
New York, New York 10011

Mr. Morris D. Crawford, Jr.
Chairman of the Board
Bowery Savings Bank
110 East 42nd Street
New York, New York 10017

Dr. Robert G. Dederick
Senior Vice President and Economist
Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60690

Dr. Robert Ray Dockson
President
California Federal Savings and
Loan Association
5670 Wilshire Boulevard
Los Angeles, California 90036

Dr. Otto Eckstein
President, Data Resources, Inc.
Professor of Economics
Harvard University
231 Littaner Center
Cambridge, Massachusetts 02138

Mr. Gilbert R. Ellis
President
Household Finance Corporation
3200 Prudential Plaza
Chicago, Illinois 60601

Dr. Grover W. Ensley
Executive Vice President
National Association of Mutual
Savings Banks
200 Park Avenue
New York, New York 10017

The Honorable Edgar R. Fiedler
Assistant Secretary for Economic Policy
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. William H. Franklin
Chairman
Caterpillar Tractor Company
100 N.E. Adams Street
Peoria, Illinois 61629

Mr. Gaylord Freeman
Chairman of the Board
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Dr. Tilford C. Gaines
Senior Vice President and Economist
Manufacturers Hanover Trust Co.
350 Park Avenue
New York, New York 10022

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The Honorable Stephen S. Gardner
Deputy Secretary
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. Ray Garrett, Jr.
Chairman
Securities and Exchange Commission
500 North Capitol Street, Room 812
Washington, D.C. 20549

Mr. Richard G. Gilbert
President of Citizens Savings
Association
100 South Central Plaza
Canton, Ohio 44702

Mr. Alan Greenspan
Chairman
Council of Economic Advisors
Old Executive Office Building
Washington, D.C. 20506

Mr. David B. Harper
President
First Independence National Bank
234 State Street
Detroit, Michigan 48226

Dr. Gabriel Hauge
Chairman
Manufacturers Hanover Trust Co.
350 Park Avenue
New York, New York 10022

Mr. Milton J. Hayes
Chairman
Government Fiscal Policy Committee
Independent Bankers Association of America
Consultant, American National Bank of Chicago
33 N. LaSalle Street, Room 1619
Chicago, Illinois 60602

Mr. M.R. Hellie
President
Credit Union National Association, Inc.
1730 Rhode Island Avenue, N.W., Suite 810
Washington, D.C. 20036

Mr. Richard D. Hill
Chairman of the Board
First National Bank of Boston
Boston, Massachusetts 02110

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Mr. J. Henning Hilliard
Chairman
J.J.B. Hilliard, W.L. Lyons, Inc.
545 South Third Street
Louisville, Kentucky 40202

Mr. Frank J. Hoenemeyer
Executive Vice President
Prudential Insurance Company
of America
Prudential Plaza
Newark, New Jersey 07101

The Honorable Ernest F. Hollings
United States Senate
Old Senate Office Building
Room 432
Washington, D.C. 20510

The Honorable Jacob Javits
United States Senate
Old Senate Office Building
Room 326
Washington, D.C. 20510

Mr. Paul R. Judy
Chairman and President
A.G. Becker & Company, Inc.
2 First National Plaza
Chicago, Illinois 60670

Mr. Harvey E. Kapnick, Jr.
Chairman and Chief Executive Officer
Arthur Andersen & Co.
69 West Washington Street
Chicago, Illinois 60602

Mr. Louis O. Kelso
General Counsel
Bangert & Co., Inc.
111 Pine Street
San Francisco, California 94111

Mr. W. J. Kennedy, III
President
North Carolina Mutual Life Insurance Co.
P. O. Box 201
Durham, North Carolina 27702

Mr. Ralph F. Leach
Chairman of the Executive Committee
Morgan Guaranty Trust Company
23 Wall Street
New York, New York 10015

Mr. Gustave L. Levy
Partner
Goldman, Sachs and Company
55 Broad Street
New York, New York 10015

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The Honorable Russell B. Long
United States Senate
Old Senate Office Building
Room 217
Washington, D.C. 20510

Mr. Bruce K. MacLaury
President
Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55480

Dr. Paul W. McCracken
Senior Consultant
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. Rex J. Morthland
President
American Bankers Association
Chairman, The Peoples Bank and Trust Company
Post Office Box 799
Selma, Alabama 36701

Mr. James J. Needham
Chairman of the Board
New York Stock Exchange
11 Wall Street
New York, New York 10005

Mr. Herman Nickerson, Jr.
Administrator
National Credit Union Administration
2025 M Street, N.W.
Washington, D.C. 20456

Dr. Arthur M. Okun
Senior Fellow
The Brookings Institute
1775 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Dr. James O'Leary
Vice Chairman
U.S. Trust Company
45 Wall Street
New York, New York 10005

Mr. J. Charles Partee
Managing Director
Office of Research and Economic Policy
Board of Governors of the Federal
Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

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The Honorable Wright Patman
U.S. House of Representatives
Rayburn House Office Building
Room 2328
Washington, D.C. 20515

Ms. Sylvia Porter
Syndicated Financial Columnist
30 East 42nd Street
New York, New York 10017

Mr. George Preston
President
U.S. League of Savings Associations
1709 New York Avenue, N.W.
Washington, D.C. 20006

Mr. Donald T. Regan
Chairman of the Board
Merrill, Lynch, Pierce, Fenner
and Smith, Inc.
One Liberty Plaza
165 Broadway
New York, New York 10006

The Honorable Henry S. Reuss
U. S. House of Representatives
Rayburn House Office Building
Room 2186
Washington, D.C. 20515

The Honorable John J. Rhodes
U.S. House of Representatives
Rayburn House Office Building
Room 2310
Washington, D.C. 20515

Mr. David Rockefeller
Chase Manhattan Bank, National Association
One Chase Manhattan Plaza
New York, New York 10015

Mr. Robert V. Roosa
Partner
Brown Brothers Harriman and Company
59 Wall Street
New York, New York 10005

The Honorable William V. Roth
United States Senate
New Senate Office Building, Room 4327
Washington, D.C. 20510

(6)

Mr. Ralph S. Saul
Vice Chairman
Insurance Company of North America
1600 Arch Street
Philadelphia, Pennsylvania 19101

Dr. Raymond J. Saulnier
Professor Emeritus of Economics
Barnard College
Columbia University
5-A Lehman Hall
New York, New York 10027

Mr. Walter Scott
Associate Director
Office of Management and Budget
Old Executive Office Building
17th and Pennsylvania Avenue, N.W.
Washington, D.C. 20500

The Honorable George P. Shultz
Executive Vice President
Bechtel Corporation
50 Beale Street
San Francisco, California 94119

The Honorable J. William Stanton
U.S. House of Representatives
Rayburn House Office Building
Room 2448
Washington, D.C. 20515

Mr. Robert H. Stewart III
Chairman of the Board
First International Bancshares, Inc.
Post Office Box 6031
Dallas, Texas 75283

Mr. Thomas I. Storrs
Chairman of the Executive Committee
North Carolina National Bank
Post Office Box 120
Charlotte, North Carolina 28255

Mr. John Tomayko
Director, Insurance, Pension and
Unemployment Benefits
United Steelworkers of America
5 Gateway Center
Pittsburgh, Pennsylvania 15222

The Honorable Charls E. Walker
President
Charls E. Walker Associates
1730 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

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The Honorable Frank Wille
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Mr. Carlton Wilson
Chairman of the Board and Director
Robert W. Baird and Company, Inc.
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53201

Dr. Albert M. Wojnilower
Vice President, Economist
The First Boston Corporation
20 Exchange Place
New York, New York 10005

Mr. John W. Wright
President
Wright Investors' Service
Wright Building
Bridgeport, Connecticut 06604

Mr. Walter Wriston
Chairman
First National City Bank
55 Wall Street
New York, New York 10015

Dr. Charles J. Zwick
President
Southeast Banking Corporation
100 South Biscayne Boulevard
Miami, Florida 33131

Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS OF THE
SENATE COMMITTEE ON GOVERNMENT OPERATIONS
WEDNESDAY, SEPTEMBER 18, 1974 AT 10:00 AM
ROOM 3302 NSOB

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I am pleased to participate today in your investigation into various aspects of our domestic and international energy policies. It is important, I think, for the Congress and the Administration jointly to discuss possible policies to respond to the ever-changing world energy situation.

The problem we are discussing here today -- the abrupt increase in the price of oil -- is one of major importance to all participants in the world economy. For oil consuming nations, whether industrial or developing, oil price increases have fanned inflation, adversely affected living standards, distorted economies and created payments problems. For oil producing countries, high prices have brought exceptionally high incomes in the short run, but also the danger of a drastic erosion of their income in the longer run.

Consuming nations should not accept the indefinite continuation of oil prices at current levels. Producers will not lower prices until they come to realize that lower prices will be in their own best interest. If progress is to be made toward lower prices, consuming and producing nations must develop a common understanding of the extent and nature of the price problem, and where each nation's self-interest ultimately lies. If this is to be achieved, and I cannot emphasize this too strongly, we in the United States must be willing to back up our talk with concrete actions both domestically and in the international arena. Only if oil producers can be made to understand the gravity of our problem and our resolution to redress it through our own efforts, if necessary, can they be persuaded that the prompt reduction of oil prices will be to their advantage.

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Before discussing the actions that we have undertaken, and those that still must be initiated, I would like to review the current international oil situation and the impact of the higher prices.

The OPEC countries will probably receive about $80 billion in 1974 in payment for petroleum operations -- over five times what they received in 1972. Current prices and production rates are actually generating payments at an annual rate of $100 billion per year, but the time lags are such that their total receipts for the calendar year are likely to be some $20 billion lower. They will receive perhaps $5 billion from exports of other commodities and services. Of these $85 billion of receipts, the OPEC countries will probably spend about $30 billion on imports of goods and services, leaving some $55 billion to invest outside their borders.

As has become increasingly clear in recent months, high oil prices that have generated these revenues have also created or have exacerbated a number of serious economic problems.

Most directly, the oil price increase has been a major contributor to worldwide inflation.

Measurement of the inflationary impact of the oil price increase is of course a complex task, but some preliminary estimates are available. The impact of increased oil prices as a percentage of GNP are themselves sizeable, on the order of 1 to 3 percent for the major industrial countries, but even these considerably understate the full inflationary impact of the oil price increases. More comprehensive estimates suggest that the quadrupling of oil prices over the past year, when its effects are fully felt, will have contributed in the range of 5 to 8 percentage points to the increase in our wholesale price index. This is on the order of almost half the increase in the U.S. wholesale price index from mid-year 1973 to mid-year 1974 of roughly 14 percent. For many other oil importing nations the contribution of the oil price increases to inflation will be even greater.

As one facet of the inflationary shock of high oil prices we can see how the sectoral balances in national economics have been altered. Sectors in which petroleum represents a high input face relatively higher costs and weaker demand than others. Our automobile industry is suffering from significantly reduced sales. Our airlines industry is pleading for special governmental relief from the vastly increased fuel costs. Electric utilities find it difficult to attract the investment money they need.

These sudden shifts cause the loss of output and create unemployment even when some sectors of the economy are still at full capacity. A fall in the price of oil would alleviate these problems and permit recovery in output and employment.

In addition to directly affecting prices, employment, and output, high oil prices affect the performance of the world economy through their impact on the international financial system. With the OPEC countries running large surpluses in their goods and services balance, the oil importing countries as a group cannot avoid equivalent deficits. They are simply unable to pay for their oil imports in full with goods and services at this time. They are compelled to borrow. This is a drastic change for the industrial nations of the world which, collectively, have been accustomed to surpluses in their goods and services account and to being net lenders on the international scene. The developing countries, which have been borrowing to finance their economic development, now find they must borrow to finance essential current consumption as well, unless they are prepared to cut back on their development programs or depress the living standards of their people. It is not clear that the oil importing countries are all prepared to accept the vast amount of borrowing implied by these changes, at least at current levels of output and real income.

Of course, a willingness to borrow does not necessarily create the ability to do so. It is true that since the OPEC countries have no alternative to lending their surpluses abroad, funds are available in the aggregate to meet the new deficits of the industrial countries and the larger deficits of the developing nations. Lenders, however, are likely to prefer lending to the strong rather than to the weak.

As the external debts of the oil consuming countries grow -- particularly if the borrowed funds are used largely to finance consumption rather than to increase output -- private lenders are likely to become increasingly reluctant to extend further credit to borrowers in weaker countries. Consequently, governments are faced with the need to supplement the private markets and to work out techniques for officially channeling funds to certain borrowers. The IMF has inaugurated a new special oil facility; understandings have been reached which permit the use of gold reserves as collateral thereby facilitating the negotiation of bilateral credits; the Governors of the International Monetary Fund and the International Bank are preparing to establish at the end of this month a Ministerial Committee on the Transfer of Real Resources which will take up, as its most urgent task, the problems faced by the developing countries most seriously affected by the oil price increase.

For a fuller description of the recycling issues and our responses to them, I am providing a more detailed paper to the committee.

Each of these problems is to one degree or another manageable, but that does not in any way justify the present price of oil in world markets, or reduce our determination to resolve the root cause of the problems -- the high oil prices themselves. None of these problems would be plaguing us today if the operation of the world oil market were free from manipulation by the governments of oil producing states. Underlying market forces prove that there is a large potential oil surplus which, in a free market, would be reflected in lower prices. The high oil prices had scarcely taken effect when growing production levels and decreased demand caused considerable softening of the oil market.

During the summer, when oil demand is at its seasonal low, the level of actual excess production approached three million barrels a day. The excess was absorbed by substantial increases in inventories, including inventories at sea created by ordering tankers to steam at speeds as low as 5 knots. In August, the surplus seems to have fallen to about 500,000 barrels per day due to reduced production in Venezuela, Kuwait, Saudi Arabia, and elsewhere. Our latest evidence is that production is slightly up once again, and that the surplus may now approach 900,000 barrels per day.

Nor is this the full story: current production potential is even higher than current production, perhaps by as much as 4 - 5 million barrels per day.

If the oil market were free from interference, the price would drop. Governments of the oil producing countries are, however, acting determinedly and in substantial concert to maintain present prices. How long OPEC members will be able to continue this policy in the face of new production elsewhere and the need to agree on mutually satisfactory production cuts among themselves is unclear. What is clear, however, is that a small number of producing states are exercising a monopoly power, manipulating the oil market by limiting production and raising prices. As long as this continues the consuming nations cannot rely soley on market forces to generate a decline in price.

The policy the producers are pursuing is bad policy-bad from the standpoint of their own interests. Some of the pitfalls are of a political nature. But in economic terms, cutting back production in the attempt to preserve the high price is extremely short-sighted. This policy will cause consuming nations to go all out for the conservation of energy,

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to step up investment programs which expand the production of oil in non-OPEC areas as well as non-oil sources of energy and to intensify research and development of new techniques for obtaining energy. The OPEC countries will, in a relatively short period of time, find their market for oil tending sharply downward. And once gone, even lower prices will not bring it back.

Our Treasury studies of supply and demand elasticity for oil indicate that reduction in demand need not be very great to reduce the total size of the market for OPEC oil significantly in future years. Reductions in demand due to present prices coupled with increases in competing supplies will result in a steady reduction in OPEC's market. For a wide range of plausible demand supply elasticities, recent price increases, if maintained, will cost OPEC a sizeable fraction of its sales beginning later this decade.

Even now, one can see significant developments that should bring home the validity of these predictions to OPEC leaders. The worldwide consumption of oil has held to below pre-embargo levels, with most major consuming nations experiencing reductions in demand of 3-5 percent below 1973 levels. In addition, new discoveries of oil have been accelerated outside the OPEC nations. In fact, significant discoveries have been made in 26 separate areas of the world since 1973. Some of the finds hold considerable promise for relieving the world's dependence on the OPEC nations. Moreover, there is an increasing substitution of fuels throughout the world in an effort to decrease dependence on oil. As a result, world coal production may be some 70 million tons higher in 1974 than would have been expected without the oil price increases. Yet these efforts are just beginning.

The implications of these developments for OPEC are clear: unless prices fall, the demand for oil exports from the current oil producers will be sharply lower in 1980-85 than it is now. This simple message has yet to sink in, apparently, but it is one that we will continue to deliver.

Of course, 1980 is six years away, and consuming nations cannot absorb the economic impact of the current oil prices for that length of time. If we cannot convince the oil producers that lower prices are in everyone's ultimate self-interest, we must be prepared, as a nation and as a member of the international community, to take concrete actions in defense of our economic interests. We must demonstrate our determination to escape the OPEC grip.

In particular, we must take action to:

-- Develop our domestic energy resources

-- Limit our domestic energy demand, and

-- Forge effective consumer nation unity

In designing our future policies, we must recognize that the policy problems generated by $10/BBL oil differ from those caused by $3/BBL oil. The energy market operates in another world from the one we knew a year ago. With the advent of the new price levels, there is no need for massive governmental interference in the domestic market in an effort to avoid dependence on imported oil at some future date. What is needed now is a willingness to remove the government from areas where its activities have been an impediment to greater domestic output and conservation.

With this in mind, the Administration has taken or intends to take a variety of actions in both the domestic and foreign arenas.

The goals of our domestic program are:

-- To reduce our near-term dependence on imported oil through domestic supply increases and conservation, and

-- In the longer-term, to reduce that dependency further through the exploitation of other domestic sources of energy, including alternative fuels and technologies.

Appropriately designed and implemented, Project Independence will provide a context in which market-oriented energy policies can be effective. Clearly, the government has posed and continues to pose a major obstacle in the short and medium term to efficient market allocation in energy. We regulate the price and distribution of natural gas; we manipulate the pricing and distribution system in oil; we require lengthy and cumbersome processes for obtaining licenses and rate approvals; and we impose environmental restraints, sometimes of questionable validity, upon both the production and combustion of fossil fuels.

Thus, as we develop our long range energy policies, we must also set some short term goals. These goals should be clearly understood and stated and explained at each step to the American people. In my mind, the framework should involve several major areas of action, including passage of a legislative package, changing of existing regulatory procedures, and conservation efforts.

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-- First, we must make an all-out attempt to produce additional supplies of oil. The potential for this production could be met through a variety of measures such as; opening Elk Hills and Naval Petroleum Reserve #4 to fuller development and production, reopening the Santa Barbara Channel to production with appropriate environmental safeguards, re-evaluating upward the maximum effective rate of certain oil fields.

-- Second, we should move towards the removal of price controls from oil and natural gas, and phase out the regulations and allocation programs which now disrupt production and marketing patterns.

-- Third, we need to accelerate our Federal leasing programs on Federal lands for both oil and coal.

-- Fourth, and related to all of these, we must decide on a package of energy legislation and work with the Congress to ensure that it will be passed promptly. This effort is badly needed to break the log jam of nearly 800 energy bills which are pending in Congress this year. Hopefully, Congress will approve legislation needed to achieve our goals and which will also include: Deepwater ports legislation, and energy facilities siting bill, legislation to create the Energy Research and Development Administration, the Energy Tax Package, the Surface Mining Act, and legislation creating the Department of Energy and Natural Resources.

Our ultimate goal should be one of moving the U.S. from its present non-renewable hydrocarbon energy base to a renewable energy base. Achievement of these goals will, of course, include the development of solar, geothermal, nuclear, and eventually fusion power. The switch over to these sources will extend over a period of many years, but what is needed now is a clear national commitment to increase our domestic energy production in areas and forms consistent with market forces. Such a commitment need not, and should not, imply that essential social and environmental concerns must be neglected. On the contrary, such concerns must be fully taken into account. But protection against social abuses must be provided without unduly dampening incentives to expand production.

We will not be able to convince OPEC nations that we will succeed in reducing our vulnerability unless we act in the areas I have mentioned and unless we take further steps to reduce our demand for oil in the short run. We must make a national commitment to energy conservation, which will only succeed if it is undertaken on a solid foundation of demand restraint made effective through new energy related taxes or tariffs. We must develop much greater efficiency in the use of energy. Measures to implement this commitment would give us added weapons for dealing with the inflationary and economic disruptions caused by the present price levels of oil imports.

The second major prerequisite for effective action on prices is consumer nation unity. We have been promoting this objective in three major ways:

First, we have been developing, in the Energy Coordinating Group established at the Washington Energy Conference, a program of joint action in order to guard ourselves against future oil supply embargoes. This program is now embodied in a draft International Energy Program (IEP) which we hope to put in final form as a recommendation to member governments later this week in Brussels.

The emergency cooperation program included in the IEP is designed to protect us against the sort of oil blackmail we faced last year. We must be free from this threat if we are going to guard our interests in the world oil market. Basically, the emergency program now under discussion in the ECG would call for commitments by the participating countries in four areas.

-- We would agree to come to each others' aid in the event any consuming nation was singled out for an oil cutoff -- the one-for-all and all-for-one principle -- and we would therefore hope to deter embargoes as well as spread their burden should they occur.

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-- We would all agree to cut our consumption of oil by a common percentage in an emergency.

-- We would agree to develop a common level of emergency self-sufficiency, largely through use of oil stocks, so that by drawing on these stocks we could endure a large cutback longer.

-- We would reallocate the available oil among the countries of the group, taking into account the prescribed consumption restraint and stock drawdown obligations in order to equalize, to some degree, oil supply losses.

This program is not a permanent solution to the problem of our heavy dependence upon imported oil, which in turn is the basis for OPEC's success in raising oil prices to their present levels. Therefore, we have also embodied in the IEP the second major thrust of our program for consumer nation unity. This second initiative is the creation of a framework for a cooperative effort to reduce, over the long term, consumer nation dependence on imported oil.

As an initial focus for our efforts we have included programs for cooperative action in the areas of research and development; the accelerated development of conventional resources, conservation, and uranium resources. As the IEP reaches fruition and a new International Energy Agency comes into being, we hope to be able to develop a more detailed and comprehensive program; for only by mutually reducing our dependence on imported oil will we be able to reduce our ultimate vulnerability to oil supply and price manipulation.

We are confident that this major international initiative will be concluded shortly, probably in October, and we attach great significance to it.

The third major area in which we are developing consumer nation unity is in cooperation to mitigate the effects of high oil prices. We have participated in the creation of a special facility within the International

Monetary Fund for loans to countries experiencing financial difficulties because of the high oil prices. We have also been cooperating with other consumers in the Development Assistance Committee of the OECD and in the World Bank in a reexamination of aid allocations so as to concentrate assistance on the most severely impacted less developed countries. We have actively supported the establishment of a new Ministerial Committee in Real Resources transfer, to be established by joint action of the IMF and the World Bank which would focus urgently on the needs of developing countries.

Both in the IMF and in the OECD we have participated with other nations in a voluntary pledge to refrain from mutually destructive trade policies. In all of these various organizations, we have been attempting to maintain and to build a framework of mutual assistance and cooperation in dealing with our common problem of high oil prices.

In working for consumer nation unity we have no desire to provoke a confrontation with the oil producing countries. Many of them are participants in the financing arrangements. We are trying to develop understandings with oil producers on our mutual interests. We seek to show the producers that they have lost sight of the important inter-connections of the world economy, as well as the long term dynamics of the market system. We seek their understanding that price levels unrelated to market conditions, unrelated to revenue needs of the producers, and unrelated to the prices of long term substitute supplies promise short term hardship and long run instability, for us now and for the oil exporters later. Only if we can re-create a mutuality of understanding with producers will we be able to avoid the unfortunate consequences of the present level of oil prices. In order to facilitate this understanding, as well as for reasons related to peace in the Mideast, we have been developing a series of programs under the aegis of our Joint Commissions with the Saudis and the Iranians. We have also been in close contact with other oil producers in a less formal way.

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Our intentions in all of this are clear: We want to help these nations achieve their aspirations of becoming advanced industrial and agricultural societies. We believe that their desire to modernize their economies is both legitimate and laudible, but we believe that they should understand that their long term interests lie in maintaining good relations with industrialized nations and in following pricing and supply policies that guarantee them something other than a declining market for their oil.

I have attempted to outline our analyses of the current situation in the world oil market, and the steps we are taking or hope to take to deal with it. I believe that the policies we have adopted are both sound and fair, and I would hope that others would see them in a similar light. I have been disappointed in the results of the efforts we have made to date, particularly the recent actions by the oil producers at the OPEC meeting in Vienna. Due to the immense significance of the problem of high oil prices, and due to its serious impact on the world economic system, we may be forced to re-assess certain aspects of our policy, as well as to develop new policies that will increase our leverage. We would do this most reluctantly, but we as well as others must recognize the seriousness of the problem and the absolute necessity to find a solution to it.

In any event, we will need to demonstrate our willingness to take effective action in the energy area, and effective action will require the cooperation and determination of the Administration, the Congress, the American people, and other consuming nations. I hope that we can have the support of you gentlemen in furtherance of our efforts.

Thank you.

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Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE September 20, 1974

THE FINANCIAL AND ECONOMIC CONSEQUENCES OF THE QUADRUPLING OF THE PRICE OF OIL

SUBMITTED TO THE SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS IN CONJUNCTION WITH TESTIMONY BY SECRETARY OF THE TREASURY WILLIAM E. SIMON
SEPTEMBER 18, 1974

The Magnitudes of Current Money Flows

The current and expected magnitudes of money flows associated with international trade in oil have to be estimated. Official reports from oil exporting countries are fragmentary and available only with long time lags. Several important countries have not yet disclosed information on their receipts in 1972. Only a few countries have reported receipts for any part of 1974.

We estimate that OPEC countries received $15 billion from oil trade in 1972 and $25 billion in 1973. Our current estimate for receipts in 1974 is $80 billion. Current prices and production rates are generating payments at an annual rate of $100 billion and some analysts are using this figure for calendar 1974. The lags in actual payments are substantial, however, and our $80 billion estimate takes these lags into account.

Estimates are highly uncertain because the unprecedented changes in price imposed by the governments of oil-exporting countries over the last year have caused the importing countries to reduce the consumption of oil and to seek alternative sources of energy. The volume of oil trade in prior years is no longer a reliable base for estimating volume in the future. Thus, estimates of the volume of oil likely to move in international trade in 1974 and the period ahead vary widely. Furthermore, contractual arrangements between the governments of the oil-producing states and the major producing companies are in process of renegotiation and terms under which oil will be produced and exported as well as the division of beneficial ownership of the oil-producing companies is not yet known.

In estimating money flows associated with international trade in oil it is essential to distinguish between payments by importers of crude, petroleum and petroleum products in various countries throughout the world to the sellers of such products, primarily the international oil companies and, in turn, the payments by these companies to the governments of the oil-exporting countries.

There are important differences between the amount of the payments by the oil imports and amounts received by the governments of the oil-exporting countries from oil operations. These differences include the cost of transportation, in some instances the cost of processing oil (if such processing is done in countries where it essentially constitutes a transit trade), the profits of the companies, and changes in receivables and payables. In the early part of 1974, changes in receivables and payables were extremely large and the investment incomes being shown by the international oil companies were large. Both the changes in receivables and payables and the figure for investment incomes are, however, subject to major modification because the contractual relationships between the companies and the governments of the oil-exporting countries are not yet settled and are subject to retroactive adjustment.

The uncertainty in these contractual relationships results primarily from the lack of firm understandings concerning the amount of oil considered by the governments of the oil-exporting countries to be their share of the output, and the price paid by the companies for the amount of oil repurchased by them from the governments. Thus the companies do not necessarily know the total costs of the oil they have sold. Furthermore, in some instances, they are also exposed to uncertainties with respect to the prices they can charge to the final importers.

These uncertainties not only affect the profit obtained this year, but also the size of the debt the companies have to the oil-exporting countries. This debt arises primarily from the delay in the payments of the difference between the ultimate total price of the repurchased oil, and the interim payments which presumably have been made currently, in relation to actual oil shipments at prevailing tax and royalty rates.

We estimate that OPEC receipts from petroleum operations were about $30 billion in the first half of 1974, with $50 billion to come in the second half.

There are also wide variations in the estimates of the payments expected to be made by the OPEC countries for imports of goods and services -- purchases on current account. Our best guess is that in calendar 1974 the OPEC countries will make payments for goods and services imports totaling roughly $30 billion, of which $12 to $13 billion may have accrued in the first half of the year. Since we estimate that these countries will earn about $5 billion from exports not associated with petroleum, our estimate of their surplus on current account, excluding any government grants, is roughly $55 billion.

U.S. EXPORTS TO OIL PRODUCING COUNTRIES 1/
(millions of dollars)

	1970	1971	1972	1973	1973 Q-1	1973 Q-2	1973 Q-3	1973 Q-4	1974 Q-1	1974 Q-2
Total Exports to Oil Prod. Countries	2,583	2,869	3,323	4,456	1,032	1,081	1,066	1,277	1,507	1,850
Latin America	1,269	1,298	1,445	1,705	401	406	409	489	556	691
Venezuela	759	787	924	1,032	248	244	249	291	338	457
Ecuador	127	134	134	173	32	44	43	54	60	82
Bahamas	173	141	144	208	47	46	45	70	70	64
Trinidad	84	117	121	133	36	32	34	31	44	39
N. Antilles	126	119	122	159	38	40	38	43	44	49
Middle East	623	875	1,142	1,599	369	368	375	487	542	737
Iran	326	482	559	771	185	190	173	223	237	345
Iraq	22	32	23	56	6	7	17	26	39	34
Syria	11	23	20	21	4	4	9	4	8	7
Kuwait	62	84	111	119	32	26	25	36	36	49
Saudi Arabia	141	164	314	442	100	101	104	137	138	215
Qatar			13	19	4	5	5	5	7	10
United Arab Em.	49 2/	66 2/	69	121	24	24	29	44	56	53
Oman			7	9	1	2	3	3	5	5
Bahrain	12	24	26	41	13	9	10	9	16	19
Indonesia	266	263	308	442	102	94	106	140	121	119
Africa	425	433	428	710	160	213	176	161	288	303
Algeria	62	82	98	160	30	42	37	51	85	68
Tunisia	49	42	55	60	8	20	9	23	25	13
Libya	108	78	85	104	28	32	24	20	21	32
Egypt	77	63	76	225	50	73	67	35	118	108
Nigeria	129	168	114	161	44	46	39	32	39	82
Exports of Special Category (military):										
Latin America	(39)	(55)	(63)	(55)	(16)	(18)	(10)	(12)	(11)	(12)
Middle East	(352)	(445)	(362)	(636)	(150)	(129)	(148)	(209)	(204)	(230)
Africa	(48)	(35)	(13)	(10)	(2)	(3)	(3)	(2)	(5)	(13)
Exports Excl. Special Category										
Latin America	1,230	1,243	1,382	1,650	385	388	399	477	545	679
Middle East	271	430	780	963	219	239	227	278	338	507
Africa	377	398	415	700	158	210	173	159	283	290

1/ Excluding Canada.

2/ Includes exports to Qatar, United Arab Em.; Oman and Yemen Arab Republic.

The $30 billion figure for current imports of goods and services takes into consideration the inevitable time lags which these countries encounter in spending the increased revenue available to them. There are delays in planning the expenditures of funds whether these monies are spent on consumer goods, capital equipment, or armaments. Even when decisions have been made as to the goods to be purchased it takes time to negotiate contracts for the desired goods and services and additional time to obtain deliveries. Many of the oil-exporting countries hope to use the bulk of their increased earnings for industrial development and for the strengthening of their military establishments. The time lag between orders and delivery for goods of this nature can extend for several years and although some contracts may call for progress payments there are substantial lags in the expenditures of funds associated with imports of this type.

U.S. imports of petroleum and products were about $4.7 billion in 1972 and $8.1 billion in 1973. (These figures include imports into the Virgin Islands, which are not included in the figures for U.S. trade published by the Bureau of the Census and $1.1 and $1.4 billion, respectively, for imports from Canada which is not a member of OPEC). For the first half of 1974 U.S. imports were about $11.8 billion ($10 billion excluding Canada), and in the last two quarters of the year they may amount to about $14 billion ($12 to $12.5 billion excluding Canada).

Investment incomes derived by U.S. corporations from their foreign affiliates operating in petroleum production, processing, and marketing amounted to $2.8 billion in 1972, and $4.3 billion in 1973. The figures for the first half of 1974 are not yet available, but, subject to later revision to take account of retroactive changes in contracts with the oil-exporting countries, may have been $3-1/2 to $4 billion.

We do not have separate figures on payables and receivables of the U.S. petroleum companies from their international operations, but rough estimates would indicate that their debts to the oil-exporting countries may have risen during the first half of 1973, perhaps by as much as $5 billion. Both the investment incomes of U.S. oil companies and the increase in their payables to the oil-exporting countries arise from their world-wide operations and not only from U.S. imports.

Table 1 shows U.S. merchandize exports to each of the OPEC countries for the years 1970 to 1973 and quarterly for 1973 and the first half of 1974. Data on exports of services to these particular countries are not available but are not believed to be significant.

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As mentioned above, crude Treasury estimates suggest a balance of payments position for the OPEC countries combined in the calendar year 1974 as follows: (billions of dollars)

Receipts associated with petroleum trade	80
Other goods and services exports	5
Imports of goods and services	-30
Balance on current account excluding government grants	55

These estimates suggest that the OPEC countries will have roughly $55 billion to invest in 1974. Many of these countries appear to attach great importance to maintaining as much anonymity with respect to their investments as possible. Thus very little information is provided by the authorities of any of these countries on the disposition of their investments. We have pieced together information derived from many different sources. What we have is fragmentary. Many of the reports cannot be confirmed. We can do no more than offer a very rough guess as to where funds may have been invested thus far in 1974. We estimate that the OPEC countries may have had a surplus of somewhere between $25 and $28 billion between January 1 and August 31, 1974. Of that $25 to $28 billion, about $7 billion appears to have been invested in the U.S. Roughly $4 billion was invested in various types of marketable U.S. government securities including some so-called "agency" securities. Most of the remainder was placed with commercial banks in the United States, although a few hundred million dollars may have gone into corporate securities and real estate.

We suspect -- although we have no firm supporting evidence -- that $2 billion or more was invested in Europe through direct placement loans to official or quasi-official agencies, plus direct purchases of private securities and real estate. At least $3 billion may have been invested in the U.K. in sterling, some of which no doubt involved purchases of British government securities and some sterling deposits in British banks.

We have received a good many reports of commitments by OPEC countries to developing countries and multilateral lending insitutions. Some of these reports appear to reflect firm commitments and some reflect tentative agreements or statements of intent which have not yet been translated into firm programs for action. Altogether the reported commitments would add up to more than $15 billion. Terms of these commitments vary widely. Some call for outright grants. Some involve soft loans and some loans on near commercial terms. Some call for immediate disbursement but most imply that the funds will be disbursed over a considerable number of years. We are not able to determine the amount of money which has actually been transferred under these and earlier commitments thus far in 1974. We think it reasonable to conclude, however, that as much as $3 billion was transferred during this period to developing countries and the multilateral banks including purchases of IBRD bonds amounting to approximately $500 million.

Our assumption is that most of the remaining $10 to $13 billion (of the $25 to $28 billion surplus) is currently being held in Euro-dollar and other Euro-currency deposits in banks outside the U.S., largely in London.

In the past few months there appears to have been some evolution in the pattern of investment by the OPEC countries, with a larger share of the funds going into long-term, direct placement loans and into the securities of major governments than appeared to have been the case in the earlier months of the year. This very logical development may have come about in part because the OPEC governments have had more time to plan the investment of their funds, whereas initially they were merely left on deposit with commercial banks. In part, it may have come about because banks have, in some cases, reduced their offers for large-scale short-term deposits, thus creating a financial incentive for the investing governments to look for other outlets for their money. Banks are increasingly serving as brokers in arranging the direct placement of OPEC funds with longer-term borrowers and OPEC countries have increasingly gone into national capital markets to buy government securities. Special arrangements have also been made for direct loans to governments in several cases and in one case, for a $1 billion deposit as an advance payment for imports.

Prospects for Payment in Goods and Services

The capacity of the various exporting countries to absorb imports differs materially. There is little doubt that countries with sizeable populations such as Indonesia, Iran, Nigeria, Algeria and Venezuela will have little difficulty in using their oil income for imports of goods and services. For these countries surpluses are temporarily deriving simply from the fact that it takes time to plan, procure, and obtain delivery for the types of goods they wish to buy. Libya cannot easily use all of its income for capital equipment or civilian consumption but has been placing large orders for military equipment and may extend grants to nations with which it is in sympathy.

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The countries of the Arabian Peninsula, however, have relatively small populations and their requirements for imported goods and services are limited. Some of these countries might continue to run substantial surpluses for some years to come if the oil price were to stay at its present level. Even these countries, however, expect to increase their imports very substantially and quite rapidly. The government of Saudi Arabia, for instance, is currently budgeting expenditures of $12.5 billion, approximately four times the level of the previous budget year. This increase can be expected to result, directly or indirectly, in an increase in imports of almost the same magnitude although there will, no doubt, be a substantial time lag involved.

Each of the oil-producing countries has its own priorities and is developing its own plans with respect to the use of its oil revenues. All of the countries are placing great emphasis on industrial development. They see an unprecedented opportunity to move into the processing of oil and gas and the production of manufactured items in which oil and gas constitute a major input.

In some cases there are likely to be major outlays to improve and expand the infra-structure of the country. Several of the countries have extensive plans for strengthening their military establishments and can be expected to utilize a substantial percentage of their surpluses for military equipment. The U.S. will probably be a major supplier of military equipment, although by no means the only country furnishing arms. Much of the military equipment being ordered by these countries is currently in short supply and delivery is expected to be staggered out over an extended period of time.

The scope for substantial development efforts by the oil-producing countries permits the utilization of a significant portion of the receipts of these countries. Announced objectives, both inter-regional and international, must be translated into major flows. Transfers can be of both a pure development nature or can represent long-term investments on more commercial terms, or both.

In investing their surplus funds, the governments of the oil-producing countries will have access to a wide variety of financial instruments in many parts of the world. They will have the same opportunities as are open to any large investor and will be able to employ talented investment advisors. Each nation will no doubt choose its own investment strategy and there is no reason to expect they will all make the same choices. Some may place primary emphasis on the income yield of their investments while others may give greater weight to the question of the preservation of their capital. Some of these countries have apparently also placed a high value on anonymity -- that is, placing their funds in such a way that the identity of the owners cannot be traced. Some may fear that host countries, if able to identify the beneficial owners of large investments, might use their capability to freeze the assets to induce modification of government policy. In the final analysis, unless the OPEC countries choose to leave their oil in the ground, a very poor investment, or give their money away, they must invest the funds they do not spend on imports of goods and services for some kind of financial asset. Today's $10 per barrel of oil if left in the ground as an investment alternative to financial assets earning 8%, would have to rise in price to $21.59 per barrel by 1984, an unlikely prospect.

Our expectation has been that these countries would invest in a very wide variety of assets in a great many countries. We see no reason to assume that their investments will seriously disrupt world markets. While huge in terms of international payments patterns and transfers of wealth, these OPEC current account imbalances represent only a small fraction of world financial markets. Thus we would not expect the oil payments situation to substantially alter average yields in world financial markets, nor to cause serious difficulties for financial markets in absorbing such funds. It is quite possible that there will be some impact on the yield structure of financial assets due to stronger liquidity preferences on the part of OPEC investors than on the part of the average investor. Indeed, some decline in short maturity rates relative to longer maturity rates has already occurred in the Euro-dollar market. It is not clear, however, whether there will be a lasting shift toward lower short-term rates. As OPEC investors decide on more diversified investment strategies and private lenders and borrowers adjust to the new patterns of lending, there may be little long-term impact on the maturity structure of financial yields.

Furthermore, the drive to develop alternative sources of energy will increase the demand for capital. Thus, despite the prospect of huge OPEC surpluses, we look to a world which is short of investment capital.

Indeed, the more difficult problem is to provide increased domestic savings to finance our investment needs, not to find profitable outlets for OPEC investments.

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It would be virtually impossible to make additional real transfers on the order of $50 to $80 from oil-consuming to oil-producing countries over the space of a year. This is due more to the lack of ability of the oil producers to absorb quickly such a huge increase in real resources than an inability of the oil-consuming nations to provide these resources. This does not mean, however, that a problem of overall payments imbalance need exist. The excess of oil country receipts over their imports of goods and services will be matched by an accumulation of financial assets.

To the extent that these financial instruments have competitive rates of return, their real economic value will equal the aggregate current account imbalance between oil-producing and consuming nations. (Where there is concessionary financing, of course, accumulated assets will be valued at less than the current payments imbalance.) As was indicated above, there would be little problem with the world's financial markets providing attractive investment opportunities such that OPEC producers can invest their oil receipts in profitable investments. Over time as OPEC absorptive capacity grows the accumulation of financial assets by the oil producers could be expected to reverse itself. Thus much of the real transfer of goods and services in payment for oil would be deferred until later years when the OPEC countries as a group become "mature creditors," absorbing a greater value of goods and services than their current export receipts. The fact that transfer of real goods and services would follow a different time pattern than oil receipts would not imply that a balanced real value of claims would not occur during the interim.

The lack of good assets for oil producers to invest their receipts does not, however, imply that there may not be serious problems associated with the current level of oil prices.

For many countries increased oil payments represent an intolerable tax on their meager resources, one which they cannot reasonably be expected to pay either currently, or in later years through commercial borrowing. Likewise increased oil prices have contributed severely to an already unprecedented rate of world inflation. Solution to the financial problems associated with the oil price increases must not be confused with solution to the real underlying economic problems. The resolution of such problems must be in a lowering of oil prices.

It is essential that the oil-producing states come to recognize that their own national interests lie in lower oil prices, both in terms of their narrow self-interest in maintaining their markets for future oil sales and because of their stake in the operation of the international economic system.

Current Recycling Problems

The sudden appearance of large OPEC surpluses has created strains on the banking system. But these strains have induced the banks and other financial institutions to devise new methods and new techniques which enable them to cope with most of the problems. The system is in no real danger. We must be sure that regulatory and supervisory authorities in the various countries watch carefully to guard against mismanagement and speculative excesses by banking institutions. The Comptroller of the Currency is expanding the examination of international banking operations. The German authorities, who had earlier established new procedures and guidelines to limit foreign exchange transaction by banks have established a "liquidity bank" and have proposed legislation to revise certain banking laws.

We must make sure that our procedures for assuring the liquidity of our financial systems are effective. Central bankers from the major countries announced last week that this is being done.

We have no indication that the banks cannot handle the intermediation problem. As their financial assets grow, many of the oil-producing countries are coming to realize that they will not be able to use their money for goods and services in the near future and that they would be well advised to place these funds in longer-term maturities. We have already seen some indications that a significant portion of the funds being placed with the banks is going into medium-term time deposits and certificates of deposit.

As time passes we expect the financial system to adapt to the increased volume of oil-producer surpluses and new investment channels to be opened up through which funds can be recycled. The Euro-currency market apparently continued to expand very rapidly through the early part of the year. In the last few months, however, its overall growth appears to have leveled out. While partly a reflection of factors unrelated to oil payments, this may also be due in part to the banks encouraging OPEC lenders to go elsewhere. There will, no doubt, continue to be strains on the system but we see no reason why these strains cannot be dealt with. The system remains sound.

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At the same time it must be recognized that the longer the OPEC surpluses (and, consequently, the oil-importing country deficits) continue, the more difficult it will become for countries in a weaker financial position to borrow through the private markets.

Both Italy and the United Kingdom are currently experiencing very large current account deficits, deficits which are only partially attributable to the oil price increase. Recently, the Italians have had some difficulty in finding financing through the private markets which would be adequate to meet their needs and they have turned to the IMF and to their EC partners for help. The United Kingdom has undertaken some official and quasi-official borrowing in the international capital market but has not had any difficulty in attracting enough foreign capital to meet its financing requirements.

With these countries as with others, however, the ability to obtain financing from private sources will depend heavily on the private market's assessment of the countries' economic outlook. If the private markets are convinced that the governments of these countries are moving resolutely to reduce inflation and to eliminate deficits other than those attributable to the petroleum price, they should be able to find financing.

There are a number of developing countries whose prospects even before the oil price increase were such that they had little or no recourse to private markets. Some of these countries have been very seriously affected by the oil price increase and it is going to be necessary for governments to focus urgently on this problem. A ministerial committee will be established through a joint resolution of the IMF and the IBRD at the end of this month. One of its first tasks will be to seek a solution to the problem of these most seriously affected countries.

Outlook for Oil-Importing Countries

The oil price increase has radically transformed the balance of payments prospects of most of the major industrial nations in the world as well as many developing countries. Nations which have been accustomed to trade and service surpluses and net capital exports now find themselves faced with heavy trade and payments deficits and a need to borrow. The size and speed of the required adjustment will cause economic strains and political pressures. There will be a temptation for each country to attempt to improve its position.

Thus there is a danger of resort to "beggar thy neighbor" policies. Fortunately, this danger is fully recognized by the governments of these nations. The 24 members of the OECD last May undertook a pledge to refrain from the introduction of new trade measures which would either restrict imports or subsidize exports. The IMF has invited all of its members to undertake a voluntary pledge to refrain from trade measures for balance of payments purposes. These are healthy indications of the widespread recognition of the dangers and of a determination to resist the pressures for mutual damaging policies. The United States will be exerting every effort to prevent the adoption of mutually damaging policies.

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FOR IMMEDIATE RELEASE

September 20, 1974
Contact: 964-2108

OES CONSIDERS FURTHER ACTION FOLLOWING
COURT DECISION IN CALIFORNIA WAGE CASE

The Treasury Department's Office of Economic Stabilization and the Justice Department are considering further actions that may be taken following the decision by the United States Temporary Emergency Court of Appeals on September 19, 1974 in the case of the United States vs. State of California.

The Court ruled that the Office of Economic Stabilization, Department of the Treasury, the successor to the Cost of Living Council, cannot prevent the State of California from paying its approximately 180,000 employees salary increases for work performed during the period July 1, 1973, through April 30, 1974, even though retroactive payment of these salary increases would violate the terms of decisions issued by the Cost of Living Council.

Among the actions the Office of Economic Stabilization and the Justice Department, could seek is final resolution of the issue by the Supreme Court.

The T.E.C.A. decision will not become effective for at least 30 days. During this period, the regulations and decisions issued by the Office of Economic Stabilization, the Cost of Living Council, and other agencies of the Economic Stabilization Program will remain in effect.

The regulations provide that it is unlawful for wages and salaries to be paid retroactively for work performed on or before April 30, 1974, except as permitted under the Economic Stabilization Program rules that were in effect at that time.

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EMBARGOED FOR RELEASE UNTIL
3:30 P.M., EDT, MONDAY, SEPTEMBER 23, 1974

REMARKS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE 1974 WORLD ENERGY CONFERENCE
SPECIAL EVENT
COBO ARENA, DETROIT, MICHIGAN
MONDAY, SEPTEMBER 23, 1974

It is an honor and indeed a great personal pleasure for me to welcome delegates and distinguished guests participating in this vital session of the World Energy Conference.

All of us are here today, not merely as representatives of our respective countries, but as representatives of the world community. We share a single purpose: the task of developing policies that will enable man to satisfy his vital energy needs. In reflecting on what the environmental, the economic, and indeed the human cost of energy will be, we can no longer limit ourselves to the boundaries of our individual countries.

There is, indeed, a ripple effect in fulfilling the world's energy needs. Decisions made in one country affect the very fabric of life throughout the rest of the world. Such decisions demand a continuing spirit of cooperation among the countries of the world. By building an international framework of cooperation among nations, I am convinced that we can overcome the problems that face all of us in the energy area today, and establish a permanent and equitable structure for world-wide economic development.

As we discuss various phases of energy policy today, I think it is important to recognize that the root of our current problems lies within ourselves -- within our past failures to acknowledge and act in accordance with our mutual interdependence. There are several specific areas in which we have so failed. On an individual basis, we here in the United States and decision makers in other industrialized nations have abused our energy resources. Shortsightedness has lulled us into believing that our abundant and cheap energy supplies could continue indefinitely, and so we have failed to come to grips with the rate of growth of our people's energy demands. We have failed to develop our own domestic energy resources adequately, and have leaned instead upon those of other nations. As a group, all of us have failed to coordinate national energy policies. Incredible as it seems, we have not even adequately discussed their interrelations at high political levels. In fact, in the energy area, we are only now beginning to collect adequate information and data on world demand and supply, oil supply arrangements between consumer and producer nations, and future prospective resources, so that we can adopt realistic energy policies.

Because of all these failures, we now find ourselves at a crossroads. We are faced with hard choices that will influence all future generations of the modern world we live in. As a great statesman of our nation once pointed out, those who ignore the lessons of the past are doomed to relive them. Let us, instead, learn from the past, and forge together a new atmosphere for orderly world economic growth. We must commit ourselves to work against unconstrained bilateral arrangements which will, in the long run, defeat the very goals we agree on. We must, henceforth, work always within the umbrella of international cooperation.

At this conference we will be sharing in a unique perspective on the components that make up the energy challenge. I think it is essential that we focus on a number of interrelated issues:

-- The proper balance between our respective needs for adequate supplies of energy and our common environmental goals;

-- The availability of oil and natural gas resources, and the role these energy sources should play in our world energy outlook;

-- The promise offered by the world's massive coal resources, that hold forth to us all a whole system of alternative energy sources;

-- Nuclear power, and the role it will play now and in the future;

-- And, as I have already indicated, the international aspects of our common energy future -- the inescapable fact that we can no longer think of developing only "domestic" energy policies. We must evolve a world approach.

Throughout our discussions, I think it is important to focus on how we can match the international dimensions of the energy challenge with international opportunities, not just for the industrialized nations, but for the entire world community. Our energy problems will demand more of us all: more of our technology, of our science, of our economics, of our natural resources, and of our human spirit.

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One important thing to emphasize is that last winter's embargo only highlighted a problem that has been developing for a generation -- and gone practically unheeded in the United States -- by our Government, by our private sector, and by our people. This is despite the fact that for two decades we have had a succession of warnings: hearings before our Congress, alarm from our industry, and analyses by the world scientific community that we were moving on a collision course with future realities.

We were fortunate in the United States that the embargo occurred at a point in time when we were not yet irretrievably reliant on foreign supply. The U.S. is still 85 percent self-sufficient in energy. Our domestic situation was grave, but not impossible.

I am concerned, however, that many of us may forget too quickly. It's always easy to get action during a crisis. It's not so easy to get response when crisis is behind you. We simply cannot afford to forget that the problem is still with us. And so, the thrust of our efforts in the U.S. is towards energy self-sufficiency.

As you all know, we have called this effort Project Independence. It is designed to ensure expansion of our domestic energy production, so that we will no longer be so helpless in times of economic disruption, or the threat of such disruption, from a sudden curtailment of vital energy supplies.

We are doing this in several ways. First, we are proceeding to reduce waste through energy conservation programs. Our growth in energy demand must be at least halved over the next twenty years, from a four to five percent annual rate, to a two or three percent rate. It will not be easy, but we believe this can be done without disrupting orderly economic growth. Second, we must stimulate the development of domestic energy resources. We must accelerate the development of oil and natural gas, boost coal production, and bring on-line coal liquefaction and gasification capacity. We must develop the promise of our vast oil shale reserves, and expand our use of nuclear and geothermal power.

We must develop a coordinated, realistic program to accomplish all of this -- not only because it will increase our self-sufficiency, but because the oil-producing nations are watching. It will indeed be noticed that we are willing to make the necessary decisions to achieve a more balanced international bargaining relationship.

As a first step, we must begin an all-out effort to remove the Government-imposed restraints which have curtailed our domestic industry's efforts in recent years. Despite the best intentions of the draftsmen of the Government's past policies, we continue to pose the major obstacles to the short and medium-term efficient market allocation of energy. We regulate the price and distribution of natural gas; we manipulate the pricing and distribution of oil; we have created a Frankenstein of administrative delay in the obtaining of licenses and rate changes. In our enthusiasm to make good after generations of neglect, we have imposed severe environmental restraints upon both the production and combustion of fossil fuels, before knowing as much as we should about not only their need, but their ultimate effects.

All of these efforts must be reexamined. In addition, as we develop our long-range energy policies, we must set some short-term goals. These must be clearly understood, and explained at each step not only to the American people, but to the entire world. I believe this framework should involve several major areas of action, including a comprehensive legislative package, changes in existing regulatory procedures, and conservation efforts.

-- First, we must make an all-out attempt to produce additional supplies of oil. This production could be developed through a variety of measures: We could open Elk Hills and Naval Petroleum Reserve #4 to higher levels of production, re-open the Santa Barbara Channel to production under strict environmental controls, reevaluate upward the maximum effective rate for certain oil fields, and increase secondary and tertiary recovery efforts from existing fields.

-- Second, we must each renew our individual commitments as citizens to conserve energy and reduce our overall consumption.

-- Third, we must move towards removal of restrictive price controls from oil and natural gas, and phase out price and allocation programs which have so disrupted marketing patterns. We could begin by reducing the amount of our domestic crude production subject to such controls, but this would be just an interim measure. Ultimately, these controls must go if we are to have a domestic production market with maximum incentives to increase our daily output.

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-- Fourth, we need to greatly accelerate Federal leasing programs for both oil and coal.

-- Finally, and related to all of these, we must develop energy legislation and work closely with the Congress to ensure that it's enacted. I believe the time has clearly come, for instance, for a statement of National Energy Policy, in an Act patterned after both the National Environmental Policy Act of 1969 and the Mining and Mineral Development Act of 1970. We can no longer afford to treat energy considerations on an *ad hoc* basis, and put out brush fires only after they have begun to affect vital national interests. Energy considerations should be geared into all our federal efforts, and I will propose this to the President for inclusion in a legislative package.

At the same time that we develop this short range program, we must look towards increased coal production, and work to make gasification and liquefaction of our coal and oil shale reserves on a commercial scale a reality.

With one trillion, 500 billion tons of identifiable coal reserves, we possess half of the free world's known reserves--one-third of which is economically recoverable today.

By the same token, we have an estimated one trillion, 800 billion barrels of oil locked in the shale of our Western States. That is enough to meet our total needs for decades to come.

It is up to the Federal Government and private industry to bring the promise of these reserves into the market place.

Nuclear power today provides about the same amount of the Nation's energy as firewood. It's time to accelerate the development and use of this important source.

It's only through a concentrated effort on all these fronts that we can achieve the ability for self-sufficiency. You will note that I said the "ability" for self-sufficiency. That does not mean that the United States will not continue to import. In fact, our program is based on the assumption that we will import. However, our reliance will not be such that we will have to depend on one set of suppliers.

Seen in this way, I do not view Project Independence as a move toward autarchy but rather as part of a worldwide effort to bring greater balance to world energy supply and demand. We all live in an energy interdependent world, and we in the United States see Project Independence as a means to reduce our own call on oil available to the international market.

As we begin our panel discussion, I would stress that we are facing a dramatically changed energy scene in the world of the future. The present condition is unstable, and the short-term gains of wealth and power which some are experiencing are already proving undesirable in the longer scheme of affairs. The world is reacting to current prices by cutting consumption, and expanding productive capacity of energy. For instance, outside of the OPEC countries, there are renewed efforts for oil and natural gas:

-- The North Sea, in spite of the hazardous drilling conditions, yields new additions to proven reserves each month, and promise of even greater finds.

-- Southeast Asia, while it is still in the first generation of exploration, has great promise of new supplies.

-- Recent discoveries in West Africa have demonstrated great supply potential.

-- And within our own hemisphere, Mexico has made dramatic finds that will literally re-vitalize their oil industry, and could lead to surpassing the production level of the late 1920's.

Thus, the short-run actions of some oil exporters have, in fact, insured that the value of oil in the ground will fall over the next decade. We may be able to do a lot by governmental regulations and cooperation, but we cannot repal the law of supply and demand.

Today, however, we must recognize that the present price levels present grave potential economic problems not only for consuming nations, but even more so for the producing nations. No benefits derive for price levels which result in unemployment and inflation throughout Europe and Japan, and damage the world economy as a whole. The international investments of all nations are in jeopardy, and the old fable of the goose that laid the golden egg can be seen developing in today's headlines and international cable traffic. Consumers now suffer from the effects of the sharp and sudden upswing in prices. Producers are likely to suffer at some later time from the downswing in prices caused by the market's strong reactions to present high prices. It is clearly in the best interests of the oil producers that the world economy maintain sound growth.

Prices lower than those being charged at present would be in the economic interest of both producers and consumers. High cost alternative sources would not then be encouraged to so great an extent, while the producers can expect not merely short term, dangerous and distortive national incomes, but the more meaningful and truly valuable growth represented by expanding economies which develop the capacity to absorb increasing imports of capital and technology.

Ideally, what is needed is a diversity of consumers and producers operating in a cooperative international framework.

Together, we can prevent unemployment. Together, we can prevent a worldwide monetary crisis. Together, we can maintain economic progress.

I believe there are grounds for optimism. The world has the capacity and resources to meet our energy needs, and the United States stands ready and willing to help build a structure of international cooperation with producers and consumers alike.

Thank you.

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The Department of the TREASURY NEWS
BUREAU OF THE MINT WASH., D.C. 20220 - W04-5011

FOR IMMEDIATE RELEASE 187 September 20, 1974

INSPECTION OF GOLD AT FORT KNOX

The inspection by Members of Congress on September 23, 1974, of U. S. gold stocks stored at the Fort Knox (Ky.) Bullion Depository marks a unique departure from the long standing and rigidly enforced policy of absolutely no visitors, Mrs. Mary Brooks, Director of the Mint, announced today.

"On April 28, 1943, President Franklin D. Roosevelt inspected the Bullion Depository," Mrs. Brooks said. "His visit was the one and only time a gold vault was opened for inspection for anyone other than authorized personnel.

"The Congressional inspection adheres to the new open door policy of the government announced by President Ford. Treasury Secretary William E. Simon issued the invitation to Congressmen to inspect the gold at Fort Knox. By also inviting the press to witness the Congressional inspection, the Mint is clearing away the cobwebs and re-assuring the public that their gold is intact and safe. For the first time photographing is being permitted inside the Depository."

After the Congressional inspection, the Bullion Depository will once again be closed to visitors.

On September 24, 1974, a special settlement (audit) is scheduled to begin and at its conclusion a report on the audit will be issued.

The audit will be performed by a committee of auditors from the U. S. General Accounting Office (GAO) and the Department of the Treasury. The auditors from the Treasury will be drawn from the Office of the Secretary, the Bureau of Government Financial Operations, the U. S. Customs Service, and the Bureau of the Mint. In addition, the committee will include technicians from the Bureau of the Mint who are trained in assaying and weighing gold bullion.

The monetary gold stock of the United States totals 276.0 million fine troy ounces valued at $11.7 billion at the official rate of $42.2222 per fine troy ounce, and is stored in various federal depositories (table attached), the largest of which is at Fort Knox, Kentucky. 147.4 million fine troy ounces, valued at $6.2 billion, is stored in 13 vault compartments at the Fort Knox Bullion Depository.

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MONETARY GOLD STOCK OF THE UNITED STATES

(in millions of ounces)

Account of the U. S. Treasury		
Fort Knox	147.4	
Denver Mint	54.9	
New York Assay Office	54.1	
San Francisco Assay Office	10.6	
FRB New York - Special Custody Acct.	4.2	
Bank of England	1.3	
Bank of Canada	1.4	
Other	.1	
		274.0
Exchange Stabilization Fund		2.0
Total		276.0

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The Financial Conference On Inflation

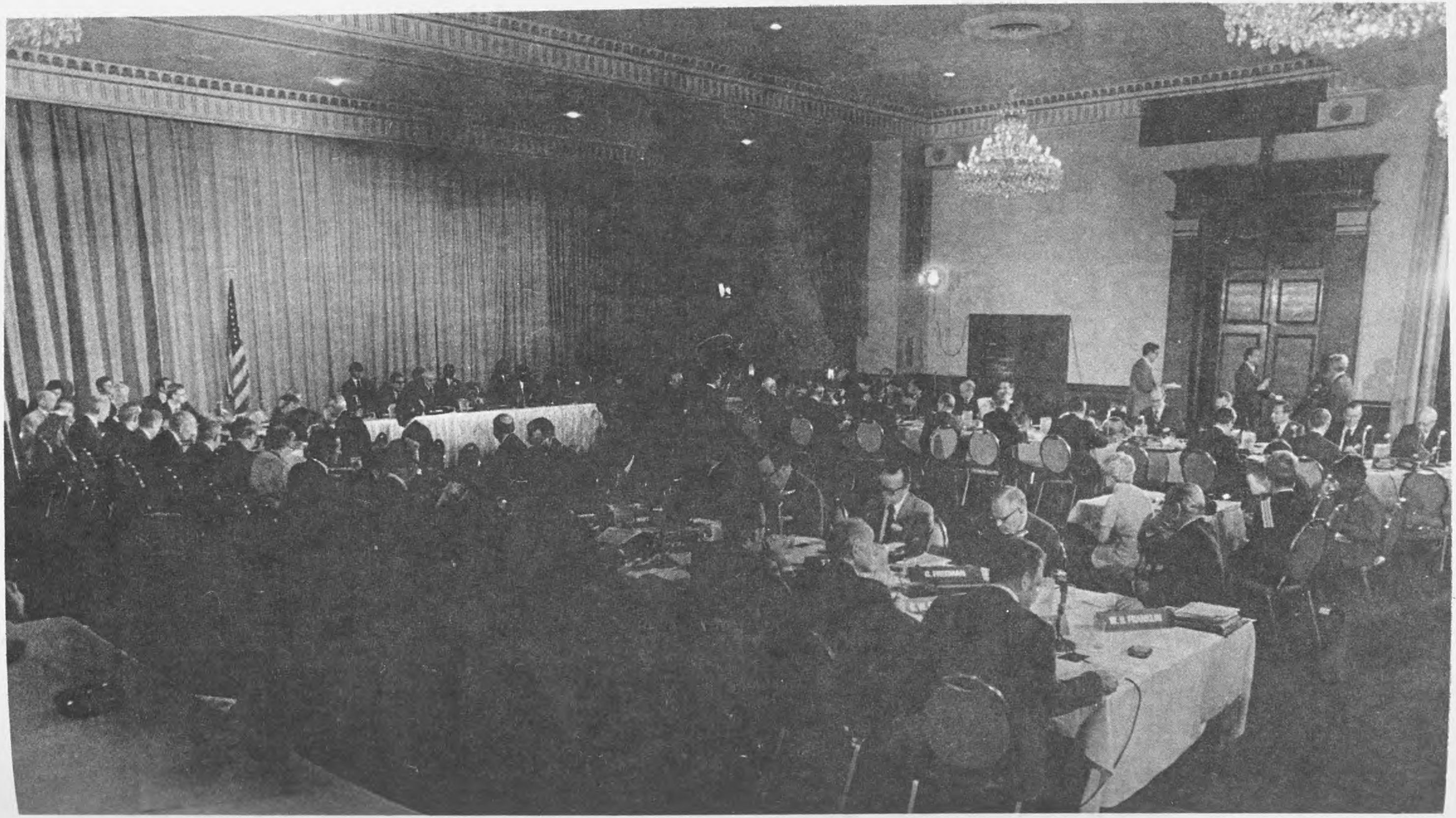
September 20, 1974
Washington, D.C.

THE FINANCIAL CONFERENCE ON INFLATION

William E. Simon,
Secretary of the Treasury
Chairman

Washington, D.C.
September 20, 1974

Held at the Request of
President Gerald R. Ford and the Congress
of the United States



Participants

Financial Conference on Inflation

THE HON. WILLIAM E. SIMON
Secretary of the Treasury
Washington, D.C.

MR. EDWIN G. ALEXANDER
President
First S & L Shares, Inc.
Denver, Colorado

DR. GEORGE LELAND BACH
Professor of Economics and Public Policy
Stanford University
Stanford, California

MR. ROBERT H. B. BALDWIN
President, Morgan Stanley & Company, Inc.
New York, New York

THE HON. JACK F. BENNETT
Under Secretary of the Treasury for Monetary Affairs
Washington, D.C.

MR. ROBERT H. BETHKE
President
Discount Corporation of New York
New York, New York

MR. ARCHIE R. BOE
Chairman of the Board
Allstate Insurance Company
Northbrook, Illinois

MR. THOMAS R. BOMAR
Chairman, Federal Home Loan Bank Board
Washington, D.C.

THE HON. ARTHUR F. BURNS
Chairman, Board of Governors of the Federal Reserve System
Washington, D.C.

DR. GWEN BYMERS
Professor and Chairman of the Department of Consumer Economics
Cornell University
Ithaca, New York

MR. RICHARD P. COOLEY
President and Chief Executive Officer
Wells Fargo Bank, National Association
San Francisco, California

MR. HOWARD COUGHLIN
President, Office and Professional Employees International Union
New York, New York

MR. MORRIS D. CRAWFORD, JR.
Chairman of the Board
Bowery Savings Bank
New York, New York

DR. ROBERT G. DEDERICK
Senior Vice President and Economist
Northern Trust Company
Chicago, Illinois

DR. ROBERT RAY DOCKSON
President, California Federal Savings and Loan Association
Los Angeles, California

DR. OTTO ECKSTEIN
President, Data Resources, Inc.
Professor of Economics, Harvard University
Cambridge, Massachusetts

MR. GILBERT R. ELLIS
Chairman
Household Finance Corporation
Chicago, Illinois

DR. GROVER W. ENSLEY
Executive Vice President
National Association of Mutual Savings Banks
New York, New York

THE HON. EDGAR R. FIEDLER
Assistant Secretary of the Treasury for Economic Policy
Washington, D.C.

MR. WILLIAM H. FRANKLIN
Chairman, Caterpillar Tractor Company
Peoria, Illinois

MR. GAYLORD FREEMAN
Chairman of the Board
The First National Bank of Chicago
Chicago, Illinois

DR. TILFORD C. GAINES
Senior Vice President and Economist
Manufacturers Hanover Trust
New York, New York

THE HON. STEPHEN S. GARDNER
Deputy Secretary of the Treasury
Washington, D.C.

MR. RAY GARRETT, JR.
Chairman
Securities and Exchange Commission
Washington, D.C.

MR. RICHARD G. GILBERT
President
Citizens Savings Association
Canton, Ohio

MR. ALAN GREENSPAN
Chairman
Council of Economic Advisors
Washington, D.C.

MR. DAVID B. HARPER
President
First Independence National Bank
Detroit, Michigan

DR. GABRIEL HAUGE
Chairman
Manufacturers Hanover Trust
New York, New York

MR. MILTON J. HAYES
Chairman
Government Fiscal Policy Committee
Independent Bankers Association of America
Consultant, American National Bank of Chicago
Chicago, Illinois

MR. M. R. HELLIE
President
Credit Union National Association, Inc.
Washington, D.C.

MR. RICHARD D. HILL
Chairman of the Board
First National Bank of Boston
Boston, Massachusetts

MR. J. HENNING HILLIARD
Chairman
J. J. B. Hilliard, W. L. Lyons, Inc.
Louisville, Kentucky

MR. FRANK J. HOENEMEYER
Executive Vice President
Prudential Insurance Company of America
Newark, New Jersey

THE HON. ERNEST F. HOLLINGS
United States Senate
Washington, D.C.

THE HON. JACOB K. JAVITS
United States Senate
Washington, D.C.

MR. PAUL R. JUDY
Chairman and President
A. G. Becker & Company, Inc.
Chicago, Illinois

MR. HARVEY E. KAPNICK, Jr.
Chairman and Chief Executive Officer
Arthur Andersen & Co.
Chicago, Illinois

MR. LOUIS O. KELSO
General Counsel
Bangert & Co., Inc.
San Francisco, California

MR. W. J. KENNEDY, III
President, North Carolina Mutual Life Insurance Company
Durham, North Carolina

Mr. Ralph F. Leach
Chairman of the Executive Committee
Morgan Guaranty Trust Company
New York, New York

Mr. Gustave L. Levy
Partner
Goldman, Sachs and Company
New York, New York

The Hon. Russell B. Long
United States Senate
Washington, D.C.

Mr. Bruce K. MacLaury
President
Federal Reserve Bank of Minneapolis
Minneapolis, Minnesota

Dr. Paul W. McCracken
Senior Consultant, Department of the Treasury
Washington, D.C.

Mr. Rex J. Morthland
President, American Bankers Association
Chairman, The Peoples Bank and Trust Company
Selma, Alabama

Mr. James J. Needham
Chairman of the Board
New York Stock Exchange
New York, New York

Mr. Herman Nickerson, Jr.
Administrator
National Credit Union Administration
Washington, D.C.

Dr. Arthur M. Okun
Senior Fellow
The Brookings Institution
Washington, D.C.

Dr. James O'Leary
Vice Chairman
U.S. Trust Company
New York, New York

Mr. J. Charles Partee
Managing Director, Office of Research and Economic Policy
Board of Governors of the Federal Reserve System
Washington, D.C.

Washington, D.C.

The Hon. Wright Patman
U.S. House of Representatives
Ms. Sylvia Porter
Syndicated Financial Columnist
New York, New York

Mr. George B. Preston
President
U.S. League of Savings Associations
Washington, D.C.

Mr. Donald T. Regan
Chairman of the Board
Merrill Lynch, Pierce, Fenner and Smith, Inc.
New York, New York

The Hon. Henry S. Reuss
U.S. House of Representatives
Washington, D.C.

The Hon. John J. Rhodes
U.S. House of Representatives
Washington, D.C.

Mr. David Rockefeller
Chase Manhattan Bank, National Association
New York, New York

Mr. Robert V. Roosa
Partner
Brown Brothers Harriman and Company
New York, New York

The Hon. William V. Roth
United States Senate
Washington, D.C.

Mr. Ralph S. Saul
Vice Chairman
Insurance Company of North America
Philadelphia, Pennsylvania

Dr. Raymond J. Saulnier
Professor Emeritus of Economics
Barnard College, Columbia University
New York, New York

Mr. Walter Scott
Associate Director
Office of Management and Budget
Washington, D.C.

THE HON. GEORGE P. SHULTZ
Executive Vice President
Bechtel Corporation
San Francisco, California

THE HON. J. WILLIAM STANTON
U.S. House of Representatives
Washington, D.C.

MR. ROBERT H. STEWART III
Chairman of the Board
First International Bancshares, Inc.
Dallas, Texas

MR. THOMAS I. STORRS
Chairman of the Executive Committee
North Carolina National Bank
Charlotte, North Carolina

MR. JOHN TOMAYKO
Director
Insurance, Pension and Unemployment Benefits
United Steelworkers of America
Pittsburgh, Pennsylvania

THE HON. CHARLS E. WALKER
President
Charls E. Walker Associates
Washington, D.C.

THE HON. FRANK WILLE
Chairman
Federal Deposit Insurance Corporation
Washington, D.C.

MR. C. P. WILSON
Chairman of the Board and Director
Robert W. Baird and Company, Inc.
Milwaukee, Wisconsin

DR. ALBERT M. WOJNILOWER
Vice President and Economist
The First Boston Corporation
New York, New York

MR. JOHN W. WRIGHT
President
Wright Investors' Service
Bridgeport, Connecticut

MR. WALTER WRISTON
Chairman
First National City Bank
New York, New York

DR. CHARLES J. ZWICK
President
Southeast Banking Corporation
Miami, Florida

A Mandate To Fight Inflation

The Financial Conference on Inflation held in Washington on September 20, 1974, was one of a series of meetings leading to the Conference on Inflation, September 27–28, 1974. The sessions were designed to call forth the ideas of concerned individuals from all sectors of American society. It was the response by President Ford and the Congress to the Nation's first domestic priority—a mandate given by the people to discuss problems and explore solutions regarding our economic realities.

The Financial Conference drew together representatives from government, the banking and investment community, labor and consumer interests as well as professional economists. Explaining the areas under consideration, Treasury Secretary William E. Simon stated in a letter to participants that "special emphasis will be devoted to fiscal and monetary policy, the capital markets, the international situation and financial institutions."

Moreover, the Secretary indicated that the topics to be dealt with included productivity, the condition of stock and bond markets, credit and interest policies and the international movement of money in and out of the country.

"The Conference on Inflation is a bipartisan effort to deal with our number one domestic problem," President Ford has stated, recognizing that this mandate, whether expressed in the opinion polls or communicated to Congressmen, is the urgent call and desire on the part of the American public for action to curb inflation. "To restore economic confidence," the President said in his initial message to Congress and the people, "the government in Washington must provide leadership." Expressing his expectations for the conference program, Mr. Ford remarked, "We need to have attainable answers sharply defined and carefully sorted out with all the pluses and minuses of each clearly stated."

And in taking up this theme, Secretary Simon wrote, "We are anxious to have thinking on this, the Nation's number one problem—on its causes, its effects and its cures . . . I am confident that we in government will benefit from this advice and discussion."

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Agenda

Agenda for September 20

Financial Conference on Inflation

8:15 a.m. *Introduction*—The Honorable William E. Simon, Secretary of the Treasury

8:25 a.m. *Economic Situation and Policy Briefing*—The Honorable Alan Greenspan, Chairman, Council of Economic Advisers

8:40 a.m. *Briefing on the Budget*—Walter Scott, Associate Director, Office of Management and Budget

8:55 a.m. *Federal Reserve Board Briefing*—The Honorable Arthur Burns, Chairman, Board of Governors of the Federal Reserve System

9:10 a.m. *Round Table Discussion* (3 minutes for each conferee)

10:30 a.m. *Coffee Break*

10:40 a.m. *Round Table Discussion* (*continued*)

12:30 p.m. *Lunch*

1:30 p.m. *Fiscal Policy To Deal With Inflation*
Major Fiscal Objectives and Options for Fiscal Years 1975, 1976, and Beyond
Possible Cuts in Federal Spending
Possible Changes in Federal Taxation: Current Levels, Incentives, Deterrents, Equity

2:10 p.m. *Monetary Policy To Deal With Inflation*
Current State of Domestic Financial Markets
Current Monetary Policy: Given the Circumstances, is It Too Tight, About Right, or Too Easy? What Should the Future Course of Monetary Policy Be?

2:40 p.m. *Capital Markets and Capital Formation*
Discussion of the Dimensions of Future Capital Requirements in an Inflationary Economy
—Policies To Increase the Total Volume of Saving and Investment
—Policies To Insure Adequate Financing Through the Equity and Long-Term Debt Market

3:30 p.m.	*International Economic Policy and Inflation* Discussion of the Appropriate U.S. Role in International Economic Policy International Financial Aspects of World Inflation
4:00 p.m.	*Financial Institutions and Inflation* Possible Changes That Should Be Made in Laws and Regulations Affecting Financial Institutions To Assist in the Fight Against Inflation
4:30 p.m.	*Wage-Price Policy To Deal With Inflation* How Should the Wage-Price Monitoring System Be Operated?
5:00 p.m.	*Other Suggestions To Combat Inflation*
5:30 p.m.	*Concluding Remarks*
6:00 p.m.	*Adjournment of Formal Session*

II.

Introduction by the Secretary of the Treasury

INTRODUCTION

The Honorable William E. Simon
Secretary of the Treasury

SECRETARY SIMON: Ladies and gentlemen: I think we better get going.

It is indeed a pleasure to welcome you to this Financial Conference on Inflation.

My opening remarks will be brief. Along with the public, we, in Government, are here to listen and learn. There is no need for me to stress the importance of our deliberations. The continuation of current high rates of inflation will wreak havoc in our country. We must prevent that. We are going to prevent that.

But, even when we have put the worst of present inflation behind us, our banking and financial system will face some old problems and many new challenges.

We have asked you here today to explore these issues, and consider how the banking and financial communities can best serve the interests of the American people.

We are grateful that you have responded.

Strong economic performance obviously depends on the continued smooth and reliable functions of our financial markets and financial institutions.....which I have always felt are the centerpiece of our free enterprise economy.

Borrowers, both here and abroad, depend on our markets and our institutions for the funds that are essential to carry on economic activity. Savers, both private and institutional, look to our markets for secure and profitable investment opportunities.

Our financial markets are large, and they are efficient. Our financial institutions are carefully regulated and the public's deposits are insured. There are many elements of strength in our financial picture.

Yet, we know that the current inflation is placing great strains upon our financial markets and institutions. Interest rates have been driven to unparalleled heights. Our equity markets have fallen off sharply.

Some sectors of the economy, especially housing, find the availability of credit sharply reduced. And, above all, there has been a continuing erosion of financial confidence.

All of these disturbing developments are due, in the final analysis, to our failure to deal successfully with inflation.

The United States, as we all know, has no monopoly on the problem of inflation. Even among the major industrial nations, price levels have been rising at rates that only a few years ago would have been assumed to apply to some countries with less well-disciplined and developed institutions for the management of their economic policies.

The rate in which the purchasing power of money has been depreciating here and abroad is constituting a grave threat, not only to the orderly economic progress, but even to our liberal, social and political institutions.

No group in our society is more acutely sensitive to these dangers than the leaders of our financial community. The present inflation has, of course, been aggravated by special factors which are very familiar to all of you: the explosion in oil prices, the devaluation of the dollar, the simultaneous boom in all the industrialized countries and removal of wage and price controls which brought the inevitable bulge. Indeed, about one-half of our current inflation can be explained by these special factors.

We also know, however, that how explosive the effects of these special factors turn out to be depends heavily on the existence of generalized inflationary pressures in our economy. A generally stable economy can absorb shocks, much more readily than an economy already tightly stretched.

Unfortunately, most major industrial nations have been stretching for some time to maintain high rates of growth, and minimal levels of unemployment. These are commendable objectives but their unswerving pursuit has left more countries very susceptible to inflation.

In most nations, general economic policies have been too inflationary.

In the most recent period, for example, of the 24 OECD countries, twenty of them had budget deficits. These deficits at a time of generally heavy demands on general productive capacity had to be financed and these financing requirements tended to force excessively explosive monetary and credit policies.

The record of the last two years is not a good one, if high rates of inflation are disturbing, the wide variations in rates of inflation internationally carry with them a measure of hope. They suggest that this Nation is not helpless on a sea of world inflation.

Good policies still pay off. Nations that have pursued this inflationary policy have lower rates of inflation. We are, of course, heavily influenced by world events. But, we can, by the patient and prudent management of our economic policies reduce our own rate of inflation and we then eliminate the malignant tendencies at home for prices to rise because prices are rising as the inflation feeds on itself.

We have, I believe, an unparalleled responsibility, but we also have an opportunity.

We have more scope than any other Nation to deal with our domestic inflation. And the difference between a good and a poor U. S. performance in regaining economic stability will profoundly affect the course of the world economy and its social and political institutions for years to come.

The economy, however, is no machine with dials and levers, marked fiscal or monetary or other policies. Economic policy is not just a matter of mechanics or algebra. Policies must be implemented through our democratic institutions. They must, therefore, have the consent of our free people. And this requires that all of us feel and have a sense of involvement in the shaping of those policies which so profoundly influence our own lives.

I, therefore, welcome you to this meeting in this spirit. Our problems are complex. There are no instant solutions. Yet we can still be masters of our fate.

The capacity of a free people to find and implement solutions must never be sold short.

And the shape of democratic institutions here and abroad will be profoundly affected by our success in this quest for economic stability and, therefore, by our deliberations here today.

I would now like to call on Allen Greenspan who will give us a briefing on the state of the economy and the outlook.

III.

Briefing by the Council of Economic Advisors

BRIEFING BY THE COUNCIL OF ECONOMIC ADVISORS

MR. GREENSPAN: Thank you, Mr. Secretary.

What I'd like to do is just briefly review what I think is going on in the economy generally, and how its interfacing with the financial system at this point, and why we're seeing in a sense some very extraordinary strains emerging in both areas.

In fact, what we're observing at the moment are the impacts of inflation holding down economic activity, in fact, suppressing it, and concurrently causing considerable distortions and pressures and strains in the financial structure.

What we are actually observing, of course, is merely the process by which inflationary expectations working their way into the decision-making process tend to have extraordinary and almost unprecedented impacts on some of our financial institutions and some of the financial ratios which we're used to looking at.

One of the things one concludes, incidentally, this is something which the Secretary said very early on in his remarks, that we've had a taste of double digit inflation in this country. We've had it for a long time, too long a time, too many months.

And, what we must conclude from it is that our system cannot take this indefinitely. If you extrapolate the strains that we now already see as a consequence of what we have for an extended period of time, the institutions -- economical, financial, structural -- begin to break down because they are essentially constructed or have been developed over the decades in the context of low, single digit inflation, and it's by no means clear or had not been clear, I should say, how significant this element was until we actually have tested it, and having tested it, we found that it does not respond terribly well.

Clearly, we see -- I don't have to go through examples, I'm sure that all of you are most familiar with all of the various problems that each and every institution is having, but that clearly the savings and loans are under extraordinary pressure; insurance companies, banks, business -- especially smaller business -- were having difficulty getting financing.

The system clearly does not work well under these conditions.

Now, when you look at the impact of inflationary expectations on the physical aspects of the economy, what you see is that consumers who essentially tend to pull back when they are confronted with inflation are doing precisely that.

Whenever you have a household which is caught up in inflation and in fears of being able to make ends meet, grave concerns about whether six months from now the electric bills or rent or health costs to life would be astronomical. What happens is if you cannot plan your family expenses, you tend to hold back on numbers of discretionary-type expenditures, attempt to save more, and as a consequence, what occurs is that the uncertainty generated in the consumer markets as a consequence of this induces a significant suppressing of consumer markets, and this obviously is what we have been observing for too long a period, and it is one of the major, if not the major, element inducing the sluggishness in our economy.

Inflationary expectations, however, do not work symmetrically, and, in effect, tend to affect business decisions in precisely the opposite manner.

What happens, of course, is that both plant and equipment expenditures and inventory purchasing under inflationary expectations tend to accelerate. Now, while this certainly gives an aura of physical volume strength in the economy, it is clearly an artificial, unsustainable and not a very healthy form of economic expansion.

Obviously, in the capital expenditures area, when you have expected price increases, the impact of this is largely to immediately cause expected rates of return on new facilities to rise rapidly and, as a consequence, the usual expenditure procedures that are involved in a company tend to unearth very large budget items, and this is what we have seen in the last number of quarters.

If we take a look at capital appropriations, they're just way above expenditures. Backlogs of unexpended outlays are rapidly rising, even adjusting for price change. This is even still true in the electric utility area, where we've seen some very dramatic curtailments of late.

In the inventory area, we see, of course, the usual expected accumulation which occurred mostly through 1973 and early 1974. As price expectations grow, orders to basic materials producers went up sharply, lead times on delivery stretched out very sharply, and it's only now that we're beginning to see some easing occurring in that sort of process, largely because inventory levels have finally risen in terms of day's supply or in any other measure to exceptionally high levels. And looking now at the process of orders beginning to slip, you get that sense that lead times are pulling in and the inventory process is now turning over on us, and we're beginning to see the usual signs of this sort of inventory slippage which I think will proceed for a while.

In fact, were it not for this still very buoyant capital goods market, even with all of the retrenchments we're seeing, inventory liquidation could be quite substantial. But because of the fact that a very large block of the inventories in our system are supported by the capital goods markets, the extent of inventory retrenchment is likely to be held in check, and as a consequence, the degree of physical volume decline implied in the inventory sector is not -- at least as we can see it at this stage--of exceptional concern.

Nonetheless, when you put all of these things together, you do come out with an economy, an economic outlook which is scarcely one that can be described as buoyant.

On the contrary, it looks poor. The economy is clearly soft and is softening, and one begins to see the effects of the inflationary expectations themselves working the economy down in its rate of growth and into something which is now pretty close to the zero area, maybe a shade negative, so far as the outlook is concerned.

Nonetheless, we still find extraordinary credit demands, and the reason we are, of course, is that what is financed are current dollars and not physical buying volume, and these numbers are really quite large.

And one of the difficulties we see, even as we get that sense of ease, is that we have been financing the current dollar growth in our GNP in part by reducing the liquidity of the business sector, and concurrently, observing significant increases in loan deposit ratios or other measures of illiquidity in the commercial banking system.

If, in fact, one were essentially to project the types of flows of funds which are implicit in what we are observing so far as this last year or year and a half is concerned, we rapidly get to a very tight corporate liquidity, even worse than it is now, and a very tight commercial banking system pressures.

And so what we're seeing is the economy is attempting to adjust to this financial drain. There's several incidental problems associated with these financial difficulties. For example, a very large part -- in fact, recently almost all -- of inventory growth and book financing of inventory has reflected inventory profits, and even though these, as you know, don't really create cash, our evidence suggests that one, not only do corporations pay taxes on these inventory profits and hence have a drain out of their system, but it also looks as though a substantial proportion are paying cash dividends against this stuff which also must be replenished in the financial system by borrowings.

So what we have seen in this type of problem is that there is a sort of financial capacity on growth which has sort of limited the dollar expansion of our system if one looks in terms of business and financial balance sheets.

And with this type of extraordinary inflationary pressures, in a sense the inflation is eating up all of the current dollar growth, leaving negligible or even less than negligible amounts for real activity.

Nonetheless, the system, despite its strains, is showing some very extraordinary flexibilities. Conventionally, the normal period we expect that small corporations and unincorporated businesses are financed through larger companies.

We always find, for example, if you will look at the receivables-payables balances of these corporations and smaller businesses, there is always a net lending from the larger corporation, to the smaller corporation, or the unincorporated business.

It appears now that with the smaller companies having difficulty borrowing that part of a very heavy loan demand that we see at the larger banks is reflecting the phenomenon of large corporations acting as so-called financial intermediaries to supply funds basically to their customers.

It's the type of sort of semi-emercengy type flexibility that one sees in an extraordinarily complex financial system that we have. And even though there are strains, pressures and the like, and obviously numbers of changes that probably are required as far as structural, financial reform, it is still, nonetheless, truly remarkable how efficient the structure and the system is working, even in the fact of this extraordinary pressure.

But you cannot expect it to go on. You cannot expect that the system will function in a continuously viable way under the conditions that we now have with respect to inflation.

And this is all the more reason why inflation which has been a major public enemy number one to virtually every sector of the economy that one can imagine -- it finds its way in every nook and corner of our system and it is clearly causing great structural problems in our economy and in our financial system, which is one of the basic reasons why we really have no choice. We cannot live with inflation.

It's not a fact of saying, "Well, here it is, let's try to find the mechanism to deal with it." I don't think we've got that choice, at least in the short run. We may in the longer run.

There are a number of notions about indexing and a variety of changes which might conceivably make large changes, but that's something that's in the future. You can't get there from here.

And the only way to restore a basic balance is largely and in fact essentially to bring down the inflation rate back to more normal dimensions. I don't see any alternative to that. I wish there were, but they're not so far as I can see, and therefore, this is the reason why I think that the priority of curtailing the inflationary load in our system is extremely high, and the sooner we resolve this problem, the better. Thank you, Mr. Secretary.

III.

Briefing by the Office of Management and Budget

BRIEFING BY THE OFFICE OF MANAGEMENT AND BUDGET

SECRETARY SIMON: Now Walter Scott, the Associate Director of the Office of Management and Budget will brief us on budget policy. Wally!

MR. SCOTT: Clearly, fiscal policy is one of the key tools of the Federal Government we must employ in terms of facing up to the challenge of inflation. Following luncheon today we'll be looking in greater depth in an open discussion. At this time what I'd like to do is try to provide you with a rather simplified understanding of the nature of the expenditure side of the budget, where we are in it, how we got there. Hopefully, this background will give you a little sense of the political and practical realities that we must face up to if, in fact, we are to make major cuts in the budget this year as well as next year.

And in saying this, it's not my intent to suggest that the budget can't be cut. Whether we have a $300 billion budget or $400 billion budget, cuts will always be difficult. There will always be further claims as to what the Government's role within the economy should be. Essentially, the decisions that must be made are ones that relate to what can we afford to have government doing within our economy.

I believe each of you has a set of charts that has been distributed to you, six charts that I'd like to take you through, because I think they help lay out some of the dimensions of where we are.

The first one sets forth Federal budget outlays from 1961-75 in both constant and current dollars. As you can see Federal outlays in current dollars have tripled over the past decade and a half.

In the first 150 years of our country, the Federal expenditures were $100 billion. In 1961 they were $100 billion. In this year they will be close to $300 billion. The growth in Federal outlays looks very different, however, when you consider the impact of rising prices. In constant dollars, outlays rose 50 percent between 1961 and 1968. Since that time real Federal spending has remained relatively level.

Now if we can move to the next chart which lays out Federal outlays as a percent of GNP.

Over the 15-year period which is covered in the chart you'll note there is a break in the scale. Over this period, GNP has ranged from 18.1 percent up to 21.6 percent. Again, it peaked in the guns and butter year of 1968.

While a portion of the GNP the Government spends has declined somewhat since 1968, it has clearly not reached the levels where it stood at the early 1960's. If, in fact, we've been successful in cutting the budget for Fiscal 1975 year that we are in now, these figures could be a little lower in that last bump at the end of it. These figures could be a little lower.

Move to the next chart.

This chart lays out for you the composition of the Federal budget, and, as you can see, while the budget has been relatively flat in constant dollars since 1968, this has masked substantial changes that have taken place in spending during that period. Essentially, as it becomes clear in this chart, the cutback reduction in Defense expenditures has given us the dollars to expand social programs and payments to individuals and programs of that nature.

The 1975 budget level of Defense spending is lower than at any time since before the Korean build-up. From 46 percent of the budget in 1961, 29 percent in 1975. Military manpower in this period has declined from three and a half million men in uniform to 2.4 million in 1974, the lowest level since 1950.

Payments to individuals is now the largest category in the budget, having increased from 27 percent in 1961 up to 54 percent in 1975.

In constant prices, payments to individuals have tripled during this time. Real Federal grants to states have also tripled over the 15-year period, having leveled off, however, in the last two or three years of that period.

Real outlays for interest and other non-defense rose by 44 percent between 1961 and 1968, and since then have declined steadily and are now below their 1961 levels. There are a number of reasons for this: first, it reflects the decreases that have taken place in the space program and foreign aid, as well as the increases in the sales of offshore oil lands and, finally, the removal from the budget of another number of agencies that were previously included within the figures.

Now, lets look further in the next chart into the composition of the budget and an understanding of what must be done if, in fact, we're to balance the budget in 1976 and to cut Federal spending below the $300 billion figure in 1975. I think and hope this will give you some sense of the budget momentum that we are dealing with, whereby even a small cut in the 1975 budget will manifest itself more substantially in later years, or even a small new program that is initiated in 1975 typically tends to expand in the years ahead.

This is a somewhat unusual cut of the budget but gives you a sense of controlability or non-controlability.

The first major heading on the chart under mandatory spending consists of contractual obligations. These are such things as the interest on the Federal debt as well as contracts which have been entered into in prior years, which, to cut those in this year would indicate a requirement that we either renate on contractual obligations of some sort or attempt in a unilateral fashion to reopen contract negotiations. This may be a bridge that is half built or some kind of, as I said previously, entered into contract.

The next major area, and that consists, as you can see, of about a quarter of the Federal budget.

The next major category which is close to half of it is entitlement programs.

These are largely benefit payments to individuals and consist of such items as Social Security,

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Medicare, Medicaid, general Revenue Sharing, essentially items which have been laid out in law where.. if someone is qualified under the basic laws they can present themselves for payment and automatically receive whatever the entitlement benefits are under that individual program. To, in fact, make major cuts within those program areas will require changes in the law either in terms of the benefits which people receive or the inclusion of a number of people who are encompassed in the basic programs.

Thus, as you can see, roughly 70 percent of the budget falls in these areas where either legislation will be required, essentially mandatory spending under the existing laws today.

The remaining 30 percent we have more discretion over. This breaks out primarily as 60 percent of it is in defense spending, as you can see. Most of this is in personnel costs. To reduce that figure substantially would require a major change in our troop structure.

As you are aware, there have been -- in the recent congressional action there has in fact been, in fact, been a cut in the Defense budget which would reduce these figures something close to $2 billion below the level at which they included in this particular table. Further cuts will be resisted very strongly by the President because of the need for keeping our country strong if we are to have a strong position in terms of dealing with other foreign powers in honoring our international commitments.

This brings us down to $35 billion of non-defense discretionary spending. Here, also, the biggest chunk of it, $20 billion, is in personnel costs. As you are aware there has been recently initiated a cut of 40,000 in Federal employment which should, in fact, bring this figure down to something close to $300 million.

I might mention as an aside, the level of Federal civilian employment now is approximately the same as it was in the late 1940's. Essentially, the growth in the Federal Government has not been in terms of services performed by the Federal government but has been largely in terms of the transfer of kinds of payments that have not been particularly comsumptive of employment.

A further element of what has been happening more broadly in Government performing of services, during the same period of time states and local governments' employment has risen from about 3 million employees up to something on the order of eleven and a half million. So that the gain of total government employment has been almost solely on the state and local government side as they have performed more of the services of the people of our country.

A little item here is offset, which, as I mentioned before, include offshore oil receipts as well as contributions to the employer retirement fund.

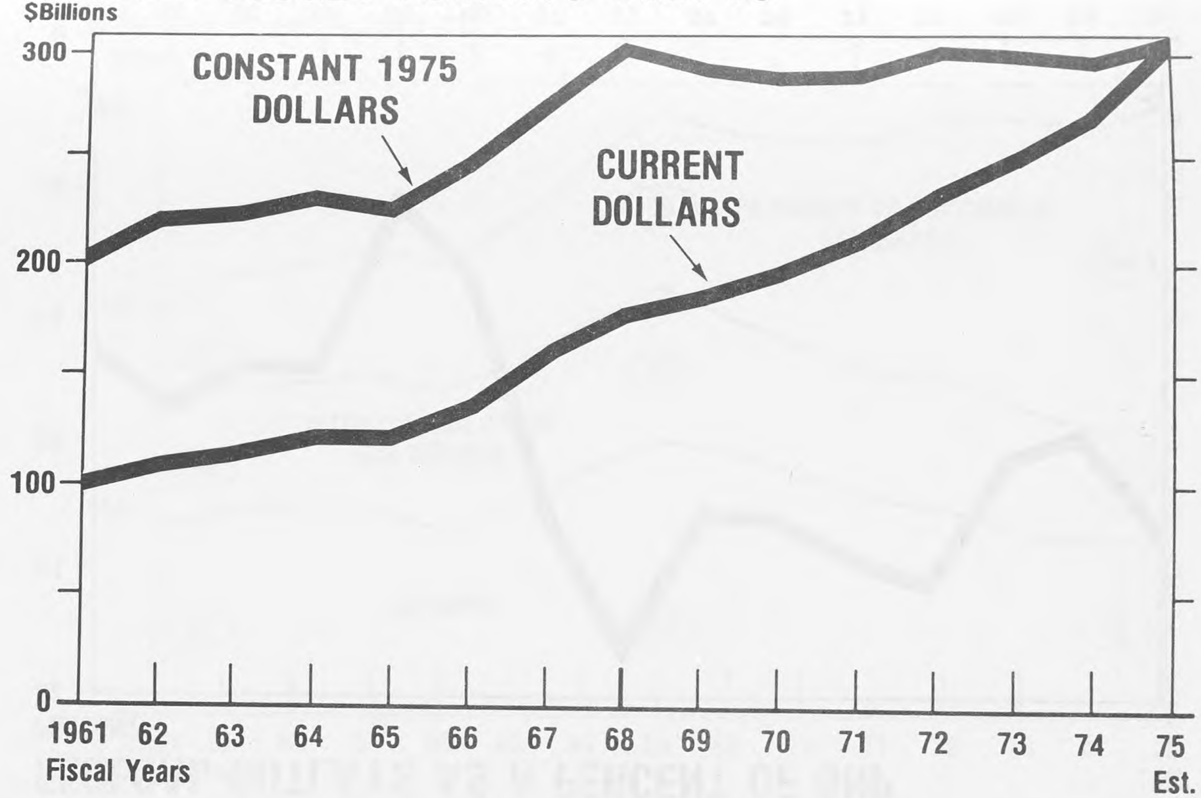
Now, if we can move to the next chart which lays out in a little more detail what those discretionary non-defense outlays consist of. Even here, unfortunately, more than half of these programs tend to be in the area of health, welfare kinds of activities. Also included in this list as you can see are such things as the atomic energy programs which are quite basic to the project independent efforts that are taking place.

To give you again an idea of the difficulties in cuts even in this kind of a list, you'll note Federal highways in here are $700 million. This implies cutting the Federal highway level this year by $4.6 billion because of the fact that only 15 percent of those dollars are spent in the first year and, obviously, the balance would be over the next four to five years.

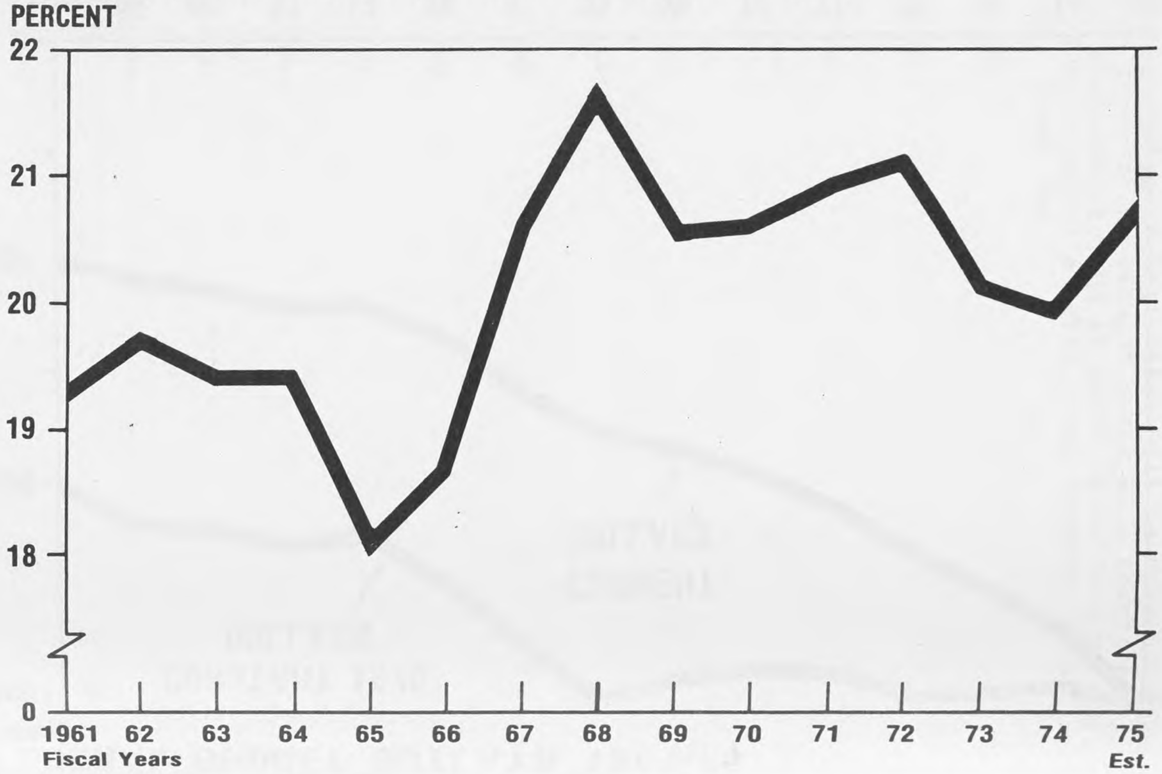
Now if we could move on to the next chart which gives you, lays out the entitlement programs. And it's the second area where, obviously we've got to be taking hard looks to determine whether, in fact, cuts can be made. Benefit program payments to individuals account for 94 percent of the outlays under these entitlement programs. Obviously, this is a particularly difficult area to cut because more than two-thirds of the benefits are paid to individuals for retirement benefits and for Medicare. And these individuals -- such as older people have borne a rather substantial burden of the inflation we're experiencing today.

I hope that gives you some perspective in terms of where we are in the Federal budget and again, I am not attempting to suggest these cuts can't be made. I'm suggesting, however, that it is going to require broad and dedicated efforts on the parts of both the Congress and the Executive Branch as well as the American people to recognize that there will be burdens, there will be impositions brought about as a result of cuts within this budget, and it won't be an easy process, so that it requires a totally and broadly disciplined effort. Thank you.

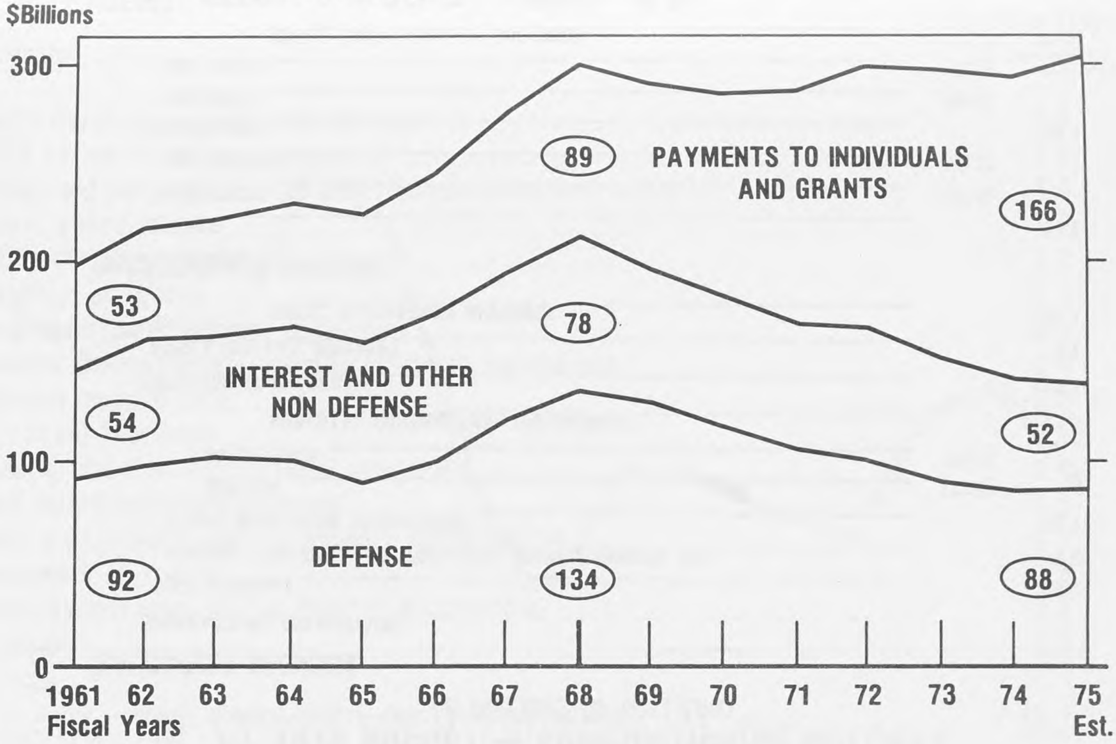
FEDERAL BUDGET OUTLAYS 1961-75



FEDERAL OUTLAYS AS A PERCENT OF GNP



COMPOSITION OF REAL FEDERAL OUTLAYS
(CONSTANT 1975 DOLLARS)



FY 1975 BUDGET — COMPOSITION OF OUTLAYS
(IN BILLIONS OF DOLLARS)

MANDATORY SPENDING		
CONTRACTUAL OBLIGATIONS:		
NET INTEREST		23.0
HOUSING SUBSIDIES AND INSURANCE, FARM SUPPORTS, ETC.		5.8
OTHER PRIOR-YEAR OBLIGATIONS		53.1
DEFENSE	(23.0)	
NONDEFENSE	(30.1)	
SUBTOTAL CONTRACTUAL OBLIGATIONS		81.9
ENTITLEMENT PROGRAMS		142.1
LEGISLATIVE AND JUDICIARY		1.1
TOTAL, MANDATORY SPENDING		225.1
DISCRETIONARY SPENDING		
DEFENSE:		57.1
PERSONNEL	(37.0)	
ALL OTHER	(20.1)	
NONDEFENSE:		35.1
PERSONNEL	(20.0)	
ALL OTHER	(15.1)	
TOTAL, DISCRETIONARY SPENDING		92.2
OFFSETS (OFFSHORE OILAND RECEIPTS AND CONTRIBUTIONS TO EMPLOYEE RETIREMENT FUND)		-11.8
TOTAL		305.4

DISCRETIONARY NON-DEFENSE OUTLAYS, 1975
(Excluding Personnel Costs)

Program	1975 Outlays ($ billions)
Health (largely research and training)	2.2
NASA research and development	1.5
Foreign aid (largely P. L. 480 and Indochina reconstruction)	1.3
Atomic energy	1.2
Child nutrition program	1.2
Education programs	1.1
Comprehensive manpower assistance	0.9
Extended unemployment benefits (proposed legislation)	0.8
Veterans medical care	0.8
Federal aid highways	0.7
Housing and Community Development Act	0.6
Coast Guard operating expenses	0.5
Corps of Engineers and reclamation construction	0.5
Department of Justice	0.4
Payments and loans to the District of Columbia	0.4
All other	1.0
Total, discretionary non-defense outlays	15.1

ENTITLEMENT PROGRAMS, FISCAL YEAR 1975

	Outlays ($ billions)	Beneficiaries 1/ (millions)
Benefit payments for individuals		
Direct Federal:		
Social Security (OASDI) and railroad retirement	65.1	32.1
Civil Service and military retirement	13.1	2.3
Medicare	14.2	12.2
Veterans benefits	10.1	7.3
Supplemental security income	4.8	5.0
Food Stamps	4.0	15.8
Disabled coal miners	.9	.5
Grants to States:		
Public assistance (AFDC)	4.6	11.5
Rehabilitation and social services	3.1	10.0
Medicaid	6.3	28.6
Unemployment insurance	8.3	1.9 2/
Subtotal, payments for individuals	134.4	
Other		
General Revenue Sharing	6.2	
Postal Service	1.6	
Legislative and judiciary	1.1	
Subtotal, other	8.8	
Total	143.2	

1/ Substantial overlap between programs.

2/ Average number of beneficiaries per week.

III.

Briefing by The Federal Reserve Board

STATEMENT BY THE HONORABLE
ARTHUR F. BURNS

Chairman, Board of Governors
of the Federal Reserve System

MR. BURNS: Thank you, Mr. Chairman.

The purpose of this meeting, as we all know, is to seek the advice of this able and distinguished group.

I, as well as other Governmental officials, need your counsel. I want to learn all that I can from you, but I also deem it my responsibility to comment briefly on this country's financial condition and on the stance of Federal Reserve policy.

Our nation is now in the grip of a dangerous inflation which has been gathering force over the past ten years. As a result of the inflation, our nation's capacity to produce has suffered a set-back. While shortages of materials, component parts and equipment have diminished in the past three or four months, they remain acute in many of our industries.

As a result of the inflation, consumer purchasing power is being eroded. During the past year, the take-home pay of the typical worker declined five percent in real terms.

As a result of the inflation, the real value of the savings deposits, pensions and life insurance policies of the American public has diminished.

As a result of the inflation, corporate profits derived from operations have stagnated, a fact that is concealed by accounting techniques that have been devised for inflation-free times.

As a result of the inflation, financial markets have been experiencing strains and stresses, interest rates have soared.

Some financial and industrial firms have found it more difficult to roll over their commercial paper or to raise needed funds through other channels. Savings flows to thrift institutions have sharply diminished and stock prices have plummeted.

In short, as a result of the inflation, much of the planning that American business firms and households customarily do has been upset, and the driving force of economic expanse has been blunted.

It should not be surprising, therefore, that the physical performance of the economy has been sluggish in recent months and that unemployment is now larger than it was last fall.

We cannot realistically expect a resurgence of economic activity until confidence in our nation's economic future is restored. I do not think we can do this without making progress in checking the disease of inflation.

As you know, Federal Reserve has lately been pursuing a policy of slowing down increases of money and credit with a view to moderating the forces of inflation. We have tried to employ the monetary brakes firmly enough to get results, but we have also been mindful of the need to avoid any general credit stringency.

Thus, the supply of money and credit has continued to grow, although at a slower pace than in recent years. The narrowly defined money supply, that is, currency plus demand deposits, has grown so far this year at an annual rate of five-and-a-quarter percent, in contrast to an average of seven percent during the past three years. If the time deposits of commercial banks except for their large certificates of deposits are also included in the money supply, the annual rate of growth this year has been thus far eight percent, in contrast to an average of ten-and-a-half percent during 1971 to 1973.

Clearly, the American economy, taken as a whole, is not being starved for funds. On the contrary, the growth of money and credit is still proceeding at a faster rate than is consistent with general price stability over the longer term.

Yet, the demand for money and credit has been rising at a very much faster pace than the supply. As a result of the huge demand for borrowed funds, credit markets tightened this year and interest rates rose to levels such as we have not previously known.

These high interest rates have imposed a heavy burden on businesses and families across the nation. Home building in particular is highly sensitive to money market developments. Soaring interest rates and reduced availability of mortgage credit have greatly aggravated the condition of that industry, which was already suffering from sharply higher land and construction costs, from the erosion in the purchasing power of consumer incomes and from the over-building of the last two years.

The overheating of the economy from which we have recently suffered is, however, now in process of being corrected. Federal Reserve policy has contributed to this development. In view of the intensity of the inflation, a policy of moderate monetary restraint remains appropriate.

But I also feel that it would be undesirable to further intensify monetary restraint.

In any event, market forces are no longer driving interest rates to ever-higher levels. In fact, short-term market interest rates have recently receded from the extraordinary peaks reached this summer and long-term market rates have stabilized or moved down a little.

Mortgage interest rates and institutional interest rates are, however, sticky and traditionally lag behind market rates.

The recent movements of interest rates are encouraging, but we cannot count on any large or lasting decline of interest rates until borrowers and lenders in the market perceive that the Federal Reserve is no longer pursuing a lonely struggle against inflation.

Monetary policy is much too blunt an instrument to be relied upon exclusively in what should be a national effort to bring inflation under control. We at the Federal Reserve hope that financial institutions will proceed more cautiously in their lending policies but with a full sense of awareness of the basic needs of their communities.

We also hope that fiscal policy will soon actively join in the struggle against inflation. A fiscal policy that is tilted towards surpluses instead of deficits can make an enormous contribution to curbing inflation and to lowering interest rates.

I referred earlier to the strains and stresses in financial markets. Let me add, in this connection, that while tensions in financial markets remain acute, they have been reduced to some degree in recent weeks. This is evidenced by somewhat smaller risk premiums on securities of borrowers of less than prime quality.

Also, while it is still difficult to place lower grade issues of commerical paper or of corporate bonds, the flow of such instruments appears to be better than in the early summer.

In closing, I want to make several terse observations on financial policy: First, inflation cannot be brought under control without causing inconvenience, some disruption and even hardship.

By alleviating the harsh and uneven impact of its restrictive policies, the Federal Government will have a better chance of persevering in a policy of containing inflation.

Second, bankers and other financial managers have lately become more prudent, partly on their own account and partly because of increased vigilence by the bank regulatory authorities.

Third, the Federal Reserve system fully recognizes its responsibility as a lender of last resort and can be counted on to come to the assistance of financial institutions that are caught in a temporary liquidity squeeze.

Fourth, and finally, while the Federal Reserve must persevere in the struggle against inflation, we shall also see to it that the supply of money and credit continues to expand. There will be no credit crunch in our country.

III.

Opening Statements from Delegates

Statements by Conference Delegates

MR. SIMON: Thank you very much, Mr. Chairman.

And now we will proceed, as I said last night, to go around the table, soliciting the very brief views. Due to a very tight agenda, I feel compelled to reiterate that I am going to have to keep a tight clock on the participants. So, forgive me in advance if I am rude, and I will be cutting off at the end of three minutes.

DR. CHARLES J. ZWICK, PRESIDENT, SOUTHEAST BANKING CORPORATION

MR. ZWICK: Thank you, Mr. Chairman. My condolences to Mr. Alexander.

(Laughter.)

MR. ZWICK: I would like to make several simple points: First, being that to deal with the inflationary problem will require a series of actions over a long period of time.

Notwithstanding that, I believe we must start with a simple, clear-cut unambiguous signal to the American public that the Government is serious about this problem.

It requires an act, I believe, of moral leadership on the part of the Government, and I would propose such an action this morning.

I would make a second suggestion that we stop talking about things we are "not" going to do, because over a long period of time, we may have to change our minds as to what we will, in fact, do. Now, to a specific action, which I think would indicate to the American Public that we are serious about this problem, and that we do intend to do something about it, I would propose that the Executive Branch of the Government recommend to the Congress that a joint resolution be passed to give the President the power to withhold sufficient funds from current appropriations to meet 150% of any desired cut in Federal expenditures. Stating it simply, if we believe a $5 billion cut for FY 1975 is appropriate in various programs, we give the President the authority to cut $7-1/2 billion. The excess of $2-1/2 billion then can be used in consultation with the Congress to reinstate programs when further analysis indicates that a major dislocation would result.

I would exempt from this hold-back authority only direct payments to individuals for such items as veterans benefits, Social Security payments, and Medicare. If such a joint resolution were passed quickly, the Administration could immediately take steps to reduce Federal spending and provide the needed moral leadership and, also, do the detailed analysis that is required to indicate how the desired budget level can be reached sensibly.

President Ford could propose to Congress next January exactly how he would accomplish the cut-back and the needed appropriate actions could take place at that time to validate the $5 billion cut.

Now, it seems to me this proposal has the virtue of being simple and, therefore, it could be implemented immediately, and it would provide the American people with a tangible evidence that the Government is serious in its efforts to reduce inflation.

We do have precedents for such a resolution in the expenditure limitation provisions of the 1968 Surtax Legislation, and in the Budget Reform Act of 1974. Either of these approaches could be adopted for this critical need. We do not need, I believe, long technical arguments about detail. We need an immediate and clear-cut act of moral leadership on both the part of the Executive and the Legislative branches of Government.

Thank you.

MR. WALTER WRISTON, CHAIRMAN, FIRST NATIONAL CITY BANK

MR. WRISTON: Mr. Secretary, the fiscal side was covered just ahead of me. I would like to say a word on the monetary side.

I think, if our goal is to reduce inflation and to reduce both short-term and long-term interest rates, the Federal Reserve should not deviate substantially from its policy objectives this year.

I think it is a truism that the money in our pockets has no value in and of itself. It has only a scarcity value and, if all of us had all of the money that we wanted, the value of the dollar would approach zero.

This is the reason that the amount of money supplied by the Federal Reserve System is absolutely crucial to the control of inflation.

So far, they have failed to validate our inflationary expectations, and that is working back through the system, as Mr. Greenspan has said.

Inflation is an addiction, like a drug addiction or alcohol, and as it starts, most people perceive that they will benefit. But, as it gains strength, we see that it destroys the country.

Kicking a habit is never very pleasant, and there isn't any easy, simple, wonder drug to get us out of it. It is a long and painful process. And, therefore, we must devise ways to take care of those who are hurt during that process in a fair and equitable way. But, as far as a simple solution is concerned, there is none.

Thank you.

SECRETARY SIMON: Thank you, Mr. Wriston.

MR. JOHN W. WRIGHT, PRESIDENT, WRIGHT INVESTORS' SERVICE

MR. WRIGHT: Thank you, Mr. Chairman.

I would like to precede my remarks by saying how thankful I am that we now have a Ford who listens better and, as a result, can be expected to have better ideas.

I am very thankful for this break-out that is represented here this morning from a rather small and, I believe, inadequate circle of men whose opinions and prejudices and decisions have, for some years, determined our fortunes and controlled our lives. I am thankful for this opportunity to participate.

Today, looking back over the last five years, it seems obvious to me that it would be fair to say that never before have so many been so wrong so often!

Instead of exporting our products, we have been exporting our capital. Instead of expanding our production, we are now trying to restrict our consumption. Instead of increasing competition, we are diminishing it. Instead of strengthening and expanding our capital and equity markets, we are weakening and shrinking them. Instead of fostering free enterprise in this country, we are suffocating it.

Instead of building a nation of capitalists and managers, we are transforming the partnership which we had into a nation of debtors and creditors. And, instead of providing a stable monetary base for our national growth, we have depleted our domestic money supply and we have failed utterly to control the enormous proliferation of U.S. dollars abroad.

And this is, in fact, in my opinion, the true cause of the inflation which is now raging throughout the world, and which is consuming our country.

Now, why has this come to pass?

Because we, the people, the people in this room, many of whom are custodians of much of our nation's accumulated savings and accumulated capital, have been too busy with our own affairs to get the facts and do the thinking ourselves, because we have accepted the generalities, the misconceptions, and the academic doctrines of yesterday. Instead of taking a hard look ourselves at the facts of today.

We remember that, after the Middle Ages, the medical profession was hipped on phlebotomy. They got everybody to believe that blood letting was a cure for everything from insanity on. I think we have much the same situation today. This is why I ask you to consider and lend your shoulder to the beginning of a movement for a general, thorough-going reform of our nation's economic and monetary management.

Now, I have no time to go into specific proposals.

SECRETARY SIMON: Thank you, Mr. Wright.

Russell Long very kindly gave you 30 seconds of his time, which I subtracted from him.

DR. ALBERT M. WOJNILOWER, VICE-PRESIDENT, ECONOMIST, THE FIRST BOSTON CORPORATION

MR. WOJNILOWER: Thank you, Mr. Chairman.

It is too late to undo the financial and economic distress many of our citizens have already undergone, and which, for others, is already beginning; but, perhaps, we can help to prevent its happening again.

Already the market place is worrying that measures likely to be taken to shore up the weakening economy may push up the cost of living rather than pull it down; and that the earliest signs of business revival may trigger a fresh outburst of still more rapid inflation and higher interest rates.

Such inflationary expectations tend to be self-fulfilling, at least for a while, and they threaten to impede both the reduction of inflation, and the maintenance of high employment.

Strict credit restraint is, and always has been, essential to price stability. In our economy, that means restraint of commercial banks, because of their great size and scope, and ability to continue to expand credit by tens of billions of dollars, even when other lenders have been put out of action.

In 1973 and 1974, in contrast to previous inflationary episodes, banks have been officially assured that they will always be able to buy funds at a price; and these assurances, coupled with the spread of so-called floating rate arrangements, as a result of which neither the bank nor the customer stands to lose very much when interest rates rise, bank credit restraint has been virtually nonexistent until recently.

The simplest way to prevent this from happening again as it will at the very next opportunity -- is to set a legislative ceiling on the banks' prime loan rate. Then banks and their clients, and the investing public, will again know, firmly, that whenever the cost of money in the market place is nearing the critical zone, banks will have to curtail their lending unless they wish to give their profits away; and a brake will be put on inflation.

The beneficial side effect will be to help re-balance our investment toward human and community capital, including housing. Unfortunately, most investments in education or home ownership yield no predictable cash flows, as contrasted with business investment in machines. And, therefore, human investment cannot compete effectively in a free market place, even though it is the more important kind of investment.

We have been on the wrong track, I believe, domestically as well as internationally, in seeking more efficient and unregulated financial markets. These markets are prey to volatile and crowd psychology, and shifts of expectations. Yet, by the stroke of a pencil, they consummate transactions that constitute economic marching orders for whole societies.

Instead of speeding these markets up, we need to slow them down to a more human pace. Our inflation results in major part from trying to fit a financial jet engine on to a human tricycle. The same kind of loss of human perspective that afflicts so much of our life today.

SECRETARY SIMON: Thank you.

MR. CARLTON WILSON, CHAIRMAN OF THE BOARD AND DIRECTOR, ROBERT W. BAIRD AND COMPANY, INC.

MR. WILSON: Thank you, Mr. Chairman.

President Ford and you, Mr. Chairman, have identified inflation as the number one problem in this country. This is encouraging. We hope that it will follow that its treatment and ultimate solution will become our number one priority.

The initiation and leadership in developing the motivation and will to fight inflation must start with the President and the Congress. We understand when we say this that a very small part of our $305 billion budget is discretionary. The people in this country must be told directly the causes of inflation, a positive program for remedy presented, and told of the sacrifices they must make. They will listen. They will understand. They will respond. They want and need to participate.

If the basic causes of inflation are attacked, most of our other problems will disappear. Interest rates will recede and stabilize, prices of goods and services will stabilize, wage rates will stabilize, and savings and investment will return.

At these intolerable rates, inflation can no longer be treated on an ad hoc or crisis basis. Such treatment will only increase the bleeding which must, in our opinion, be treated with major surgery and not band-aids.

The recommendations for treatment and remedies for inflation have been well documented at this and other conferences on inflation. And we have been both startled and encouraged at the unanimity of opinion from all sectors, both public and private.

I won't reiterate those cures and programs that we think are necessary. We think they will be spoken to around the table. I would make only one other observation. In addition to a very positive domestic program, in our opinion, this country must assume a more aggressive role on the international economic and financial front.

Our products, our services, our technology and our dollars are competing all over this small world. Better cooperation among all countries is a necessity, if stable conditions are to be achieved at home.

Thank you.

SECRETARY SIMON: Thank you, Mr. Wilson.

THE HONORABLE CHARLS E. WALKER, PRESIDENT, CHARLS E. WALKER ASSOCIATES

MR WALKER: Mr. Secretary, to avoid being repetitive, I would like to associate myself fully with the views of Dr. Greenspan, Dr. Burns, Dr. Zwick on the Budget, Mr. Wriston, and what Mr. Wilson just said, and use my three minutes instead to throw a big rock at one segment of the news business.

Being out of government, I can perhaps do so without being accused of trying to intimidate news people or manage the news.

Mr. Secretary, I believe that TV news, particularly the commerical networks, is doing a lousy job in helping the nation deal with its pressing economic problems. For as the writing press has been doing an increasingly effective job in this area, TV seldom earns even passing marks.

This is not simply my own bias. In recent months, I have surveyed a representative group of outstanding economists, veterans of both Democratic and Republican Administrations.

While they believe that the quality of economic reporting on TV has improved, they are convinced that it still lags far behind the written press, and as to analysis by economic events by generalists reporters and anchorpersons -- well, I had rather not repeat some of the comments I have received.

Documentaries sometimes receive A for effort but D minus or F for execution.

A majority of Americans receive all or most of their news from TV. They deserve to be fully and accurately informed. But that's not all. Economic problems, especially inflation, can only be solved through the political process.

How can a public that is both ill-informed and mis-informed morning, noon and night by well-meaning but inadequately trained newspeople, reach the right conclusions about public economic policy as a basis for expressing their wishes in the voting booth?

In can cite chapter and verse to support my position, but time doesn't permit. Instead, I want to be positive and suggest two approaches to curing this problem. First and obvious, TV should place good economic journalists on their reportorial, editorial and production staffs.

Why don't they? I guess it costs too much and doesn't have enough "entertainment value".

My second suggestion is devised in full cognizance of the vital role of the First Amendment; freedom of the press is essential. But the First Amendment is no license for either ignorance or lousy reporting.

I therefore propose that each of the networks establish a distinguished bipartisan economic review board perhaps consisting of former members of the President's Council of Economic Advisors to review, after the fact, TV reporting, analysis, and documentaries in the economic area.

These reviews could be held privately by the network and provided only to top news executives and producers. This approach would not perfect TV economic journalism overnight but it would be a step in the right direction.

And if the TV people don't start to do a better job in the economic journalism sooner, rather than later, our chances of dealing successfully with both the current inflation and later economic problems will be greatly reduced.

As Churchill said, democracy is the worst form of government, except for all others. But even in a democracy, the only sure treatment for maladies harmful to the body politic will come from a public that is informed fully, accurately, and on a timely basis.

Thank you very much.

SECRETARY SIMON: Thank you, Charls.

MR. JOHN TOMAYKO, DIRECTOR, INSURANCE, PENSION AND UNEMPLOYMENT BENEFITS, UNITED STEELWORKERS OF AMERICA

MR. TOMAYKO: Mr. Secretary, coming from labor, I must say at this time that I am enjoying the remarks of the bankers and the financiers, the economists, so much, and since this is their day, I will pass.

(Laughter.)

SECRETARY SIMON: I thank you very much. I will give Russell Long his 30 seconds back.

MR. THOMAS I. STORRS, CHAIRMAN OF THE EXECUTIVE COMMITTEE, NORTH CAROLINA NATIONAL BANK

MR. STORRS: Mr. Chairman, there is obviously a great deal of interest in this meeting in my part of the country. I have gotten an avalanche of mail from people in North and South Carolina. This has had three common themes. Inflation is of great concern to these people. Secondly, they hold the Federal Government fully responsible for many of the actions that have caused this inflation. And third, they look to Federal action for correction. They are virtually unanimous in urging lower Federal spending with no "sacred cows."

They mention $300 billion limit, but they are also concerned with funds that are disbursed outside the Budget. I fully concur in this view. There is broad concern with the economic costs of other Federal programs and their contribution to rising prices.

Clean air is wanted, but the question comes up how clean and how soon. Auto safety is a desirable objective, but how safe and at what cost? I certainly concur in this.

There is further concern expressed with impediments to free competition which raise costs and prices. Repeatedly I am told that these should be attacked, as should any other aspect of costs and prices which are susceptible to correction at this time.

The silliest I heard mentioned, of course, was the double fare for taxis from New York to the New York airport, since they are unable to pick up fares to go back to the city.

But not so silly is our entire posture in regulation of transporation. Such things as the Davis Bacon Act, which was needed back in 1934 to support wages, but is clearly inflationary today.

There is a need for a thoroughgoing review at all levels of government as part of a broad attack on prices of governmental regulation of industry which results in increased costs without increased benefits to the consumer.

Finally, as to monetary policy, I expected to get a great deal of criticism as to the crushing impact the policy has had on certain sectors of the economy. This was not forthcoming. I was greatly impressed with the opinion, widely held, that it has been appropriate in the circumstances; that its effects are being felt; and that it cannot be relied upon to do the job by itself.

The problem cries out for every action possible by government, by labor, and by business. Equity is important but the absence of pain is impossible.

Thank you.

SECRETARY SIMON: Thank you.

MR. ROBERT H. STEWART III, CHAIRMAN OF THE BOARD, FIRST INTERNATIONAL BRANCSHARES, INC.

MR. STEWART: Mr. Secretary, you just returned from Dallas a few days ago, so what I may say may be repetitious to you, but I would like to make just a couple of comments about our great area which has been immune in the past to most of the economic ups and downs, and I guess right now we are still in better shape than most parts of the United States.

But the businessmen in our area are unusually pessimistic.

The people in the food business, the electronic, the oil, they need capital and their real apprehension is their lack of access to the debt and equity market, as Allan Greenspan said yesterday.

The erosion of personal wealth in our area has been staggering. Maybe this is due to the many successes of the past. I don't know.

And lastly, the real estate business, which may be overall our largest industry in the Southwest, the many components, not just homebuilding but the industrial and commercial, the mortgage, REIT and, in Dallas, in the Houston area, we have one of the largest homebuilders in the word, and I believe the largest mortgage company in the United States. These people are really concerned, and if in my judgment short-term rates don't move below the long-term rates in the near future, there could be serious problems.

Thank you.

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THE HONORABLE GEORGE P. SHULTZ, EXECUTIVE VICE PRESIDENT, BECHTEL CORPORATION

MR. SHULTZ: Mr. Secretary, Chairman Burns, Chairman Greenspan, Members of the Congress.

I would like to focus your attention on four words which I recognize in themselves pick up much of what has been said.

The first word it seems to me and the basic watchword that has to be followed is "discipline" -- discipline on the budget, discipline on the off-budget borrowing, discipline on monetary policy, discipline of our political process as it seeks to satisfy special interests against the general interest, and so on.

So I think that's the first word, and it applies across the board, and unless it hurts a little bit, it isn't being applied.

The second word I would call your attention to is "patience." And there is no doubt about the fact that for a policy to su cceed, it has to be pursued for a while. There is no substitute for patience in this effort that we are all involved in.

The third word I would focus on is "diversity." It seems to me that it isn't only monetary policy, it isn't only the Budget, but it is many other things that have to be looked to if we are going to succeed in this area.

Just to name some -- so that there can be some specificity here -- the trade bill, I think, offers many things that will help us in the battle of inflation.

There are things that can be done and there are also some things that ought not to be done, I think, in the area of taxes that will help us. There is a lot to be done in the area of special things that Government does that help particular segments of the economy but damage the general interest without a doubt that should be examined; and certainly new ones should not be created as is constantly being threatened.

So those are examples of the sort of diversity of effort that I have in mind, and they are only examples and illustrations.

My final and fourth word that I would focus on is "reasonableness"; that is, if you are going to have sustained discipline, it can't be so unreasonable that it just blows everything up.

There is no point in trying to cut the budget or saying that you are going to cut out of that budget things that aren't going to come out. So one has to, it seems to me, be reasonable about it in recognizing on the budget, for example, that probably the most important effects of anything you do today are going to be reflected two or three years from now, which is only more reason for exercizing discipline today.

So those are the four words I would focus on, and I think there is undoubtedly -- everyone can see the kind of content that lies behind them. Discipline, patience, diversity in approach and reasonableness.

Thank you, Mr. Chairman.

DR. RAYMOND J. SAULNIER, PROFESSOR EMERITUS OF ECONOMICS, BARNARD COLLEGE

MR. SAULNIER: Thank you, Mr. Chairman.

I have a short statement here that I will supply you with for the record and take the few minutes that I have to summarize what is in it.

The first point I would make, Mr. Secretary, is that I have the distinct impression that the country is closer to a financial crisis today than certainly the public understands. And it may even be true -- and I speak respectfully -- it may even be true that it is closer to financial crisis than the financial people of the country understand.

So I take a very serious view of the importance of this meeting here this morning. The problem, of course, is inflation. More than that, it is that we are relying on money policy to cure inflation; and that is really at the bottom of all the structural problems and structural risks that we face.

On money policy, I would like to associate myself with what Arthur Burns has already said. And while I would say that five percent at the present time is a respectably appropriate rate of increase of the money supply, as I read the figures, it has been a lot less than five percent in the last two months. And I would hope that the Federal Reserve System would see a possibility to allow the money supply to increase over the next two or three months by something a little more than the three percent which I read for the immediate past.

The rest of the story has to do basically with the budget and with certain structural changes that I think are needed.

On the budget, Mr. Secretary, 295 billion seems to me to be the right number under the circumstances. But I know that that is not going to be reached unless Congress helps.

I understand as I read the papers that the Congress intends to come back after the November election recess. And I would like to suggest that it make budget control, expenditure control in the budget, the principal, if not the sole item, of its business in that special session.

Now, going beyond that, I would suggest, Mr. Secretary -- and there are ideas set forth in this paper -- I think there is something new needed in our whole program, something beyond money policy, something beyond fiscal policy. And that is an apparatus in the executive branch set up quite specifically, explicitly, to control all those activities of the Federal Government that affect costs and prices. And, believe me, there are a lot of them.

I am talking about procurement, lending money, guaranteeing loans, Davis-Bacon, setting floors, ratcheting up the floor of wages, and all of that.

This doesn't require legislation. But it requires an exercise of the discretion that the Executive Branch already has.

SECRETARY SIMON: Thank you, Mr. Saulnier.

MR. RALPH S. SAUL, VICE-CHAIRMAN, INSURANCE COMPANY OF NORTH AMERICA

MR. SAUL: Mr. Secretary, Thank you.

My comments just focus on one point: namely, what we can learn from the experience of the past decade about the impact of inflation upon our capital markets.

First, I think we have seen that inflation seriously disrupts the functioning of our long term debt and equity markets and it seriously erodes securities' values.

I don't think we fully appreciate the extent of this erosion that has occurred, for example, in pension funds and in the premium writing capacity of the insurance industry.

Without the securities markets as a source of capital, corporations have had to turn to the short-term market or to the banks for credit. I don't think over the long run we can prudently finance this economy on short term credit. We need the securities markets as a source of long-term capital.

Second, I think we should ask the question why high interest rates, at least until recently, have not curtailed bank borrowing.

It seems to me we have to ask the questions which were posed by Dr. Wojnilower in his remarks, whether the persistence of inflation may not have a lot to do with some loss of control over credit creation in this economy.

Third and last, the Federal government and its agencies can preempt as much of the capital markets as they choose. When the Government preempts credit, it does so on the basis of legislative decisions -- the decisions that may not take into account the costs of using resources.

If there is one message that emerges to me from the experience of the past decade, it is that the fundamental cause of inflation arises from demands upon our capital resources imposed legislatively and by Government. The most challenging problem, as a number of us already pointed out, is to bring our rising expectations into line with our diminishing resources.

Thank you.

SECRETARY SIMON: Thank you.

MR. ROBERT V. ROOSA, PARTNER
BROWN BROTHERS, HARRIMAN AND COMPANY

MR. ROOSA: Mr. Secretary, I suppose it was understood, but I feel disappointed that none of the Governmental spokesmen in introducing this meeting reminded us that we are in the midst of a worldwide inflation. And while their implications are correct, I believe the lead given by this country in resisting and containing inflation is crucial. We do have to recognize that the worldwide nature of this problem, centering currently in that sector of the commodity area that we know is monopolistically controlled by the OPEC cartel, create environmental problems of a different kind to which I think we have to be directing a high proportion of the effort and even of the time here.

I know that you personally have done so. I want to endorse and urge that there be renewed and strengthened American leadership led by the Treasury Department, if I may be so explicit, in order to assure a closer and more effective harmonizing of policies among the oil-importing countries as a critical move forward toward that lowering of oil prices that may parallel the reduction in other commodity prices that's now beginning to occur across the world.

I think we need a strengthening through the leadership of the Treasury Department in the harmonizing of policies among nations toward the managing of exchange rates. We have had long enough fluctuating rates of a wild kind to realize they add at least as much to worldwide inflationary pressures as used to be alleged against a fixed rate system. We have to find the middle road, a managed exchange rate system in which I think U. S. leadership is crucially important. And then, looking around the world at prospects for the next year, I see all those countries who expect growth in GNP, expecting to get it through increased real exports. There is not going to be a demand for those exports in the OPEC countries -- the only big earners -- it's going to have to be here. I think we have a real opportunity, if we make sure that our frontiers are open, that the goods that are exported by others flow in freely; we reestablish American preeminence in favor of the principles of free trade and its goods that combat inflation.

I wouldn't be overly preoccupied with the chance that control of the Budget on the expenditure side is going to provide all the relaxation scope needed by Federal Reserve policy. We are going to have to do what Steve and Buddy Storrs have mentioned -- get a coherence in Government's influence on all parts of the inflation process domestically and I endorse what they have said.

SECRETARY SIMON: Thank you, Mr. Roosa.

MR. DAVID ROCKEFELLER, CHASE MANHATTAN BANK, NATIONAL ASSOCIATION

MR. ROCKEFELLER: Mr. Secretary, I agree very much with what Bob Roosa has just said, that inflation is a global problem that requires worldwide cooperation for its ultimate solution.

On the domestic front, the greatest need, in my judgement, in dealing with inflation, is to restore public confidence in our Governmental and private institutions. I believe that the public looks to the President for leadership in providing a comprehensive, balanced and credible program for combatting inflation.

The program, it seems to me, should be pursued aggressively and above all, consistently. I believe that it should include the following elements: Greater fiscal restraint as has been suggested by a number of people; continuing, but perhaps gradually lessening monetary restraint; tax and other measures to promote more savings and investment; recognition that there must be tradeoffs between very important environmental protection, on the one hand, and adequate economic growth on the other; emphasis on increased productivity; voluntary restraint in price and wage increases on the part of both business and labor -- encouraged, but not dictated by Government; a well-organized on-going program of conservation of energy and other scarce resources, the supply of which cannot quickly be increased and which are the cause to a considerable extent of inflation at the present time.

Everyone in our society, it seems to me, must feel that he has a personal part to play in combatting inflation. That is not the case at the present time. The importance of combatting inflation and what each of us needs to do and can do must be explained, it seems to me, by the Government in a massive on-going educational program.

If these things are done promptly, I believe that significant progress towards reducing inflation can be made in a reasonable period of time.

I would add, though, one cautionary note: Unfortunately, the essential remedies that must be taken to combat inflation will necessarily be painful and, unfortunately, they will hurt some sectors of our society more than others. And therefore, in equity, it seems to me that Government, while pursuing these necessary policies, must also be very much mindful of those who are seriously disadvantaged, so that they will not be obliged to carry a disporportionate share of the burden.

Thank you, Mr. Secretary.

SECRETARY SIMON: Thank you, Mr. Rockefeller.

MR. DONALD T. REGAN, CHAIRMAN OF THE BOARD, MERRILL, LYNCH, PIERCE, FENNER AND SMITH, INC.

MR. REGAN: Mr. Secretary, we are all more or less familiar with the plight of Wall Street and with our financial markets, and I am sure that if anyone isn't familiar, there are many in the room who will be glad to enlighten them. But, contrary to expectations, you won't hear from me about that, except to call attention, Mr. Secretary, to one group of inflation's victims who haven't been given much attention, and these are the stockholders of America, 30 million of them. They are individuals, they are voters, they are workers, they are savers. They and institutions such as pension funds, insurance companies, private colleges, universities, charitable institutions collectively, they've lost over $500 billion in market value since January of 1973. That's a little over a year and a half. Now, that sum of money is equal to half the personal income for the entire United States in 1973 on seven times the annual rate of savings.

The stock market, as of last Friday, actually is within percentage points of being in the worst decline of this century, when adjusted for purchasing power. But even as you shed a tear for those victims, and who knows, there may even be a few of them in this room, remember, there are no winners in inflation. Everyone is the loser. And the inflationary cures that are utilized must include provisions to help the victims who are unable to help themselves. Now, how to solve inflation?

There is no panacea, no one answer. That we recognize.

My oversimplified and understated answer is less consumption and more investment. I mean less consumption by all of us, starting with the Federal Government, going through state and local governments and less spending by individuals, particularly in shortage areas such as petroleum products, papers and metals and the like.

The savings thus achieved should be channeled in a more productive capacity. Later today we will discuss just how to do that.

All I will say now, is if we can use both the carrot and the stick, tax policies, which are well considered, both can be and should be so used. But to win a fight that involves too many dollars and too few goods, to me in simple terms, means hold down on the dollars, spend less, save more and more investment in American industry.

Thank you, Mr. Secretary.

SECRETARY SIMON: Thank you, Mr. Regan.

MR. GEORGE PRESTON, PRESIDENT, U.S. LEAGUE OF SAVINGS ASSOCIATIONS

MR. PRESTON: Mr. Secretary, do you mind if I stand? I represent 4,600 savings and loan associations around the United States. We are a national trade organization, the U. S. League of Savings Associations.

We have a five-point recommendation program, sir.

We endorse entirely the concept of balancing the Federal Budget, even if it does take a tax increase. A surplus is necessary. Though not popular, but if a tax increase is necessary, we endorse that.

We say to the Fdderal Reserve Board that they should continue their restrictive monetary policy. They should not relax it too quickly, even though this is very much of a hardship on the thrift institutions.

We recommend most enthusiastically, and with confidence, a new tax incentive to encourage savings to increase the capital base.

In other words, save more and spend less. We believe that this could be a most significant cure for the ills of inflation.

The Federal Government -- my fourth point -- should announce its willingness to become the employer of the last resort. In other words, outlawing unemployment.

Fifth, a special tax incentive should be utilized to increase the productivity in appropriate areas of our general economy.

Finally, Mr. Secretary, I would like to announce to this group an Anti-Inflation Campaign that the U. S. League of Savings Associations will launch in early October. Because of our deep concern over the effects of inflation on American society, in aiming to be of maximum help in mobilizing public opinion for controlling inflation, and to gain support from the American people, we do intend to launch a massive campaign in early October, a broad scale advertising and public education on behalf of the President's anti-inflation war. It will be a national television, magazine and newspaper battle under the theme: "There is no living with inflation."

Communications will go out to our 57 million savers and our 14 million borrowers. We believe the American people, Mr. Secretary, need some frank talk on the causes of inflation, its devastating effects; but more important, what the American people can do about _it_.

Thank you, sir.

SECRETARY SIMON: Thank you very much.

MS. SYLVIA PORTER, SYNDICATED FINANCIAL COLUMNIST

MS. PORTER: Mr. Secretary, I speak today as a representative of the consumer. In the inflation fight to date, the consumer has been lectured, exhorted, patronized, but not enlisted.

I believe this is an extraordinary oversight. The consumer of the United States wants to be a participant, not a pawn. There is an unspoken cry in the hearts of millions of us, -- "What can I do?" -- that the President can and should answer.

Therefore, I suggest, one, that work should begin at once on preparations for the President's call for cooperation at the consumer level, voluntary, but very definite cooperation.

Two, representatives of the widest groups of consumers should be called to meetings in Washington, to be informed of the plans and hopes to be asked, policy suggestions and for practical ways the program can be carried out.

All consumer groups covering all types of organizations, educational, religious, civic, whatever, should be invited. The groups may be broken down so that each one is small enough to be productive.

I have seen this sort of call for action work magnificently under far less urgent circumstances.

Three, the help of professionals in the fields of public relations, advertising, and the like, should be enlisted. They would leap to the opportunity.

Four, the program should be identified with the White House to give it stature and to give it duration, but this program is to be implemented at the regional and local, not the national, level.

This is a key aspect of it.

Five, after the details have been carefully worked out, the President himself should issue a major policy statement and kick off the call for voluntary cooperation via a prime time TV address.

There are several illustrations that will come quickly to your mind, as they did to mine. There must be hundreds that are far more superior.

For instance, victory gardens. The community garden concept could be spectacularly expanded, even in the most densely populated areas such as I come from. Millions of publicly-owned acres could be made suitable for community gardens.

Recycling. Scrap collection and sale by the communities themselves would pay off handsomely in every way. Energy conservation. I am utterly dismayed by the return in this country to the burn-it-up philosophy. Energy conservation measures must be revived and maintained by businesses, by home-owners and by individuals. This would be both an anti-inflation and a consumer unifying force.

Educational pamphlets explaining in easy-to-follow language the many significant ways consumers can help cut down living costs in all areas could be inexpensively printed and widely circulated by organizations at the regional and local level.

As the Red Cross teaches swimming, so it could teach other vital subjects.

Mr. Secretary, while admittedly sketchy, if this idea is found worthy, it could easily be carried on from here and have an electrifying effect.

SECRETARY SIMON: Thank you, Ms. Porter.

MR. O'LEARY: Mr. Chairman: I agree thoroughly with the views that were presented earlier by Alan Greenspan, Arthur Burns, and most of the people who have spoken. I would like to make a few comments to sharpen some of the points that have already been made.

Early this year, the decision was made to combat the double digit inflation and the wave of inflation expectations through a policy of credit restraint. As short-term interest rates have risen to record levels, the major non-bank financial institutions, the savings and loan associations, the mutual savings banks and the life insurance companies, in particular, have been hit with a tremendous disintermediation.

These institutions are the heart of the long-term capital market. Given the high level of short-term rates, and the expectation at least until recently, that this will continue for sometime, the non-bank institutions as a whole have virtually stopped making new forward commitments to buy bonds and mortgages, and they have become extremely liquidity conscious.

The result, as we all recognize, has been the drying up of the availability of home mortgage financing, commercial mortgage financing, and a sharp reduction in long-term corporate bond and equity financing.

By summer, we had begun to develop a viscious circle: Borrowers who could not be accommodated in the long-term capital market were forced to turn to the short-term money markets, essentially, the banks for accommodation.

Similarly, the Government-sponsored agencies such as the Federal Home Loan Banks and Fannie Mae had to come to the market with massive short-term financing to help support the home mortgage market. Thus, we had a process in which upward pressures on short rates cut the availability of long-term financing, which in turn increased the demand for short-term financing. This put greater upward pressure on short-term rates and further hurt availability in the long-term markets.

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The Fed now has all the monetary aggregates, as Arthur Burns indicated, down to an expansion rate which is exerting a real bite on real business activity.

Since early July the authorities have been trying to bring short-term rates down gradually. I applaud this and I think they can safely go further, especially if we get some real fiscal restraint, without weakening their fight against inflation.

I was delighted to learn recently of the plans worked out in discussions with the Federal Reserve Advisory Council and the Federal Reserve Board to develop a program to allocate bank credit on a guideline basis to the highest priority uses in this period.

If such a program can be made effective - and I think it can - it can be useful as a means of keeping credit availability taut, but at the same time permitting the Fed to encourage a gradual decline of short-term rates, which would be healthy.

It is absolutely essential, as everyone around this table has said, to achieve real fiscal restraint, to take some of the burden off the Fed and the money markets.

I fear that no matter how well we perform in monetary and fiscal restraint, the inflation rate may, and probably will, stay high and that the public will demand a return to compulsory price-controls. It is for this reason that I think we should be open-minded about adopting a guidelines approach and public pressure to moderate wage prices.

SECRETARY SIMON: Thank you, Mr. O'Leary.

DR. ARTHUR M. OKUN, SENIOR FELLOW, THE BROOKINGS INSTITUTE

MR. OKUN: Mr. Secretary, I was glad to hear you stress the many routes and the complexity of the inflation of 1973 and 1974, and your words have been reiterated by several previous speakers.

I think it's important to recognize that; and to recognize its contrast with, let's say, the 1966 to 1968 period of inflation which, from my autobiographical regret, can very readily be traced to one principal source, mainly excesses in the Federal budget.

This time it's different. There are a great many sources. The Government, in its fiscal monetary policies, has clearly contributed to inflation. There have been excesses. But, I think these excesses have to be put into perspective -- in the perspective of the other special fact that give us inflation and a perspective of change in the economic scene that we have now.

There are lots of steps that we might well have taken -- should have taken in 1972 and 1973. But the battle of 1972 and 1973 cannot be fought and won in 1974 or 1975. I think it's clear that the boom is dead and I think it's clear that it would make no sense to flog a dead boom.

In this context, I think it is clear that what we are talking about is the institution of procedures of discipline that will remove the Federal Government itself as a source of instability in the economy.

And I think it's terribly important to do and much more important than what the precise number is, is the picture of control of discipline of some restraint and sacrifice that begins at home with the management of the Federal Government's budget and its monetary policies.

But the sacrifice has to begin at home, but it can't end at home.

Let me just spend my last minute deriving a little sermon from one small example that reaches the newspapers today.

The President's request for a three-month delay in the Federal pay increase was not persuasive to nearly two-thirds of the Senate and I think I can understand to some degree why it wasn't persuasive. One small example that I might give is the same day that the Federal pay hold-down request was made, there was another story in the newspaper rumoring the de-control of all prices of crude oil.

On a conservative estimate, that de-control would cost this nation an extra nine billion dollars of inflation in 1975, in contrast to the holding down Federal pay of $700 million dollars. Moreover, the request was not accompanied by any other indication that anybody else is going to be asked to make sacrificies to do any restraint. No steps were taken to ask producers to give up their shields against price competition -- whether its transportation regulation or Davis-Bacon or resale price maintenance.

No financial institution has been systematically asked to channel funds into socially-productive uses at moderate costs. No price or wage restraint has thus far been requested in any systematic fashion. I suspect that and the sacrificies of the Federal Government will be a lot more credible and a lot more persuasive if they are accompanied by a broader and more eclectic program that ask all groups in the private sector to participate in this battle to end inflation.

SECRETARY SIMON: Thank you, Mr. Okun.

MR. HERMAN NICKERSON, JR., ADMINISTRATOR, NATIONAL CREDIT UNION ADMINISTRATION

MR. NICKERSON: Thank you, Mr. Chairman.

As the regulator for about 12,800 Federal corporations, represented by eighteen million people, I am sure that the Chairman of the Banking and Currency Committee knows that we reach into every voting district of the United States and have about a ten-percent ability to go to the polls.

We would like to offer two points: First, be mindful in your dealings with the small thrifts that disintermediation moves capital out of us, when you get to demoninations of a thousand dollars. We would like to encourage the rise to the $10,000 and higher and this way avoid some of our disintermediation of our limited capital.

Second, we think increased productivity across the country. I remember in studying Napoleon, he said, "Give me enough multi-colored ribbon and I will conquer the world." If you give me enough national awards, I think our program of thrift and thrift-award is an example that others might try.

In legislation, since we have a number of distinguished legislators present, we need three things: We need a discount fund to give us a business-management liquidity within my agency; we need variable share accounts, and we need an automatic loan-renewal program -- to be legislated.

Thank you very much, Mr. Chairman.

SECRETARY SIMON: Thank you, Mr. Nickerson.

MR. JAMES J. NEEDHAM, CHAIRMAN OF THE BOARD, NEW YORK STOCK EXCHANGE

MR. NEEDHAM: Thank you Mr. Secretary.

I would like to associate myself with the remarks that Sylvia Porter made. The New York Stock Exchange for over a year-and-a-half has been concerned about this problem and we have made numerous studies and analyses and we have made them available to your Department, Mr. Secretary, and we would be delighted to make them available to others who are interested in them.

To be specific, which is what the President has asked us to do, we propose that an anti-inflation act of 1975 be adopted which will establish the twin-economic policy objectives of maximum utilization of our national labor force and uncompromising maintenance of a framework of stable prices.

Some specific anti-inflationary measures which strongly merit consideration include: A legislative commitment to reduce Federal expenditures consistent with the aspirations and security of more than 200 million Americans

Second, a mandatory program to re-establish the traditional American habits of thrift and sound personal financial planning, to immobilize over-indulgence, purchasing power without a tax increase and to restrict the inflationary impact of on-going wage settlements.

Third, a realistic approach to building a stronger element of productivity into the economy by eliminating structural rigidities and existing laws governing key economic activities.

Fourth, a more rational evaluation of the impact of tax policy on our national economic health with particular attention to the treatment of investment credits, capital gains and corporate savings.

Fifth, creation of a national nonpartisan commision on capital resources under the aegis of the executive office to examine our national options for dealing with the threat of a major shortage of investment capital in the years ahead.

Finally, only if these conferences fail, should temporary credit and capital investment restrictions, and particularly, bank lending guidelines be considered as a means of easing inflationary pressures.

Now, what we have to do is three-fold: We must maintain the initiatives developed in convening the current series of the national economic conferences, we must demonstrate to the American people that their leaders are both determined and capable of developing workable answers to their and our national and economic dilemma, and finally, Mr. Secretary, we must act.

SECRETARY SIMON: Thank you, Mr. Needham.

MR. REX J. MORTHLAND, PRESIDENT, AMERICAN BANKERS ASSOCIATION

MR. MORTHLAND: An essential ingredient of any program to curtail the present inflation and to prevent its recurrence depends upon the public understanding of the complex nature and the interrelated nature of the elements of our economic system.

It has a second dimension: We **must** have the willpower to carry out that understanding, once we have attained it.

I would like to discuss very briefly a framework of simple but basic economic forces that I think we need to recognize, because the responsibility of gaining this public understanding lies on the participants of this conference and on Congress and the Administration.

Many of our problems are caused by seeking solutions to one problem in our economy without considering the repercussions of those solutions on the rest of the economy.

We live in a political and economic democracy in which the citizens have relative freedom of choice. The basis of consumption is production. We cannot consume, as a society, more than we produce, plus the accumulated production of the past. Our wants and desires exceed our resources so that some of them go unsatisfied; hence the need for willpower, or determination, or discipline.

To maximize returns, we have to establish an order of priority of our desires, both for us as individuals, and for our Government and society.

The establishment of our national priorities essentially has to come from Congress.

The long-run objective of our society is a comfortable standard of living for all people but it cannot be attained without the use of capital goods.

We face a shortage of capital now and in the foreseeable future and, hence, an accumulation of capital should be given a high order of priority in this list.

The financial markets -- both on the demand and on the supply side -- consist of a series of interrelated and interconnected, though sometimes specialized, markets; but there are no water-tight compartments in it because there are enough suppliers and enough users who will either place funds in two or more areas, or who will borrow in those areas.

The most efficient way to allocate capital resources is through a system of institutions competing under equal terms.

And "efficiency" is defined here as maximizing a return to the saver and minimizing the cost to the borrower. Borrowers and savers do try to attain this maximization.

A system of forced specialization, either on the supply or demand side, would not be the most efficient system for our economy even if it were possible. But, it is not possible by any means short of a complete control of the entire economy, and I don't think that we look for that.

If there are some areas of high social priorities that don't receive enough resources through the competitive money market conditions, we should encourage the flow of funds into those areas by inducements that are extended to all institutions, or to all borrowers of a given type.

Any changes made in our financial institutions should be made in a phased-in method so that we save all of the resources and capital invested in it.

The Financial Insitutions Act as drawn up and as presented to Congress, does observe these major forces and offers the best means of restructuring our system of depository financial institutions.

SECRETARY SIMON: Thank you, Mr. Morthland.

MR. BRUCE K. MACLAURY, PRESIDENT, FEDERAL RESERVE BANK OF MINNEAPOLIS

MR. MACLAURY: Thank you, Mr. Secretary.

The common theme today and in previous sessions has been expenditure restraint.

It seems to me one of the problems is that we are playing with slippery numbers in this respect and I thought that Wally Scott's presentation of the charts made this perhaps apparent -- that he spoke of de-budgetization of various agencies over the past -- Post Office; Fannie Mae, and some others.

I think it would be useful to take a look at the same numbers with those figures put back in that we have been taking out over the last 15 years. And, in that context, I would like to make a suggestion that, in connection with the overall look at budget expenditures, that the new Budget Committees in the Congress are undertaking, that there ought to be a similar look at the totality of credit programs, guaranteed subsidies, and so forth, in the Congress, so that we know the overall claims upon capital markets that are being exercised by the Goverment directly and indirectly.

The second point: Expert concern has been expressed about the stresses being placed on financial institutions and about the lack of funds going into thrift institutions and, thus, into housing.

I would like to second Rex Morthland's comment that it seems to me that the Financial Institutions Bill, which has languished, provides in its provisions for flexibility of financial institions both on the ability to pay, interest to consumers, and depositors, and, perhaps, on the ability of thrift institutions in particular to restructure their assets so that they can make variable loans; and, finally, I would like to associate myself with Charlie Zwick's interesting proposal, which I had not thought about before, of a practical way in which Congress could authorize withholding of funds.

Thank you, Mr. Secretary.

MR. GUSTAVE L. LEVY, PARTNER
GOLDMAN, SACHS AND COMPANY

MR. LEVY: Thank you, Mr. Secretary.

As you all probably know, I am in the investment banking business. In World War II, I remember reading in the New York Times that, in the priorities for draft deferments, investment bankers were second from the bottom.

The only one lower was the manufacturers of artificial flowers.

I hope our importance today is more than that. I am sure it is, because we are charged with finding the huge amount of capital that is necessary to finance our industry today, and in the years ahead.

Now, I am not asking any favors for our investment banking industry, but I do believe -- as I am sure we can roll with the punches -- however, I do believe that in order for us to maintain a balanced capital structure in industry, inducements must be put forward for individuals, institutions, and foreigners to invest in our stock market.

Such inducement should be of the kind of $500 to $1,000 tax deduction on interest income of individuals, depositing in thrift institutions of all kinds, including thrift departments of commerical banks.

Also, dividend exemptions for individuals should be increased, if not abolished altogether.

Also, in recent months, many corporations have been urging managers of pension funds to invest their cash flows in debt instruments, particularly of a short-term nature. This is completely self-defeating, because these same corporations are complaining that the prices of stocks do not reflect inherent values.

It is essential in the long run for our markets to more truly reflect inherent values that corporations may finance in the sale of common stock, as well as a sale of debt.

Therefore, corporations should be urged not to instruct their money managers to avoid purchases of equities.

I'm sure that these managers, over the long run, will do very well with the balance portfolio of debt instruments and common stock.

And lastly, Mr. Secretary, I urge and I hope that, as a result of these conferences, a plan will evolve.

I also learned in the Army that a good plan, well executed, is better than no plan at all, and I'm sure that you will come forth with a plan and I'm sure it'll be a good one.

Thank you very much.

SECRETARY SIMON: Thank you, Mr. Levy.

MR. RALPH F. LEACH, CHAIRMAN OF THE EXECUTIVE COMMITTEE, MORGAN GUARANTY TRUST COMPANY

MR. LEACH: Mr. Secretary, I may be deceived by the tenor of some of the meetings that have been held. It appears to me that bipartisan agreement across the Country is that inflation must be stopped.

This agreement is in some way similar to that reached in the mid 1940's on the need to assure high levels of employment.

The Employment Act of 1946, you'll recall, was passed in the atmosphere of: First, a recollection of 14% to 25% unemployment in the 1930's; and

Second: Concern about the employment of returning veterans.

The Employment Act had been a major issue in the 1944 election.

I would like to see at this point a Congressional debate on the topic of inflation and I would hope that, as a result, Congress would indicate to the Country, either through an amendment to that Act, or a new Price Stability Act, that maintenance of price stability is absolutely essential to the maintenance of a high level of employment.

We have learned something since 1946. It is now apparent that price stability should have been a part of the full employment effort from the beginning. In the long run, inflation is a major factor in the destruction of domestic employment.

While inflationary policies may, at times, have provided some increase in employment in the short term, even that effect is doubtful at present.

In debating the Price Stability issue, worldwide economic interdependece would clearly be a key factor. Inflation inevitably produces agitation for protective measures to insulate domestic markets from foreign competition.

That's a path to rigidity and inefficiency, and to foreign retaliation.

By itself, this is a powerful reason for concern with rapid inflation.

If, as I suspect, a concensus would be reached that in the long run inflation does destroy employment, then a national commitment to price stability should be sought by both business and labor.

This Country's objective should be to strive for a steady increase in the real take-home pay of the workers.

Labor would be far better served with policies which provide a 3% wage increase with no change in prices, than it would be with a 13% wage increase coupled with a 10% price increase.

An explicit Congressional directive would be of great value as a background for the setting of monetary policy. Most students of the Federal Reserve System feel that the Employment Act of 1946 contains an inflationary bias and, therefore, the monetary authorities would be aided by an explicit Congressional statement on price stability.

From the standpoint of business and financial markets, inflationary expectations have been a major factor in investment decisions.

I would predict that if, in the course of Congressional debate, sentiment appeared to be jelling in favor of a national commitment to price stability, financial markets could well respond positively and dramatically to the changed outlook.

Business decisions, in turn, might respond favorably due to changes in perspective rates of return on capital investments, and in decisions on inventory policy.

Thank you, Mr. Leach.

MR. W. J. KENNEDY III, PRESIDENT, NORTH CAROLINA MUTUAL LIFE INSURANCE COMPANY

MR. KENNEDY: Thank you very much, Mr. Secretary.

The position of the Life Insurance Industry should be clear from the publicity given to the position of the Industry by the Institute of Life Insurance and other Industry spokesmen. Therefore, I'm not going to dwell on this particular area.

I had some difficulty in determining just who I did represent on this august body. I do feel, though, that I would be remiss if I did not voice my concern in one particular area and that is that the burden for correcting the inflationary spiral should not be placed on those at the lowest level in our economic ladder. We talk basically about maintaining a restrictive monetary policy and a reduction in Federal spending -- both of which actions will result in increased unemployment as well as the reduced flow of funds for social programs.

I am particularly sensitive to this as a Black American because we, as a group, already burdened with the unemployment rate that is twice that for the general population, and an income gap that is widening rather than narrowing of the lower income levels for Blacks. And while I recognize that certain actions must be taken, we should be sure that the consequences of these actions are equitably spread.

Moving from this area and taking a brief look at the capital markets, we recognize that erosion has taken place in the confidence of the public, in the Investment Banking Business, and in the equity markets, and marketing in general.

There was a similar erosion of confidence in the Commercial Banking System in the early Thirties, and that was relieved -- as far as the small depositor was concerned -- by the establishment of the Federal Deposit Insurance Corporation.

Subsequently, the Federal Savings and Loan Insurance Corporation was established for the Savings and Loan Industry.

Perhaps there is some application here for the Investment Banking Industry to restore the small investors confidence in that Industry. Beyond this, I would suggest that the alternative Capital Tax Gains Benefits should be extended to the millions of small investors as it is to the larger investors; those persons whose combined normal and surtax rate is less than the maximum capital gains tax rate, are excluded from any benefit of the alternative capital gains tax rates.

I believe in the progressive tax system as opposed to the regressive tax system, and that the philosophy should be extended to the capital gains taxes, an incentive for the small investor to get back into the equity capital market. Any improvement in the availability of the equity capital will relieve the debt demands to some extent and, thereby, result in lower interest rates.

Thank you.

SECRETARY SIMON: Thank you, Mr. Kennedy.

MR. LOUIS O. KELSO, GENERAL COUNSEL, BANGERT AND COMPANY, INC.

MR. KELSO: Thank you.

Mr. Secretary, your staff estimated that you wouldn't reach me until right after your coffee break, and some charts which I really need to refer to, haven't been distributed.

SECRETARY SIMON: All right. I will start with you after the break.

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MR. HARVEY E. KAPNICK, JR., CHAIRMAN AND CHIEF EXECUTIVE OFFICER, ARTHUR ANDERSEN AND COMPANY

MR. KAPNICK: Mr. Secretary, I have three observations to make to start with.

First of all, I believe that a program is needed, and it is needed now, to be announced to the American people, if we are to reestablish credibility in America.

We've had a new foreign policy; we've eliminated to a degree the abuse of power; and the economic problems facing America now are crucial.

No. 2: I believe that we should all recognize that any time we had bad financial information, we make bad decisions.

I believe that good, sound, financial data is essential, and this will be recognized by the American people and will be good politics in the future.

Today, we do not have good, sound, financial data.

No. 3: I think that macro-economics discussions are good, but individuals lose job individual by individual, and companies go bankrupt, company by company, and I believe that we are facing one of the most serious capital crisis that we have ever had in America.

For example, we talked a great deal about the budget. The budget is a $5 billion problem. The fictitious inventory profits in American business today is providing taxes of $10 to $15 billion to the Federal Government, and taking it out of the private industry.

This is capital consumed.

No. 2: Until we recycle oil profits, and the increase in oil costs, this capital has been consumed.

Further, legislation recently enacted is going to cost American corporations some $10 billion. Until funds are provided to each individual corporation to fund these, we're going to see serious results.

The results of these three items are $40 billion. We need to find solutions to each of them, or inflation will continue.

Bankruptcies will occur; people will lose jobs.

I recognize that monetary policy and balanced budgets are necessary, but I also realize that we need to adopt a program where we adjust profits of American business to stop the devisiveness which is going on in America between those who want to unite to fight inflation.

I believe further that international trade and economics is absolutely necessary; that we address because the rest of the world is looking for leadership, and we need to restore balanced taxation in America.

The Tax System should be used to achieve Social progress.

Now, if ever, we need savings incentives immediately. We need to eliminate income taxes on dividends. We need a new inflation-proof security, because that will do more to eliminate the tax shelters which are wasting much of the capital in this country and really provide real savings incentives.

We need incentives to provide for jobs and productivity. We need to simplify some of our depreciations so American individuals and consumers understand why these are given and that they're not loopholes.

We cannot destroy individuals in the process that we're going through in the next few months.

And therefore, I recommend very strongly that a transitional credit be given to everybody in the low income group.

SECRETARY SIMON: Thank you.

MR. LOUIS O. KELSO, GENERAL COUNSEL, BANGERT & COMPANY, INC.

SECRETARY SIMON: Mr. Kelso, are you ready now?

MR. KELSO: Yes.

SECRETARY SIMON: I don't know how you are going to get through all of these charts in three minutes!

MR. KELSO: Thank you, Mr. Secretary. This is going to be the fastest presentation of this subject that I have done.

Let me say that my analysis of the cause of inflation and the cure for inflation is not based on the conventional wisdom. For this I make no apology because it seems to me that the conventional wisdom has been pretty consistently followed for the last 40 years, and has brought us to where we are.

Let me turn immediately, then, to the charts that have been distributed to you and lead you rather quickly through them.

The first one is simply designed to remind you that there are economics where there are almost no laws, no solid dependable principles, there is at least one, and that is that the total amount of purchasing power generated automatically in the market economy is exactly equal to the market value of the goods and services produced.

Our problem is a problem of creating a matching of that purchasing power with the people who have unsatisfied needs and wants.

The second charge is my estimate of what has happened in the means of producing goods and services. From the beginning of history, when, perhaps, 95% of the total input into the economy was labor, today we are at a point where, if labor were competitively valued -- and I call your attention to the fact that almost every conceivable law that we have is designed to create an artificial price for labor, if it were competitively evaluated, we'd find out that approximately 90% of the total input comes from Capital and not Labor.

Chart 3 contains two diagrams on it, the first of which is to illustrate conventional finance.

I point out that Model One, the model of conventional finance, reflects the fact that 98% of total new capital formation in the U. S. economy, averaged over the last 15 years, is financed out of cash flow, or borrowings repaid out of cash flow. This technique builds the incremental productive power of capital into a stationary ownership base. All of the qualitative studies that have been made to date show that 5% of the people -- 5% of the consumer units -- own all the productive capital. The stock held by the remainder, the other capital assets, is negligible.

Model 2, on that page, is a new technique of finance, one that's been used in well over 100 corporations so far, and provides low cost capital to growing enterprises.

It's my belief that this is the basic model for a technique of finance that can finance the four-and-a-half trillion dollars or so of new capital formation that we need in the next ten years, and do it in ways that builds capital ownership into the labor force, using the logic that business has always used for itself; namely, to invest in things that will pay for themselves so that labor doesn't have to take something out of its pocket or paycheck.

Chart Number 4 is designed to show what this means in the big picture.

You have the same corporation --

SECRETARY SIMON: I'm sorry, Mr. Kelso, that's four minutes and we'll take a break now and we will reassemble promptly at the end of ten minutes.

(Recess.)

SECRETARY SIMON: I am just told by an informer that out in the hallway, I had been accused of being like Mussolini who makes the show run on time, and that has given me great courage.

And while I don't like to be compared to Mussolini and I certainly don't want to have happen to me what happened to him, I would appreciate it if everybody would resume their seats.

Before we continue around the table, there are several of our Congressional representatives who have to get to the Hill, and I am going to call on one right now just slightly out of order.

It is going to be a pleasure for me to exercise a three-minute rule on Congressmen. This is quite a switch, Mr. Chairman.

THE HONORABLE ERNEST F. HOLLINGS, UNITED STATES SENATE

MR. HOLLINGS: Thank you, Mr. Secretary.

I've been trying to figure out what I would do listening, were I the President. Obviously, number one you'd balance the budget. Secondly, you would take the financial experts, like Dr. Burns, Mr. Greenspan, and you financial boys, and start doing something about bringing the dollars back home rather than the deserters, set some kind of financial policy with respect to credit controls, money supply.

Thirdly, you can't get credibility in this field of finance until we first get credibility on fuel. We have no energy strategy in this nation. We've been recommending and it's been opposed by the White House consistently an energy policy council very similar to the Council of Economic Advisors, so it could coordinate disparate agencies, departments and efforts so that there would be a long-range credible program, and then, of course, I'd come to Sylvia Porter's program of conservation and consumer participation.

Now, I'll only comment on number one, balancing the budget, because like Pogo, we are the enemy and it's with us. I mean all of us. And we are about here in proportion. We have about eight from the Hill or Congress and we've got about 80 all around, so we are about ten percent of the problem, and each speaker makes us about 90 percent of the problem.

And I want to bring that into perspective. Everyone of you every time you testify say that if we cut that ten billion or we balance that budget, that it'll only really mean some one-tenth of one percent to the inflation rate. But it's got a better psychological value, and I believe that.

But I then believe also that there are other things to be done. Now, on balancing that budget, Mr. Zwick, I think it was, had a good idea; but we been changing off from that because, well, the Congress has really been limiting the presidential powers.

Lyndon never told us the truth about the war, and veracity did not improve under Richard Nixon, and we hesitate in the Congress trying to give the power of impoundment.

On the other hand, we've done this. In 1967, by public law -- and I'll leave this with the Chairman -- 90-218, the 90th Congress in December, after the fiscal year had been in course some five months almost, on December the 18th passed a joint resolution, a very simple little thing of a page-and-a-half, whereby we cut down on personnel two percent, about ten percent on the controllables other than personnel, we gave a contingency fund to President Johnson, and in essence, we cut some 4.9 billion dollars in the very closing days.

That was after the Congress had already cut out 5.1 billion. Now, that's about what we've done already. Already this year we've cut right at 5.7 billion from that 305 first submitted in January by President Nixon.

And if we continue on with Health, Education and Welfare, the cuts in military construction, foreign aid, I think they're about four more billions. Then we'll be right near a seven to eight billion dollar cut in new budget authority, constituting about a four billion cut in actual outlays.

And so to bring it within that area or within five billion in actual outlays, all you need is a little joint resolution similar to Public Law 90-218, and finally, Mr. Secretary, you need it now.

Don't want to wait until after this blooming election. That's the only reason you got any of us up here. You wait until after the election and we'll have hearings, we'll study, we'll get consultants, and nothing will get done.

The main point is, if the President is serious about this, it isn't so traumatic to come through at the very end and cut back these departments. You can spell it out.

In other words, what impoundments we let go interior, which was a lot of public parks and fish hatcheries, we increased that Interior budget some $765 million for fiscal '75 over '74. And I called the White House and asked them to hold up on that like they did on Agriculture.

We can still get back with Interior a little percentage, still get back a pork barrel, public works. We can do this before October the 15th, and I think it's vitally important so this whole crowd and that some of the savings and loan people won't be berating the Congress all Fall long and the Government that the whole thing is that the Government's gone wild. We've got, on the contrary, for us to join hands, and you reinstill confidence. Let the president draw the line and say, "Here's how we're going to do it before October the 15." Then we can reinstill confidence in Government and then some of these other voluntary programs for conservation and consumerism can follow on.

Thank you.

SECRETARY SIMON: Thank you, Mr. Hollings.

MR. PAUL R. JUDY, CHAIRMAN AND PRESIDENT, A. G. BECKER & COMPANY, INC.

MR. JUDY: Thank you, Bill.

I'd like my comments just to cover three areas, some of which have already been covered.

I'd like to emphasize some things, therefore. First, in Bill's introductory remarks and Bob Roosa's comments, it was pointed out that our inflation is part of a world-wide phenomenon. It's the accumulation of a number of causes and I'd like to comment just briefly on two.

One: Shortages and threatened shortages in basic resources. In this area, I think we find two general categories, natural shortages, both long and shorter term in character: Secondly, monopolistic shortages or threatened shortages, nationalistic in character.

The second general area of causes of world-wide inflation, greater growth of consumption levels or aspirations which have been outstripping the longer term rate of output potential of past and future savings, and investment. So it's part of a bigger picture.

Commenting just briefly on the monopolistic shortages aspect of world-wide inflation, I honestly don't think that there's an economic solution to this. There are some short-term financial solutions. I think the leaders in the world are busy at these.

Fundamentally, though, we cannot have inter-economy transfer prices which don't have any relationship to natural costs and returns on investments. This will lead relatively quickly to substantial cost distortions throughout the world, unnatural, unsound diseconomic resource applications, unsustainable redistribution of wealth.

These are political matters, and I strongly urge our Government to pursue political solutions to these matters.

Turning, now, to the domestic economy. Again, we have natural inflation due to natural shortages of basic materials. We have our own form of high consumption levels and aspirations and our own shortages of savings and investment levels.

Here, I think the Government can make a strong impact in terms of guiding and influencing and establishing the rules for the game. I comment on five areas.

One, free prices. Fundamentally, when the inflation has a strong material shortage thrust to it, we must keep free pricing. This curtails marginal consumption and it stimulates investment to increase output.

The fundamental problem in the utility industry is one of pricing. It's that simple. Proper pricing will finance the utility industry.

Secondly, Government must monitor our markets to be sure they're maintained free and competitive, so that's always been the policy of Government, but it's particularly important in these times, to insure the absence of monopolistic pricing in our own domestic economy.

Third, the Government has every right and it's the only and sole role of Government to use taxation. Taxation should involve trade-offs of incentives and penalties. We have to put more space between the immediate benefits and pleasures of consumption versus the more patient enduring values of savings, particularly in equity risk savings.

There're a variety of specific programs the Government could use here, excise taxes on consumption, particularly in priority resources, tax credits or exemptions on interest on personal savings accounts, lower capital gains taxes on personal investments, investment tax credits for industry in selective areas.

SECRETARY SIMON: Thank you, Mr. Judy.

MR. FRANK J. HOENEMEYER, EXECUTIVE VICE PRESIDENT, PRUDENTIAL INSURANCE COMPANY OF AMERICA

MR. HOENEMEYER: Thank you, Mr. Secretary.

I would like to start by casting my vote for sound fiscal and monetary policies. Without them inflation won't be cured, and it can't be cured in a short time span without severe dislocations.

So we have to adopt sound policies, stick with them and be patient. Longer range, one of the cures for inflation is to increase our productive capacity, but to do this we must first generate the savings. I feel there must be more tax incentives or rather fewer tax penalties for saving.

There is and will be a scarcity of all capital, but especially equity capital. I believe there should be lower taxes on capital gains, especially for investments held for a longer period of years. The investment tax credit has been very helpful in providing retained earnings and consideration should be given to increase the rate for public utilities from four percent to otherwise standard seven percent.

Utilities need help desperately, and this would not only give them some direct help but also might lead the state public utility commissions to be more realistic in rate relief.

As for the use of our scarce capital resources, I would like to offer two thoughts. First, I suggest that we stretch out some of our environmental improvement goals. There is no question that we should reduce pollution and health hazards in our manufacturing plants. But capital spent this way is not available for increasing productive capacity.

Secondly, I suggest we consider carefully what we do to cure the problems of the housing industry. Undoubtedly, something needs to be done to help those savings institutions badly hit by disintermediation, and the financial institutions bill would help greatly here.

Also, something must be done to help increase the employment of construction workers. But this does not necessarily mean that we should increase housing construction. Prudential is a mortgage lender nationwide, and we find the housing market very spotty. In some areas of the country vacancy rates are under two percent, but in other areas, it is ten to 15 percent and overall, the vacancy rates do not, in my opinion, suggest a real housing shortage.

So, while something should be done to ease the unemployment of construction workers, I feel alternatives to housing should be explored. This might be, for example, an excellent time to build and modernize our mass transit system.

Thank you.

MR. J. HENNING HILLIARD, CHAIRMAN, J.J.B.HILLIARD, W.L. LYONS, INC.

MR. HILLIARD: Thank you, Mr. Secretary. I'd like to emphasize that inflation is an intangible. It's not something we can whittle with a knife or we can mold with hammer and nails. It's a condition in the minds of men and women. And our Government creates fears in the minds that bring about the inflation that we're so concerned with.

Our Government can also mold confidence that will alleviate that inflation.

Now, we've talked a great deal this morning about fiscal policy. We've talked a great deal about the need to balance our budget in this particular fiscal year. And this is important. But it's much more important to instill in the minds of people confidence in our fiscal policy by setting up a machinery that will create a balanced budget over a period of years and that will build up surpluses in good years and it will only create a deficit in very, very bad years.

Others will speak and have spoken on the subject of raising capital and how it can be raised and our need to raise it. But in my mind one of the most important things that we need to do is for our Government to help destroy the idea that profit is a dirty word. If we can do this, then the public will return to our capital markets. We will have good capital markets; we will need some incentives, yes, but we can create pride and satisfaction in saving and investing.

Thank you.

SECRETARY SIMON: Thank you.

MR. RICHARD D. HILL, CHAIRMAN OF THE BOARD, FIRST NATIONAL BANK OF BOSTON

MR. HILL: Mr. Chairman, I doubt that we will find here very many innovative cures for the disease of inflation. The cause of the illness seems to be understood and a reversal of this process, that is, the achievement of budgetary balance and surplus must be the answer.

Monetary policy, as Dr. Burns says a blunt instrument, will respond to this, but no longer can be expected to lead the way to restored health. Bandages are often needed to stem the flow of blood while the basic remedy is being applied,and in the process of applying these bandages, I hope we will examine the inflationary, perhaps long-term inflationary implications of each one of these bandages.

While on the subject of bandages, I have two suggestions, which admittedly are palliatives, not basic cures.

The first, Mr. Chairman, is to help you in your proposal to increase Federal taxes on automotive fuel. The idea is an excellent one, but politically dubious.

As an alternative, you might consider the mandatory purchase at the pump of a ten cent Federal savings stamp for each gallon of fuel. This could be sold to others or accumulated and redeemed at banks for the lowest denomination savings bonds. This will have the effect of increasing savings and, hopefully, reducing consumption of a scarce resource.

The second suggestion has to do with our troubled bond and equity markets.

While much attention must be paid in the future to the actuarial adequacy of our Social Security System, it might be helpful to permit the trust fund to invest a portion of its cash flow in corporate bonds and common stocks, hopefully including public utilities and possibly transportation companies.

This should give some muscle tone to the financial markets,and in a non-subsidized way, channel resources to some vital industires.

SECRETARY SIMON: Thank you, Mr. Hill.

MR. M. R. HELLIE, PRESIDENT, CREDIT UNION NATIONAL ASSOCIATION, INC.

MR. HELLIE: Thank you, sir.

I'd like to make it very clear at the outset that I am not an economist. However, I, like each of the other persons assembled here have a substantial understanding of the financial difficulties our nation's families are attempting to cope with.

Leaving the specifies to others more expert than I, it is I believe, the quality of life about which we are speaking. It is this concept around which we and our Government need to relate our activities now and in the future.

Our own national self-interest must assume the first priority, and I further assume that this places the well-being of the nation's citizens within this first priority.

Please note I did not say "welfare", but instead, "well-being".

In reaching conclusions as to what priorities are preeminent for our citizens, what priorities require the premier call on our resources, capital and energy, I would think that shelter and sustenance come first. Please note I did not say housing and food. Because those words are too delimiting in what they connote.

I submit that the delay of a constantly-increasing standard of living may no longer be possible.

I submit that succeeding generations may have some difficulty in maintaining the same standard of living to which current generations have become accustomed.

I suggest that a Council on National Priorities, composed of concerned citizens, may provide some assistance to our Government in setting the difficult guidelines which will be necessary. That American ethic, the quantity of life may have need of substantial revision.

Thank you.

SECRETARY SIMON: Thank you.

MR. MILTON J. HAYES, CHAIRMAN, GOVERNMENT FISCAL POLICY COMMITTEE, INDEPENDENT BANKERS ASSOCIATION OF AMERICA; CONSULTANT, AMERICAN NATIONAL BANK OF CHICAGO

MR. HAYES: Thank you, Mr. Chairman.

First, on the budget, I'd just like to point out, I'd like to see an abandonment of the full employment budget. It's not an accurate description of our income and therefore cannot be an accurate description of our expenditures.

Second, I would like to direct my next point to the attention of the Honorable Congressman Reuss.

We must realize that sooner or later we have to come to an accommodation with gold. In the past, no serious inflation has been cured if the money was distrusted by the people. I therefore urge that the beginning steps be taken to bring the dollar back into the discipline of gold.

I propose that this be done immediately by the following steps:

One. Raise the official price of gold to $75 an ounce.

Two. Issue the additional gold certificates representing the difference between the present $42.22 an ounce and the new figure of $75 an ounce.

However, these certificates are to be frozen as a backing to the currency and not used by the Treasury Department to pay current bills as was done in the previous increases. This is a vital step and must be part of the legislation authorizing the new official price of $75 an ounce.

Studies must then go forward to have a statutory backing of the currency. History shows that unless there is a forced discipline in the matter of maintaining a sound currency, the nature of man is such that debasement is an easy course, and will continue to be followed until the financial structure of the nation collapses.

If these steps are taken, we will find that confidence in the dollar will be restored at home and abroad, that the people will trust the value of their money, that savings will flow back into our savings accounts and funds will be returned from Switzerland, that natural forces will cause decline in many basic commodities from their present speculative heights and the rate of inflation will fall.

Thank you, Mr. Chairman.

SECRETARY SIMON: Thank you, Mr. Hayes.

558-812 O - 74 - 8

DR. GABRIEL HAUGE, CHAIRMAN, MANUFACTURERS HANOVER TRUST COMPANY

MR. HAUGE: Mr. Secretary, following several weeks of inflation summitry leaves one with certain impressions.

First, I think it can be said there's agreement there is a certified dragon out there, but there is no Saint George on the scene yet. Perhaps what we are doing here today is trying to help fashion his sword.

Next, it seems to me that the major cost of inflation is getting clear and that's how to get out of it.

We've decided not to get out of it in a lump. We're going to try to get out of it on the installment plan, but that's got to be effective and got to be paid up.

The problem seems to be how to dig the country out of the hole it is in without making the hole a lot bigger. And here we run into the fears of people who talked about stagflation. My own judgement is that at this time we've got to run the risk on the downside rather than on the upside and that's reversing the whole philosophy since the end of World War Two.

Further, we've seen, I think, in these sessions, as we've read them and looked at them on television, that advice often comes without directions as to how to use it. I think of that in connection with the budget matter. I think of that in connection with all the advice given to Mr. Burns about how to ease the money situation.

We've got to be as specific as we can.

And finally, it's clear that when economics is really important it becomes politics.

That leads me to a disturbing thing that has surfaced again here today. There has been a lot of talk about people and the Government -- "we and they". I'd always thought this was our Government and that what they do is a response to what we want, or, if it doesn't, it ought to. That probably gets us down to the reality of this problem and many others.

We are a nation of client organizations and Senator Hollings referred to it. We're very loyal to our loyalties.

It is hard for us to lift them up to this whole great problem and it applies to every one of us, whether we're members of a school board, hospital board, or a splendid idealistic organization. We're going to go and get the money from the public till.

I think every one of us has got to go back and ask the question where we are every time. How is it going to impact on the problem we are trying to get?

I thought it was awful when Herb Stein was roasted when he pointed this out before he retired. Why, of course, the public isn't responsible for it. Of course, the public is. You and me in the organizations that are constantly demanding something from our Government.

Mr. Secretary, I planned to say something this afternoon on one or other of these matters, but it's clear that the topics that have been ticked off this morning are all relevant and have to be put together. Fiscal and monetary policy clearly have a role. They are necessary but not sufficient, in my opinion. We've got to face the question of how effectively can demand inflation cut cost inflation, widening supply bottlenecks, monitoring stabilization.

I thought Ralph Leach was right as rain in the question he raised. We cannot run this country solely on a job standard. And what he calls for I think is a realization of that. 95 percent of the labor force is entitled to some consideration as well as the 5 percent, because we can deal with the 5 percent, I hope, in ways that don't jeopardize the 95.

We've also got to be concerned with the inequities in the way we fight this problem and as Bob Roosa pointed out, with the international dimension.

But the application of proper measures in these areas with the conviction to make them work and coming back to you and me as citizens I think we can do a good job.

Thank you.

SECRETARY SIMON: Thank you, Mr. Hauge.

MR. DAVID B. HARPER, PRESIDENT, FIRST INDEPENDENCE NATIONAL BANK

MR. HARPER: In the interest of not being repetitious, I pass.

MR. RICHARD G. GILBERT, PRESIDENT, CITIZENS SAVINGS ASSOCIATION

MR. GILBERT: I'd like to mention a few ideas not mentioned and perhaps emphasize a few others.

I, too, would like to see the full employment budget scrapped as a concept; I'd like to see Federal taxes increased to aid in the balancing of the fiscal 75-76 budget.

In addition, I'd like to see a price tage for all new legislative proposals for expenditures, both long- and short-term price tag, along with a revenue source placed along with those bills.

I would like to see the amendment of the Employment Act of '46 to include the concept of price stability and recognition that supply and production are also parts of the supply-demand equation.

Further, I think labor, including organized labor, should be called on to limit its request for wage increases to something below productivity increases to afford some reward for capital; and further, I would like to see in the financial area the Hunt Commission report passed, not just the Administration's report.

I would like to see the Hunt Commission version totally reviewed because the Administration bill ignores the regulatory section.

Thank you, Mr. Secretary.

SECRETARY SIMON: Thank you, Mr. Gilbert.

DR. TILFORD C. GAINES, SENIOR VICE PRESIDENT AND ECONOMIST MANUFACTURERS HANOVER TRUST CO.

MR. GAINES: Thank you, Mr. Secretary.

I'm in agreement with almost everything that has been said here, so I'll forego reading my written remarks and just volunteer a few informal observations.

First, it has been suggested in some elements of the press that these meetings are an exercise in PR futility. I heartily disagree with that.

I don't think any of us has deluded himself that we're going to come up with brilliant new ideas that are going to turn the entire situation around.

If we accomplish nothing more than some degree of public education and if we achieve nothing more than some degree of public support, well, certainly, our time will have been well spent.

Secondly, many very useful suggestions have been made today and in earlier sessions for long-range reform that will help to prevent inflation in the future. In particular, I like the suggestion that we slaughter the sacred cows, namely, those pieces of legislation that provide protection for certain groups from the market process. And I would add one additional long-range suggestion.

I would like to see the President establish a new Hoover Committee similar to the one set up by President Truman for an in-depth review of all budget expenditures.

It's very easy to make sweeping recommendations that five or ten billion be cut from the budget, but true in-depth studies are necessary if that's going to be done wisely.

Third, I think we have to recognize the nature of the present recession that we're in. It's a very unusual recession. If it were an ordinary one we might be able to relax monetary and fiscal policies and still make progress against inflation. But there is one peculiar element in this recession that prevents that from being feasible, namely, there are still serious bottlenecks in many critical materials areas.

So that there is a serious question as to how far we could go in stimulating economic recovery without running into a bottleneck problem.

In other words, easier policies would only add to further inflation.

Fourth: Picking up that point: the suggestion has been made in earlier sessions that monetary policies should be eased. I don't know what those suggestions mean. If one looks at the credit and money aggregates over the past year, it's certainly hard to identify policy as exceedingly tight.

I think the Fed should continue on the course it is now on and I commend their present effort to bring down short-term interest rates without compromising their basic policy objectives.

Further, on budgetary policy, I agree completely that we should move as promptly as possible to a balanced budget position, either through the expenditure reductions or tax increases and I would be hopeful that we might bring some of the off-budget agencies back into the budget as we move toward this balanced budget objective.

At the same time things should be done to ameliorate the impact upon certain parts of society and economy. In particular, I'm very much in favor of a broader public employment program. I would be in favor of open-ending rights to unemployment.

There are various things that can ease the impact. I also like the suggestion of something like a one-thousand dollar exemption on the first one-thousand dollars of interest income earned in savings accounts.

MR. GAYLORD FREEMAN, CHAIRMAN OF THE BOARD, THE FIRST NATIONAL BANK OF CHICAGO

MR. FREEMAN: Inflation is the result of a variety of practices which are popular. To overcome inflation requires policies which are unpopular. To encourage the Administration and the Congress to adopt the necessary but unpopular disciplines and to pursue them for an adequate period, they must have the support of the people.

The people, in order to give this support, must have confidence in the integrity and the judgment of the Government leaders. To generate that confidence, the Government -- and I believe that means the President -- must talk to the people repeatedly, identifying the causes of inflation, discussing alternative cures and frankly describing the burdens which the cures will entail.

The President should urge the people to assess the degree to which they are suffering from inflation and balance that against the inconvenience they may suffer from an effective anti-inflation program.

He should urge them to discuss this trade-off with their Congressmen during the forthcoming adjournment. They should indicate whether or not they are prepared to accept the disciplines of a protracted anti-inflation program.

When Congress reconvenes, it should reflect the judgment of the people. As a part of a broader program, monetary policy could be eased a little bit with some resultant modest decline in interest rates. Fiscal policy must do far more than just achieve a budgetary balance.

To improve national productivity, it must encourage investments. This will require incentives to save. Corporations should be offered incentives to invest in more productive facilities.

The Treasury and the accounting profession should cooperate to achieve a more accurate reporting of the size and economic function of profits. To justify public support, the burdens of the anti-inflation program must be equitably distributed.

Aid should be offered to housing, possibly through subsidized interest. The cost of increased aid to the unemployed should be offset by increased taxes on those who remained employed.

Revenue loss through incentives to save should be recouped through increased personal tax rates. Incentives for corporations to invest should be offset by an increase in corporate tax rates.

If further revenue is needed to balance the budget excise taxes should be increased on scarce commodities such as petroleum products. The dozens of laws designed to prevent price competition should be repealed.

No other Government is sufficiently strong to mount such an expensive program. Today and possibly only for a short time our Government has the unique strength and widespread support to initiate such an anti-inflationary program if the public is convinced that it is necessary, effective and fair.

Thank you.

SECRETARY SIMON: Thank you, Mr. Freeman.

MR. WILLIAM H. FRANKLIN CHARIMAN, CATERPILLAR TRACTOR COMPANY

MR. SIMON: If I could ask everyone to please again, speak into the microphone. Some of our recorders are having trouble picking your words up.

MR. FRANKLIN: Thank you, Mr. Secretary.

I would like to speak for the moment on one of the cures for inflation. It is, I am certain, a production of more goods. To produce more goods, we will have to have industry install increased capacities.

To install increased capacities will require capital. Add to that the demands for capital for pollution control and capital to end our dependence on imported oil and you have a horrendous demand for capital over the next several years.

Now, we know that one of the best sources of capital is a strong profit base. Retained profits are not only a source of capital in themselves, but they are the base from which corporations can borrow money or sell stock in the equity market.

With that background, I'd like to share with you some figures that I have here and were put out by the July issue of the Axe-Houghton & Company. They start out with reported profits before taxes which were $65 billion in 1965 and rose to $96 billion in 1973, an increase of almost fifty percent.

They then adjust those profits with two factors: one, depreciation on replacement value and, two, inventory profits. You have now not a fifty percent increase, but a drop from $36 billion to $23 billion or almost a third.

But the most startling thing of all is they then deduct the dividends paid and you have then a retained adjusted earnings which dropped from $19 billion in 1965 to one-and-one-tenth billion in 1973.

I submit that's nowhere adequate to support the capital needs that we have. We must have incentives for the formation of capital and corporations must have help in obtaining capital.

SECRETARY SIMON: Thank you.

DR. GROVE W. ENSLEY, EXECUTIVE VICE PRESIDENT, NATIONAL ASSOCIATION OF MUTUAL SAVINGS BANKS

MR. ENSLEY: Mr. Secretary, Chairman Patman and distinguished members of the Congress: It is the responsibility of the Federal Government under the Employment Act of 1946 to serve as the economic balance wheel in our private enterprise system, offsetting excesses in the private sector and cushioning the impact of external forces.

The Act can only be effective if the clearly implied mandate of price stability contained in that Act is given its proper emphasis. In a very non-partisan way this was the way the Joint Economic Committee proceeded during the first decade under that Act and as one of the distinguished sponsors of that Act, Chairman Patman can testify.

This essential interpretation of the Act should be reactivated through a determined policy of fiscal restraint including, if necessary, tax increases.

As the Joint Economic Committee initiated at the outset of the Korean War, remember that substantial Federal undertaking was financed on a pay-as-you-go basis with only moderate inflation and at very low interest rates.

The underlying and most significant inflationary force in the United States in the past decade has been Federal budget deficits and expansive Federal credit programs outside the budget. Unless the rate of inflation abates more rapidly than anticipated or serious unemployment actually develops, a budget surplus or at least a balance should be the objective of public policy.

Ideally, it would be desirable to create a budget surplus to offset at least, in part, the stimulating effect of heavy borrowings by Federal agencies that operate outside the budget. This would reduce the intolerable burden currently placed upon monetary policy which has resulted in inadequate private credit and excessively high interest rates.

Major victims of this have been thrift institutions and their depositors, home mortgage borrowers and the housing industry.

To achieve a more neutral Federal fiscal policy, expenditures should be reduced to less than $300 billion in the current fiscal year. The need for stringent expenditure control is all the more necessary since, at least in one area, increases in spending may be necessary to relieve inequities resulting from a vigorous anti-inflationary effort.

In this regard consideration must be given to a lengthening period of unemployment compensation, to manpower re-training and to public service employment which would enable Government at all levels to act as an employer of last resort in areas where unemployment is intolerably high.

Reductions in expenditures should have top priority in achieving fiscal restraint. If expenditures are not reduced sufficiently, however, then a tax increase appears absolutely necessary if inflation is to be controlled and if continued overreliance upon monitary restraint is to be avoided.

Any tax change should be structured so as one: to encourage private savings and productive investment, and, two, to restrain consumption in areas which are in particular short supply, as for example, selective excise taxes designed to encourage production of low powered fuel-saving automobiles.

Thank you very much.

MR. GILBERT R. ELLIS, CHAIRMAN, HOUSEHOLD FINANCE CORPORATION

MR. ELLIS: Thank you, Mr. Secretary.

I believe the major fiscal objective for this year and future years is to bring the Federal budget into balance, preferably by expense control, not tax increases which seem to just stimulate new spending programs.

Spending for the fiscal 1975 should be held in the range of the two hundred ninety-five to $300 billion, which is still $26 to $32 billion above the actual fiscal 1974 level.

Congress and the Executive Branch have established control over agency expenditures and borrowings which are now excluded from the official budget. These agency borrowings along with the Government-generated debt have an inflationary impact on the economy and seriously affect the availability and cost of funds for the private sector.

In order to demonstrate earnestness of commitment, there should be across-the-board cut in all expenditures, followed by selective cuts of greater amounts. For example, cuts in Federal spending must include so-called entitlement programs such as general revenue-sharing and assistance programs. Defense which looms so large in our total budget must be scrutinized carefully and cut. In view of the critical situation there should be a moratorium on new spending programs and no sacred cows.

Tax incentives are needed to further stimulate savings and direct investment. Consideration should be given to eliminating Federal tax liability on interest income up to a certain dollar level. Savings institutions should be allowed to have greater flexibility in establishing rates of interest paid on savings accounts so as to be more responsive to market conditions and to encourage savings.

There should be changes in capital gains taxes to relate the rate to the length of the holding period. Corporations need relief from unrealistic rates of dollar levels of depreciation. Special investment tax credit provisions for investment in critically short capacity areas should be considered.

Once again, it is important to emphasize that any short fall and Federal Government revenues as a result of such tax relief must be offset by corresponding and equal cuts in spending or, less desirable, increases in other taxes. The single, most effective act to insure adequate equity in long-term debt markets would be a total priority commitment of both the Executive and Legislative branches of the Federal Government to a balanced budget and continued but less severe monetary restraint. This must displace the so-called full employment goal as the nation's number one priority. The unemployed, however, must not carry the full burden of a shift in emphasis.

Adequate levels of taxation of the employed must be established to support adequate levels of compensation for the unemployed but willing worker. It must always be remembered that the surest way to protect the long-term capital funds market is to provide a stable currency. When a currency loses its value, it loses one of its primary reasons for being.

And finally, lets get going and make decisions, even though not perfect and politically palatable.

SECRETARY SIMON: Thank you.

DR. OTTO ECKSTEIN, PRESIDENT, DATA RESOURCES, INC., PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

MR. ECKSTEIN: Secretary Simon, Members of the Congress, Fellow Delegates: First, let me congratulate the Federal Reserve System for their modest move towards ease. It is a pleasure for us to see that the Federal Reserve has, in fact, assessed the risks, both on the inflation and on the employment side and has felt free to move at least away from its previous position.

Now, my recommendation to them would be that they now move gradually to a five to six percent money growth that would still be far short of encouraging the inflation. It would represent a much smaller increase in money than in prices and would leave nothing for growth output and we think that would be the limit of what their ambitions should be at this time.

At a later date they might well wish to move to a lower rate of money growth, but only at such time to improve the structure of the economy so that, in fact, we have taken the inflationary bias out of the structure itself out of the way we have set our prices, wages, our government policies, regulate our industries and all the rest.

Now in the case of the budget, let me emphasize only one point. It is important to cut the budget some because it has been made a symbol of the inflation fight and it is the most direct contribution that Government can make in a hurry, but I would warn you that the battle against inflation will not be decided finally in the budget. The budget was only a small component in all the causes that got us to where we are today and whether we reduce the budget by a few billion, which is the maximum practical or not will affect the short-term inflation rate, but at most a few tenths of a point.

I would emphasize that the long-range budget has to be correct and that we make a mistake in focusing all our energies on this one issue.

My basic recommendation today is a very simple one. I would urge the Federal Government not to pursue our objectives one at a time. I would strongly urge you not to make 1975 the year of the great inflation fight, and 1976 the year of rising unemployment.

That's exactly how we got into this situation we are in.

Let me review a few figures, not just for the United States, but for twelve industrial countries as a combination.

.During the years 1959 to 1970, the industrial countries rose only about three-and-a-half percent a year after fully taking out all of the inflationary effects.

In 1971 and 1972 the world-wide rate of increase of money after inflation was a full eight percent, far and away the highest seen in the post-war period. Similarly, while the budgets did not increase as much as it did during the Vietnam War, it was during the period 1971-'72 that the budget rose in the United States at seven percent a year after inflation, and since late '72 it has not increased at all.

What we need to get out of this current situation, in effect, is to put an end to this kind of one objective at a time: Now it's inflation, now it's employment roller-coaster, and let the economy develop in a more orderly fashion. Now, I would urge that we disengage gradually from the very tight policies that we have and disengage from the inflation in an orderly way, and that our goals be attainable and not unrealistic.

I think we cannot press the economy too hard. We will crack the financial system before we will crack the inflation. Our equity markets are already gone as a practical source of capital and some of our debt markets are going. We have already waited at least three to six months too long to figure out some way to channel money into housing if we don't want selective controls, and it is incumbent on the financial industry and its regulators to figure out some other way to have all sectors of our capital needs participate in the limited capital.

One other thing, we don't have much time in getting our program out. We do have the summit meetings and we are getting a lot of ideas on the table and I think they are a very welcome move, but the people need quick action.

Let me give you just one example: --

SECRETARY SIMON: Thank you, Mr. Eckstein. I gave you four minutes, and I am not as tight with the clock as I pretend to be.

558-812 O - 74 - 9

DR. ROBERT RAY DOCKSON, PRESIDENT, CALIFORNIA FEDERAL SAVINGS AND LOAN ASSOCIATION

MR. DOCKSON: He could have had some of my minutes Mr. Secretary.

First of all, I want to thank you Mr. Burns and Mr. Greenspan for the excellent explanation of the situation we find ourselves in at the present time.

I, like Mr. Stewart, though, have heard from a very sizable number of some of the leaders in the Los Angeles area. And the theme running through those letters, all of them, seem to cause me to have to associate with several of the speakers who have already spoken: Mr. Saulnier, Mr. Rockefeller, Mr. Preston and Mr. Ensley and Mr. Eckstein. They have said the same things that I find running throughout the correspondence we receive. The idea of a fiscal restraint policy is expressed in no uncertain terms in these letters, even to the extent of a tax increase if that be necessary.

I find myself in agreement with the idea of backing off of the very tight monetary policy that we have been following. I find that if the back of inflation is truly to be broken, the bomb has to be busted on the boom.

Our need to lessen the monetary restraint will come about because we must spread -- we must find ways of spreading the cost of this inflation to other areas than the few areas that are actually carrying the load at the present time.

We have a great need to increase productivity and production in this country. We must increase capital formation. As had been expressed by Mr. Franklin and others, this need means you cannot lick inflation unless we increase the supply of our goods and services that we offer.

Mr. Preston offered one way and only one way that we might be able to increase savings. To increase the savings rate, he suggested a thousand dollars -- I believe it was a thousand-dollar tax exemption on the first thousand dollars of interest earned.

This could be given to the saver regardless of where he places his funds, whether he places them in commercial banks or the savings and loan institutions.

As it goes into the savings and loan institutions, some of us strongly believe that there is a real possibility that the withdrawal disintermediation that is taking place now will either be brought to a halt, or it certainly will be lessened.

If this is done, the housing industry that is in dire need at the present time -- and not only in need, it is at the bottom in our area -- that we could pick it up, and housing would begin to increase employment, begin to increase income, and it would expand the taxing base.

Thank you, Mr. Secretary.

SECRETARY SIMON: Thank you.

DR. ROBERT G. DEDERICK, SENIOR VICE PRESIDENT AND ECONOMIST
NORTHERN TRUST COMPANY

MR. DEDERICK: Thank you, Mr. Secretary.

As Alan Greenspan has said, there are two key inflation problems at present. One is inflation per se, and the other is the confidence debilitating inflation psychology, which it has generated with its consequent public demand to do something quickly.

Now, to eliminate inflation and ultimately inflationary psychology will require a long, hard slog over a period of several years. The alternative in all our policy of demand restraint, the only policy approach which could offer relatively near-term relief now that controls have been publicly discredited, would be to run too great a risk.

World economy and its financial institutions are sufficiently vulnerable at present that such an approach would run the risk of generating a severe and prolonged business setback. It might have been a viable alternative five years ago or even two years ago; it is not a viable alternative now.

Thus, the fundamental program must be one which is long-term in orientation. This means it must be multifaceted and designed in such a way as to maintain public support over an extended perior.

It includes these five features; one, sustained -- I emphasize sustained -- along with the sustained, moderate, and I emphasize moderate -- demand restraint sufficient to produce sustained, moderate, excess capacity over a period of several years.

Two, relief measures to aid the most severly hurt by this effort. These measures could be coupled with offsetting expenditure cuts or tax increases.

Three, selective measures to boost productive capacity in areas of capacity, again to be fiscally offset elsewhere.

Four, a vigorous effort to eliminate structural features of the economy which lead to higher costs and prices. I include here those forms of taxes which most add to cost, in the latter case to be fiscally offset elsewhere.

Five, a vigorous effort to bring down oil prices which literally threaten at their present level to bring down the world economy.

Such an approach has one big failing: it does not meet the immediate need to reduce inflationary psychology and reduce the demand to satisfy the public's demand for action.

What is needed is an easily understood piece of evidence of genuine Government commitment to inflation control. Wall Street Journal readers may know there is one, but the public at least must get the message as well.

The single action most likely to signal this commitment would be a Congressional -- and I emphasize Congressional -- enactment of a ceiling on fiscal 1975 Federal spending at $300 billion, i.e., lower than now seems likely, and for a commitment to continue discipline in fiscal '76.

Overall, in order that overall Government policy be one of moderate demand restraint to meet my earlier criteria, it would be necessary to couple this increased spending restraint with a corresponding easing of monetary restraint.

It is too late to tighten fiscal policy without, at the same time, making a corresponding easing of monetary policy. It is not too late, however, to make this change in mix.

Thank you.

SECRETARY SIMON: Thank you.

MR. MORRIS D. CRAWFORD, JR., CHAIRMAN OF THE BOARD, BOWERY SAVINGS BANK

MR. CRAWFORD: Mr. Secretary, just a few general remarks from the bottom of the disintermediation barrel with a few specifics this afternoon.

As to monetary policy, painful as it is today for the thrift institutions, I hope the Fed persists in its policy with further moderation as soon as that is responsibly possible.

I would express the plaintive hope that that day is not too far off.

As to fiscal policy, although it may not be the whole answer, it seems to me that bringing the budget into balance or preferably to a surplus position as soon as possible is essential.

I realize this poses very difficult political problems, and I guess I am guilty of some political naivete, but I find it very difficult to believe there's any budget, private or public, that can't be cut two or three percent, especially when the cost of not doing so may be so prohibitive and the long-range benefits of doing so can be so great.

Thank you.

SECRETARY SIMON: Thank you, Mr. Crawford.

MR. HOWARD COUGHLIN, PRESIDENT, OFFICE AND PROFESSIONAL EMPLOYEES INTERNATIONAL UNION

MR. COUGHLIN: Thank you, Mr. Secretary.

We feel that there is no simple solution to the problems of inflation. We do think, however, there are areas in which we must move to alleviate spiralling inflation. There should not be any additional grain deals such as the Russian grain deal of 1972.

Devaluations of the American dollar, however necessary, brought about the subsequent export of farm products and crude materials in short supply. While we understand that export controls may result in retaliatory measures by our trading partners throughout the world, we do strongly feel the need for export controls in order to eliminate the possibility of shortages in this country due to the absence of a sound export control policy.

The effects of the tremendous increases in the price of oil and petroleum products by the oil-producing countries is known to all of us, and while we do not pretend to have a solution to this problem, we do feel that a way should be found to cope with this constant threat to the American economy.

Tight money and soaring interest rates have crippled home construction. The Federal Reserve Bank should be directed by the Congress to allocate bank credit at reasonable rates for such purposes as low, moderate and middle income housing and other community facilities such as schools and hospitals.

Reasonable interest rates should also be made available for the construction of essential public utility plants. Tight money and abnormally high interest rates have added five point three billion dollars to the public debt between 1973 and 1974.

This is not only adding to the burdens of the taxpayer, it is feeding inflation and placing additional pressures on city, state and local governments. We also advocate the elimination of tax loopholes and the imposition of an excess profits tax.

Wage and price controls, equitably and absolutely applied should be considered seriously during this emergency. Thank you, Mr. Secretary.

SECRETARY SIMON: Thank you, sir.

MR. RICHARD P. COOLEY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, WELLS FARGO BANK, NATIONAL ASSOCIATION

MR. COOLEY: Thank you, Mr. Secretary.

I'd like to associate my remarks with Mr. Dockson, with disintermediation. Branch banks, which are practically all over the west, and other thrift institutions, are the principle source of housing financing and are unable to compete for funds.

This unavailability of funds, together with increasing prices due to inflation, higher interest rates, more restrictive terms and conflicts with usury laws in some areas is resulting in a severe decline in housing starts.

Most builders are highly leveraged in the reduction in volume and increased costs and carrying inventories is creating serious credit problems. Housing has a great multiplier effect on our economy, both on the way up and on the way down, and as a larger number of starts of the past reach completion and new housing starts decline, the reverse multiplier is affecting the construction industry and businesses supplying goods for new homes.

Unemployment in the construction industry is already too high and will increase. High interest rates are considerably increasing the cost of other real estate projects under way, many of which are funded on a variable basis.

This is a major concern and affects not only the project owner but also all financial intermediaries participating in the real estate market.

This situation, along with cost overruns resulting from increased material costs, exists in many major real estate projects in the United States, and in addition to creating credit problems, increases the need for additional financing.

Higher interest and construction costs also increase potential bankruptcies in this field. For confidence and to encourage savings, the subject of incentives to thrift institutions needs a priority rating including the suggested tax-free status of up to one thousand of interest.

Variable mortgage rates are needed to encourage lenders and to protect borrowers in periods of declining rates, and also I think we should consider increasing the FDIC insurance up to fifty thousand dollars for savings accounts.

The real estate industry is the hardest hit sector of our economy in the current inflationary high interest period, and will add further to our economic slowdown if not given immediate relief.

Thank you, Mr. Secretary.

DR. GWEN BYMERS, PROFESSOR AND CHAIRMAN OF THE DEPARTMENT OF CONSUMER ECONOMICS, CORNELL UNIVERSITY

MS. BYMERS: Thank you, Mr. Secretary:

I am here as a consumer representative to express a point of view. However, I want to say at the outset that I have no constituency and that I am speaking for no organized consumer group.

I am a professor of consumer economics in the New York State College of Human Ecology. Some of you may know it by the name of College of Home Economics, Cornell University.

Everyone here seems to agree that the problem is serious enough to deserve priority attention. I am not sure that any of us are willing to forego current income increases to allow the system to catch up. Part of the present inflationary problem is structural, they tell me, and for consumers this means we need to recognize that food, fuel and shelter costs have undergone structural price shifts that we may have to learn to live with.

When these are translated into higher wages, higher wage agreements, we simply push ourselves up another notch on the inflation ladder.

As I have reviewed or listened to these meetings and read about them in the New York Times for the last couple of weeks, I've been impressed that each special interest group that sat around a table such as this has put forth solutions that seem to disregard the total impact of what they were proposing.

Now, I would say that it is patently unjust for those who have control of the nation's cash balances and concern for their real value equities to put too much of the pressure of adjustment onto the low end of the income scale.

If we have to conclude these discussions with recommendations that increase unemployment or reduce the benefits to the welfare recipients, we're putting the cost in the wrong place, as far as I am concerned. I think that I intend to ask this afternoon that any solutions that are proposed seriously by the Administration be accompanied by an economic impact statement. The burden of correction seems to me to need to be borne equitably across the population.

Thank you.

SECRETARY SIMON: Thank you.

MR. ARCHIE R. BOE, CHAIRMAN, OF THE BOARD, ALLSTATE INSURANCE COMPANY

MR. BOE: Mr. Secretary, it's extremely difficult to give any wise dissertation on the complex subject of inflation in three minutes, so I will merely list some priority items which we feel will have a positive benefit in reducing inflation to an acceptable level.

Number one, we believe a balanced Federal budget should be a primary target, not only for this fiscal year but for all the years in the foreseeable future. We realize that it is difficult to reduce expenditures during inflation, but we are required to do so in business, and it is a rare occasion when you can't reduce expenses of an agency or department four to five percent.

Now, many benefits would accrue from this, but I think the most important one is that it would build confidence in our nation. It's going to be very difficult to ask the public to make sacrifices in controlling inflation when the Federal government is following an irresponsible policy.

Number two, Congress should apply a strict cost-benefit analysis to all legislation so that we know how much price inflation we are actually legislating each year.

OSHA, clean air, clean water, noise reduction are all very worthwhile programs, but they are creating billions of dollars of price increases each year.

Can they be slowed down and spread over a longer number of years so they do not add fire to this inflationary spiral?

Number three, limitation should be placed on the amount of financing done each year by Governmental agencies which are outside the Federal budget. Certainly, this financing places a strain on the entire monetary system and adds to our inflationary problems.

Number four, we certainly endorse the program of providing incentives for people to save and not spend, and possibly the one which has been discussed, of maybe the first one thousand dollars of interest and dividends a family receives could be tax-free.

Number five, we believe it's necessary to provide tax incentives to business for the expansion and modernization of industrial capacity to increase capacity in output per manhour.

The investment credit must be retained and possibly increased for some important industries.

Number 6, we think it's important to provide tax incentives for investment in American industry by reduction in the capital gains taxes on a sliding scale downward according to the number of years the assets have actually been held.

Number seven, we recommend the Federal Reserve System should adopt a long-range policy on money supply and not have it fluctuate, which creates many, many problems, and probably this long-range policy should start out here at an annual rate of about six percent a year.

The last point I want to make is that wage and price controls should not be adopted. They just raise havoc with the entire economy, and some day we have to have a lot of make-up work and we are just postponing the real problems that they create.

Thank you, Mr. Secretary.

SECRETARY SIMON: Thank you.

MR. ROBERT H. BETHKE, PRESIDENT, DISCOUNT CORPORATION OF NEW YORK

MR. BETHKE: Mr. Secretary, you know that every man in this room spent many an hour on this problem, and some undoubtedly have woken up from dreams thinking about it. And we've come down with prepared statements, with detailed, specific recommendations that we ought to get into this afternoon.

What we're really talking about is probably the most important war our country every fought, if you think in terms of its impact on our own and our children's life style, on our freedoms, on the system of Government. And if we're going to have success on this, I just want to make a couple of principles, rather than specifics. From this point on every presidential and every leadership statement must be very blunt, honest, unglossed. This is what the people are crying for. That produces credibility and you'll get some followship.

Furthermore, we've all got a duty to inspire that get-going power that Americans have to produce more, to save more, to waste less.

I think it's high time that we reconvince ourselves that Americans can once again show the Japanese, the Germans, and all others, that we can be the wonder people, the wonder workers of the world.

Now, as a footnote to this: It's high time that it becomes fashionable and prudent for elected officials to have to be known as inflation fighters.

It's high time in our own families that when you sit down with your wife, she says: "Well, honey, what are we going to do about it". I know all the stuff you're saying. Each one of us has to make some sacrifice, some contribution.

Well, in conclusion, we'd better get out of these meetings a crisp list of recommendations that the people can understand, that they'll get behind. There's got to be a very powerful dynamic Cabinet Level officer, plus a President who really drives home how we're doing on it, even the road blocks, and avoid at all costs a couple of months from now the public and ourselves saying, you know: These meetings were a mighty fine one-month crash course in economics, but nobody's following the lessons.

I am very inspired today that we will get the job done.

Thank you.

MR. ROBERT H. B. BALDWIN, PRESIDENT, MORGAN STANLEY AND COMPANY, INC.

MR. BALDWIN: Thank you, Mr. Secretary.

After having had so many speakers appear before me, I am beginning to understand what it's like to grow up with a last name like Charles Zwick.

I speak from the viewpoint of one who is intimately connected with the capital raising mechanism of this country. I cannot stress strongly enough the impact that inflation is having on the capital markets of our country and the world.

We have seen prices of common stocks, price earnings ratios and yields at levels approaching their lows since the days of the Thirties. This has effectively closed the equity market as a source of capital to all except Public Utilities which are forced to finance even at these low levels.

Responding to inflationary expectations, investors have shown a reluctance to commit to long-term bond issues or mortgages.

There has also been a flight to quality which has widened the yield spreads between Triple-A companies and lesser rated companies. As a result, many companies, particularly Public Utilities, have found themselves financing at higher and higher rates and for shorter and shorter periods.

I point out a recent 5-year, 13% issue of Duke Power, as a prime example.

In addition, a whole host of companies have had no recourse to the market but have, of necessity, turned to the banks as a lender of last resort.

It is becoming abundantly clear that in the years ahead, we are going to be a capital short country, and, therefore, if we wish to increase productivity, provide additional jobs for the growing work force of this country, and to assure an acceptable level of growth in this country, we must do everything possible to encourage savings and capital formation at every level in the United States.

However, unless we bring inflation under control, thereby reducing inflationary expectations, we will have an even greater short-fall in savings and

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capital formation.

I believe that the American people recognize inflation as Public Enemy No. 1, and will be willing to see Government take those actions and will, themselves, be willing to make those sacrafices to bring inflation under control.

I would point out in some comments that have been made before, that interest rates benefit bankers, investment bankers, and brokers.

I might just say that high interest rates kill investment bankers and brokers and I don't think bankers would vote for them either, yet we do support the policies that Dr. Arthur Burns and the Federal Reserve have gone to because we feel it's important to get inflation under control.

Thus, although we are in a trying period, it also represents the opportunity to do the right things for the long run, rather than those things which may seem expedient in the short run.

I've got four recommendations that I suggest to the President:

1. Make no promises upon which he can't deliver. Deflating inflation is a long term project.

2. In cutting the budget, there will be a serious problem of setting national priorities. We are trying to do too much, too fast in this country.

I subscribe to Charlie Zwick's concept.

3. Develop a continuing partnership of Government, Labor, Business and the Public in licking inflation; and

4. Take initiative to establish an international group from countries around the world to attack world-wide inflation.

Thank you, Mr. Secretary.

DR. GEORGE LELAND BACH, PROFESSOR OF ECONOMICS AND PUBLIC POLICY, STANFORD UNIVERSITY

MR. BACH: Mr. Chairman, I would like to use my three minutes to talk about the causes of inflation because I think it's necessary to look at an aspect of the problem we haven't talked much about if we're going to have a good base for talking about Monetary Policy this afternoon.

Although special developments, like the recent Food and Energy crises may temporarily dominate price movement, the fundamental cause of inflation in the United States, I think, is "excess income claims," validated by expansionary monetary and fiscal policies.

Workers, businessmen, farmers, the elderly, National Defense proponents, all of us together, have come to demand -- almost as if it were a Divine right -- a rising total of wages, profits, prices, Social Security benefits; education; you-name-it; a total that substantially exceeds the output of the economy at stable prices.

In the old days, these higher wages and prices would have priced products and labor out of the market before long, with unemployment and recession halting inflationary pressures.

But today the Federal Reserve, the White House, and Congress, given the nation's high priority on the growing unemployment, generally increase Government spending, and the money stock to avoid substantial unemployment, albeit at the cost of validating the inflationary price and cost increases.

Then the wage price -- wage price spiral -- is set up for another round-up in the newer, higher plateau.

Any economist can tell you one sure-fire way to stop this cost-push, demand-pull inflation spiral is to cut the growth of the money stock to zero, shift Federal budgets to a large surplus, and the growth in spending and prices will soon grind to a halt, at a terribly high cost in unemployment and, probably, financial panic.

What we need now, above all, is some way to slow the growth of wages, prices, and Government benefits, so that monetary fiscal policy can hold the growth in total spending to a reasonable non-inflationary rate, without generating unacceptable unemployment.

To put the matter bluntly: what this implies is that an aggregate policy -- that is to say, fiscal policy and monetary policy -- call it the "old time religion" or anything else -- cannot be successful unless it is accompanied by restraints in price setting, and in claims on the Government.

Perhaps a restrictive monetary fiscal policy alone can induce wage and price restraint without generating a major recession. But the recent evidence is not encouraging, and it is very unlikely, I think that the Congress and the American people will stand still for a really long, major recession if that's what it takes to do the inflation job by itself.

This leads, of course, to the probable need for a national consensus on wage/price restraint, and income policy, if you wish, to be used cooperatively with the moderately restrictive aggregate demand policy to help the Federal Reserve.

I should like, this afternoon, to argue the case of such a cooperative set of policies if we're going to lick the inflation problem.

Thank you.

SECRETARY SIMON: Thank you.

MR. EDWIN G. ALEXANDER, PRESIDENT, FIRST SAVINGS AND LOAN SHARES, INC.

MR. ALEXANDER: Thank you, Mr. Secretary.

Mr. Zwick, I appreciate your condolences!

My problem is that everything I was going to say as the first speaker has already been said with a great deal more to boot.

In addition to representing First Savings and Loan Shares, I also represent the National Savings and Loan League which is a National Trade Association and, if I may, I'd simply like to underscore three suggestions that have been made repeatedly, I am sure you must all be impressed, as I am, with the almost unanimous support of the idea of stronger fiscal policy, and I would like to underscore all of those suggestions that have been made with regard to gaining public support for that fiscal policy.

I think it's totally unreasonable to expect the Congress to support a balanced budget and a strong fiscal policy if they do not have the support of the people who voted them into Congress. They get there by counting votes, and if the voters don't support that, obviously the Congress isn't going to support it. So I think all of the suggestions, the Congressional debate, the contact of the S & L customers, bank customers, all the suggestions that have been made to gain that support, I think are terribly important in terms of bringing about the general support of a stronger fiscal policy.

Secondly, I support and underscore the idea that we need more capital formation -- be that in the form of savings accounts, the stock market -- whatever forms of increased capital formation -- the mechanisms we have in this country -- it's in my view probably the most important short-range/long-range problem we have.

We've squandered a lot of our wealth over the past two or three decades, and it's important that we not only recoup the squandering that's gone on, but we have to increase the amount of capital that's available in our economy.

Thirdly, I agree with the suggestions that we should adopt the Financial Institutions Act. I think it needs some more work before it should be adopted by the Congress, but I think in the course of doing that we need to eliminate the argument over whether we are going to have rate control in that Bill. I think it's vital that we continue rate control until we can bring about a restructuring of the assets, so that it's literally ridiculous to think that the Savings and Loan Industry -- and those financial institutions that have large investments and long-term securities -- mortgage loans to be specific -- can be responsive to competitive circumstances with regard to institutions that have short-range, or short-term type assets. And I think what should be introduced into the adoption of the Financial Institutions Act is some method of varying the interest income on long-term securities -- particularly mortgage loans. It's vital that some effective variable rate be built into that asset structure so that these institutions in the future can be more competitive and more responsive to the kind of conditions we have experienced in the last ten years.

Thank you very much.

SECRETARY SIMON: Thank you, Mr. Alexander.

SECRETARY SIMON: Now, prior to going to lunch, I'd like to call on our Congressional Delegation and start with the Chairman of the House Banking Committee.

THE HONORABLE WRIGHT PATMAN, U. S. HOUSE REPRESENTATIVES

Achieving a solution to the economic dilemma besetting the Nation -- soaring inflation and deepening recession -- requires major changes in the ways in which monetary policy has developed, and the structure, of their financial system. For decades, the leadership of this country has attended only to the symptoms of perennial periods of inflation, high interest rates, and rising unemployment. All that has been gained by these actions is a temporary reduction in the nation's economic fever, while the underlying illness continues to exist.

We have been badgering the symptoms of our troubles while the basic causes remain untouched. A real improvement, a stable productive, prosperous economy, will continue to elude us unless the Administration, the Congress, we, who are gathered here and others in and out of Government, are willing to recognize this paramount fact and act on it forthrightly and with political courage.

The major problem, today, I think, of course, is inflation. We must stop inflation; but we cannot stop inflation by increasing interest rates. The Federal Reserve has given that a trial for 5½ years. Many of us were watching it and calling it to the attention of the people in the Congress all that time, but the Federal Reserve has continued to use high interest rates -- higher and higher interest rates -- to stop inflation.

Now, when you increase interest rates, you, of course, increase prices; even the goods on the shelves go up immediately. And, as you increase prices, you have inflation.

Now, you cannot cure that inflation by going back and starting over with high interest rates again. It just causes more and more inflation. You cannot balance budgets by high interest rates and you cannot cure inflation by high interest rates.

Now, the truth is, that whenever you cause interest rates to be increased -- and the Federal Reserve, of course, has that power -- they are doing if of course from their standpoint in the public interest and believe that they are right -- but they are causing inflation with it, and inflation cannot be stopped with more high interest rates, I repeat.

Now, then, if you were to have your house on fire, and you wanted to put out the fire, you wouldn't use gasoline instead of water to put that fire out. But that's exactly what you are doing when you use interest rates, high interest rates, in the way and manner that the Federal Reserve is using them now. And I think that in the portfolio of the Federal Reserve Banks amounting to $82 billion now, everyone of their bonds, uncancelled bonds, somebody had bought those bonds, or some entity of Government, or private industry, and paid money for them and the Federal Reserve acquired those bonds through the open market committee by giving United States currency for them. So they are paid for -- absolutely paid for -- and usually when you pay a debt in Government or out, you get the debt cancelled. But these debts were not cancelled when they were bought. They were put in this portfolio of bonds and held, and the Government is collecting money from the taxpayers, from $5 to $7 billion a year interest on those bonds that have been paid for once.

I asked Mr. William McChesney Martin, who was quite knowledgeable in affairs of this kind, and he admitted that they were paid for once. They have been, and now then, if they're not cancelled as they should be when they're paid for, we'll have to pay for them again. And that will be not $82 billion inflation: it will be twice that, $164 billion inflation.

So you cannot stop inflation using a system like that, and it has been used for 60 years, and there's no audit of the Federal Reserve Banking System that has ever been made by the General Accounting Office which audits every major part of Government except the Federal Reserve. And they refuse to be audited. And there is not a thing wrong with our country and its money that a good audit of the Federal Reserve System would not cure.

Now, I just want to bring that to your attention. Be sure and don't overlook it in your final report because you cannot afford to.

The structure of our financial system must be changed to provide improved liquidity and increased competition for all sectors of our economy, especially priority areas such as Housing, Consumer, State and Local Governments, and small- and medium-size businesses.

Federal regulations of financial institutions must be reorganized and streamlined to assure that these goals are expeditiously achieved and maintained. Specialized lending institutions, savings and loan associations, mutual savings banks, credit unions and finance companies must be allowed to expand their lending activities and their financial services they provide, so that they can adequately compete for funds and borrowings and, incidentally, I can add, to properly protect and serve the public interest.

The nation's major tax of financial institutions must be required to meet our priority credit needs in a way in which all will share this burden equitably, and without economic destruction.

The changes advocated -- unless made -- will be producing little more than empty promises or gestures.

The degree of success of these Summit meetings will depend on the willingness of the Congress and the Ford Administration to go beyond these narrower interests and seek the answers that truly represent the public needs and desires, and Mr. Chairman, I would like to have permission to file an additional statement setting forth my views in regard to this matter.

Thank you, Mr. Chairman.

SECRETARY SIMON: Thank you.

THE HONORABLE JOHN J. RHODES, U. S. HOUSE OF REPRESENTATIVES

CONGRESSMAN RHODES: Mr. Chairman, I thank you for this opportunity, and, particularly, I want to thank the people who are present here today for being here and for adding so much to the sum total of my intelligence, and I think human intelligence by the words you have said and the words which you will say.

There has been a great deal of wisdom displayed here today and I think the country should be grateful for it, and will be very grateful when they see the results of what should come out of meetings like this.

I was glad that Bob Roosa mentioned that we are not the only nation in the world with an inflation problem and, certainly, the wrenching effect of the sudden increase in the price of petroleum, and petroleum products, has had a ripple effect throughout the world economy which can't be discounted by anybody here, and I don't think that it is.

Also, it seems to me that we suffer from a demand-pull inflation on a global basis and Charlie, whether or not we can blame it on your favorite bete noire -- the TV industry, or who it is, I don't know, but the facts are that the whole world has become aware of the good life, and many of the people now feel that they have the wherewithal to get it, and they want it yesterday. And it all adds up to the fact that the industrial plan of the world, the raw material facilities, acquisition facilities of the world have not been capable of fulfilling these needs.

Now, that is, in my opinion, the long-run problem which must be faced by all of us and one of the ways which Government can help, of course, is in the area of capital formation. It is going to take -- as was mentioned -- tremendous amounts of capital to satisfy this demand.

In the short run, of course, I think we are all interested in setting our sights towards satisfying the demand, but, also, in cooling the demand to the point that it is somewhat manageable.

And that, I guess, is where Government comes in, and I suppose that is the reason that almost everybody here has said that it is up to the Federal Government to do something ab out balancing its budget.

I certainly agree with that. I think that it can be done. I think that, in fact, it must be done, and I venture to say that it will be done.

I would like though, before I quit, to remind those of you in the room that this is not a problem which only the Federal Government can solve. This is a problem for Business, for Management, for Labor, and for the American people, because it is a type of inflation which is a different breed of cats from the kind we have previously had.

So it will be my hope that the people here would consider this as perhaps something which they could do and should do.

You know, when you have a demand/pull inflation and a capital shortage, it becomes very necessary that that capital be allocated in the public interest and you allocate it in the public interest by putting it in those areas where shortages have occurred and are present. I don't know any people in the world who are better at allocating capital than the people in this room and those you represent.

I would hope that you would take this as that part of your job, or at least part of your job in solving this whole problem to engage more fully than you have yet, in the proper allocation of the capital which is available.

Thank you, Mr. Chairman.

SECRETARY SIMON: Thank you Congressman.

SENATOR JAVITS: Mr. Chairman, I am sorry that I have arrived rather late but I had a slight distraction in New York, which makes my schedule a little difficult. But I am delighted to fit in at this point of the program because I do have some suggestions, and I have been briefed as to what has occurred here this morning.

In the first place, I would like to emphasize the urgency of the hour. Personally, I deprecate even the 30 days to have these mini-summits and the summit, and then the 30 days probably which it will take to screen everything out.

I think we are in such urgent need for affirmative governmental action that even 60 days is a very serious delay, and so I hope very much that all of our suggestions will be extremely practical and very direct, and rather immediate.

And so I have proposed what to me is a 6-point program which I would like to briefly tick off.

First, as to wage and price stability:

As you go out into the field you find that this is the main thing on people's minds. They want to know: "What can we do about it promptly?"

So I would strongly urge that the President ask the Congress to give the Council on Wage and Price Stability subpoena power and the power to delay wage or price increases for a limited period -- say 60 days -- so that there may be public exposure of the reason for major price and wage increases with a tendency therefore to restrain them if that is at all possible, without wage and price controls, which seem to be out of the question.

Second: I think we need a policy of credit allocation and that, in my judgment, could be coupled with an easing of monetary policy on the part of the Federal Reserve Board which, up to now, has been asked to go it alone.

The critical need being to bring down the cost of money, just like the critical need is to stabilize the cost of everything else because, right now, the consumer -- both of money and of goods -- does not know how fast or far this is going to run away.

I shall, myself, propose legislation to establish a voluntary credit Allocation System within the Federal Reserve Board, and point out that this was done during the Korean War with a Capital Issues Committee.

Third: I think we urgently need a conservation program for gas and oil, one of the two major sources of our recent price inflation, the other being, of course, food.

We need drastic action to reduce demand and thus cool price pressures, while we take the needed actions to cut waste and maximize our Project Independence output.

I would consider the departure from the conservation practices of last winter's gas lines as being one of the most shameful chapters in the history of this country. If you want to talk to the OPEC Nations, you've got to talk from a position of strength, and the only way we can get that is by cutting down on our own requirements. That, they will understand very, very quickly, and we cannot afford the hemorrhage we are enduring today of $25 billion a year in balance for us and $70 (billion) for the world, rapidly going up to $100 (billion).

Fourth: We need a major effort to increase productivity and my suggestion for that - there are many others -- is the establishment of Regional and Industry Productivity Councils, such as we had in World War II, and they were very successful. We had 5,000 of them then and it is my belief that labor is ready to cooperate. I am the ranking member of the Labor Committee of the Senate. I don't think I am talking through my hat.

Also, I think we need special treatment for the utilities in the productivity area, which are in terrible trouble, and I hope the President will urge the Congress to "up" the tax deduction for the Investment Tax Credit from four to seven percent.

Fifth: I think we need promptly, passage of a Trade Bill; increased public service employment; the budget reform (I am a member of the Budget Committee, and that we are undertaking right now); and a genuine tax reform, which will be very pleasing to the consumer because he wants to see fairness down the line.

As a matter of fact, if there is anything to the new politics, it is the fact that people generally want to see people treated alike, and no favorite classes or enclaves in this country. Of course, I understand you have already discussed keeping the Federal budget to or below the $300 billion level and that, to me, would also include the necessary allowance for a Public Service Employment Program, which I estimate at $500,000; Arthur Burns as $800,000; and Secretary Simon has also expressed himself on that score; but that ought to come out of the $300 billion budget.

And finally, Mr. Chairman -- and then I shall be through -- prompt action to shore up the international monetary situation and that would include publication of petro-dollar flows. Where is this enormous amount of money going? And the agreement to prevent bank failures other than those attributable to bad management, as well as the development of new institutions internationally, and the Secretary of State and the Chairman of the Federal Reserve Board have led in that, as well as the Secretary of the Treasury, to develop new institutions and instruments to accept and manage the flow of oil revenues or to turn them down in the banking system, if it is simply going to drown the World's Banking System in a lot of loose dollars.

We have to, in my judgment, be a lot tougher than we have been.

Now, these are the prescriptions. I would add one other, Mr. Chairman, and that is some special treatment of the building industry, which urgently needs some form of RFC or some form of secondary credit device by which, if necessary, Government credit may be extended to it so that it may operate at slightly above the rate at which the Government still commands credit. It cannot finance, and it cannot pay these rates, and it is dragging the rest of the economy down with it.

Thank you, Mr. Chairman.

SECRETARY SIMON: Thank you, Senator.

CONGRESSMAN REUSS: Thank you, Mr. Secretary. I sympathize with Professor Bymers of Cornell a moment ago when she said as a consumer representative she spoke for no organized group. I am in the same position. I speak for no organized group -- I am here as spokesman for the Democratic Party.

We have had a great deal of advice from our distinguished guests from the financial community. It comes through loud and clear to me that the advice is "Cut the budget, cut the budget, cut the budget."

Let me say that the Office of Management and Budget has already caught the perfume and is laying about with the right good will cutting the veterans' education, and slashing mass transit, and restricting health and other people-oriented programs.

As far as I am concerned, I have never seen a budget that couldn't stand some cutting, and this can. There is waste in it. There are low-priority items in it that ought to come out.

I am delighted that my friend John Rhodes is on the new Budget Committee and I believe that the Congress can and will cut the present budget requests.

But, my friends, let's not get a fixation about this. In fact, Treasury borrowing, which is the horror that you all have been exposing has not increased at all this year. Treasury borrowing from the public has gone down by a couple of billion dollars and in the last year net Treasury public borrowing has gone up something like two or three billion dollars. Meanwhile, borrowing by corporations, mainly from banks and what is left of the bond market, has increased in the last year by some $50 billion; seven, eight, nine, ten times of the Treasury's little diversion from the credit market.

Much of this huge increase now at more than a trillion dollars of borrowing has gone not into anti-inflationary things like building homes, which stop up purchasing power, or productive capital investment which increase productivity and lower costs, but into bidding up the price of inventories and supplies and real estate into facilitating anti-competitive corporate takeovers, into improvident foreign lending and foreign exchange speculation, and, in some cases, see Herstatt, maybe Franklin, maybe Lloyd's speculation.

The result, if the financial community here today gets what it asks for, namely, big cuts in the Federal spending and borrowing, and that's about it, the result is simply going to be that there will be a larger credit pie available to the banking and the financial community, which for them will be continued to be diverted to these inflationary causes.

Now, my advice, my dear friends, is that instead of asking everybody else to tighten their belts, the banks and other financial institutions similarly situated take their loan portfolios as of September 1, apply to them the excellent criteria developed by the Federal Reserve which, by and large say "no" to inflationary loans, "yes" to anti-inflationary loans, make yourselves a target for the next year and every week see how you are abiding by that target.

The House Banking and Currency Committee stands ready to help you in that great task.

Now, sure, this may lower your short-term profits, but you will be getting something much, much sweeter than exorbitant short-term profits. You will be getting the true knowledge that you are really helping your country and that you are playing your part in the social contract that all of us have to play.

So lets close ranks. We can lick inflation and recession if we will all but follow the truth wherever it may be.

Thank you, Mr. Secretary.

SECRETARY SIMON: Thank you, Congressman.

THE HONORABLE WILLIAM V. ROTH, UNITED STATES SENATE

SENATOR ROTH: Mr. Secretary, I would like to start out by associating myself very much with the remarks of Professor Bach of Stanford.

Time does not permit me to go into too much detail, but I would like to, like Jack Javits, make a number of points.

Number one, there has been a little talk about the credibility of the Government figures. I don't only think we ought to back off the full-employment budget, but I think we ought to get off the unified budget and go back to the Administrative budget when we are talking about whether or not we are in the black or the red.

To me it is chicanery, it is false to claim we have a balanced budget when we are balancing that budget by borrowing from Social Security and other types of retirement or trust plans. That's recommendation number one.

Number Two, I think there is a consensus, short range, that we ought to do something about the current budget. A number of us have had proposals in the Congress to give the President the power, with certain safeguards, to take such action, but I urge this group today to make sure that there is a follow-through and that Congress does not leave before November 11 or 15th when we go home without taking such action.

But my real concern about the Federal budget is long range. I know it is nice to say to the President and to the Congress that you got to show the leadership, statesmanship, and I think that's right. But the one thing that concerns me very much when we talk about keeping the budget in balance, and I have been one that has consistently voted for that, is that every group, makes no difference whether it is business or labor or any other group, always points the finger to the other guy.

You hear labor talk about we should do away with the oil depletion allowance. I hear business talk about the Bacon-Davis Act.

I never see the Wall Street Journal talk about doing away with subsidies in the Post Office for the newspapers.

We really got to have some leadership. There's got to be some kind of consensus, in my judgment, developed among the nation, and that all groups have to be less selfish and take a broader look.

So I would urge this group as we go down the weeks and

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days ahead that we try to develop programs that are in the national interest. Very frankly, you have heard today some people say we need capital formation, and I think that makes good sense. At the same time, you got labor saying that perhaps we should have an excess profits tax. Somehow, business, labor, and consumer, and the rest have to sit down together and try to develop a national policy or we are not going to have any effective action by Congress. We are going to continue to try to please everybody and end up pleasing nobody.

I would also say the same thing is true in tax reform. Somehow we got to quit being business and labor. I would like to know what you people as business leaders, as financial leaders, where is the fat in your activity? What can Congress do to cut waste and fat in your area?

We need to be more blunt with ourselves and not always place the finger towards the other guy.

I think that I would just like to make two or three other points.

First of all, I think we do need an international conference, because inflation is not a local problem, as you well know. I very strongly agree with Sylvia Porter when she says we've got to bring the consumer into this. And I think they are willing. For the first time, I find the public concerned about spending, and they are willing to get in and help very strongly.

To those who urge public employment, I think that's necessary. I would hope we could have your ideas how public employment could be productive. How it could be used for example to help solve the problems of energy.

We need training programs that are combined with other needs.

In closing, the principal point I want to make is that we got to have business and labor and the other groups working together if we are going to meet this problem effectively. We cannot continue this past practice of always trying to point the finger in some other direction.

We had that example, let me say -- I had most businessmen say, and I supported the 90-day delay for pay raise for the Federal employees, but I found very little support among either business, particularly, or labor, for the 90-day delay that Jack Javits talked about in inflationary price and wage increases.

We are in this together and that's the only way we can solve it.

CONGRESSMAN STANTON: Thank you, Mr. Secretary. Ladies and Gentlemen, at a dinner, one of our former colleagues from Ohio, Senator Stephen Young, was the last speaker. Only about 15 had preceded him at that time, but when he came to the microphone he said he felt like Lana Turner's ninth husband on their wedding night. He went on to explain that her husband went into the boudoir and as he went to bed he hesitated. She looked at him and said, "Don't you know what to do?" He said, "Yes, I know what to do, I am trying to think of a way to make it interesting."

I feel somewhat like that, because the ideas and the suggestions that have come forth in the last three and a half hours, not to be repetitious, Mr. Secretary, but to press upon the panelists here that it is my understanding that President Ford and Senator Mansfield called for this Conference to try to reach a consensus of how we can best tackle our problem of inflation. These suggestions this morning have been forthcoming and I look forward to them discussed in greater detail this afternoon.

I believe in listening though Mr. Secretary, that I was most impressed by those who felt that it is equally important not only of what we do, but how we implement what we do. And I was indeed pleased that so many took the time to recognize, as Mr. Rockefeller and many others did, that it is a question not only of financial crisis, but a crisis of confidence in this country in which we probably in public life feel maybe more than some of the other gentlemen and ladies that have come here today.

But it is important, as Sylvia Porter said, that we do implement down through and up through the consumers and as Ms. Bymers said, even down to considering the economic impact studies of what we do. Because it does boil down, the ball game is, of course, it is the American people's dollar.

Mr. Secretary, as we go forth, I have every confidence in this great country of ours that this problem will be licked, like Mr. Reuss does. You will get and receive in the Administration and in the business world full cooperation from the United States Congress in this regard. It is a bipartisan problem. It is a bipartisan answer if there is going to be one.

So, Mr. Secretary, let me say I do look forward to this afternoon and I do want to say in closing, for one, I sincerely appreciate the time and effort that all of you have come to join with us as we tackle this problem.

Thank you.

SECRETARY SIMON: Thank you, Congressman.

I can just reiterate what you said.

Obviously, a great deal of thought went into your presentations this morning and on behalf of all my colleagues in the Government, I sincerely appreciate it.

We will now adjourn. Luncheon will be right here in the room on my left. We will come back promptly and start the afternoon session at 1:30.

Thank you.

(Whereupon, at 12:35 o'clock, p.m., the Conference recessed, to reconvene at 1:30 p.m.)

Ⅳ.

Fiscal Policy
Discussion Papers from Delegates

Mr. Gilbert R. Ellis
Chairman and President
Household Finance Corporation

Confidence in the future of this economy and its monetary system is absolutely essential to the successful implementation of a program to control inflation. This confidence can only come about as a result of a total priority commitment on the part of *both* the Executive and Legislative branches of the Federal Government to a balanced budget and continued, although less severe, monetary restraint. In order to demonstrate earnestness of commitment, there should be an across-the-board cut in all expenditures, followed by selective cuts of greater amounts. Cuts in federal spending must include so-called entitlement programs and in view of the critical nature of our situation, there should be a moratorium on new spending programs.

Control over the expenditures and borrowings of federally sponsored credit agencies is necessary. These agency borrowings along with government guaranteed debt have an inflationary impact on the economy and seriously affect the availability and cost of funds for the private sector.

Dr. Grover W. Ensley
Executive Vice President
National Association of Mutual Savings Banks

The underlying and most pervasive inflationary force in the United States in the past decade has been federal budget deficits and expansive federal credit programs outside the budget. Unless the rate of inflation abates more rapidly than anticipated or serious unemployment develops, a budget surplus—or at least a balance—should be the objective of public policy. Ideally it would be desirable to create a federal budget surplus to offset, at least in part, the stimulative effect of heavy borrowings by the federal agencies that operate outside the budget. This would reduce the intolerable burden currently placed on monetary policy which has resulted in inadequate private credit and excessively high interest rates. Major victims have been thrift institutions and their depositors, home mortgage borrowers, and the housing industry.

To achieve a more neutral federal fiscal policy, expenditures should be reduced to less than $300 billion in fiscal 1975. With respect to specific programs, we do not have the expertise to weigh the relative merits of the wide range of existing federal national security, social welfare and other programs, which may all be desirable in their own right. We believe, however, that inflation is of emergency proportions, and that no federal program should be immune to the strictest scrutiny.

The need for stringent expenditure control is all the more necessary since, in at least one area, increased spending may be necessary to alleviate inequities resulting from a vigorous anti-inflation effort. In this regard, consideration must be given to a lengthened period of unemployment compensation, manpower retraining, and public service employment which would enable government at all levels to act as "employer of last resort" in areas where unemployment is intolerably high.

Reductions in expenditures should have top priority in achieving fiscal restraint. If expenditures are not reduced sufficiently, however, then a tax increase may be necessary if inflation is to be controlled and if continued over-reliance on monetary restraint is to be avoided. Any tax change should be structured so as: (1) to encourage private saving and productive investment; and (2) to restrain consumption of items which are in particularly short supply, as, for example, selective excise taxes designed to encourage production of low-power, fuel-saving automobiles.

The most effective action that could be taken quickly would be to provide tax exemption or a tax credit for interest earned on savings accounts. While it is important not to impair federal revenues at this time, this kind of tax relief provides several overriding advantages. It would stimulate saving, essential in the projected period of capital shortage. In particular, it would alleviate disintermediation at mortgage-oriented thrift institutions, and provide funds for credit-starved housing markets. And finally, the estimated revenue loss—about $2 billion in the case of a $1,000 exemption—is probably less than the cost of direct subsidy programs to housing, through an expanded GNMA/FNMA tandem plan, subsidized FHLB advances to savings institutions and/or other direct subsidy programs which may be adopted if the housing crisis worsens.

It is the responsibility of the federal government to serve as the economic balance wheel in our private enterprise system, offsetting excesses in the private sector and cushioning the impact of external inflationary forces. This essential function should be restored through a determined policy of fiscal restraint, shaped in a manner to promote equity among income groups and to promote private saving, the basic source of funds for noninflationary capital formation and increases in productive capacity.

MR. GAYLORD FREEMAN
Chairman, The First National Bank of Chicago

In the face of inflation, stagnation and an inadequate savings stream to meet our overwhelming capital needs, if fiscal policy is to adequately finance the government in a non-inflationary way, it should be designed to—

1. Stimulate Productivity;
2. Moderate Consumption; and
3. Equalize the Burdens of the Anti-Inflationary Program.

1. American labor needs more and better tools if it is to produce more and enjoy more. One of the major causes of our inflation has been inadequate productivity due to insufficient investment in more productive equipment. Inflation further discourages needed investment. Significant tax incentives should be employed to increase investment, perhaps by relating depreciation of new plant, equipment and energy sources to future replacement cost or a governmentally-determined equivalent formula rather than to historical cost.

2. Fiscal policy should moderate both private consumption and government expenditures. While it may not be necessary to limit the rise in consumption at this time, the program should seek to avoid any too-rapid expansion in the future. Savings should be encouraged perhaps by an interest credit similar to the dividend credit (but applied only to increases in savings). Incidentally, this should be helpful to the thrift institutions.

Balancing the overall budget (including the federal agencies) would be most helpful. Although the manner of financing determines the extent thereof, any budget deficit tends to expand the money supply. While monetary expansion from this cause may have no economic result different from other elements increasing the money supply, a balanced budget would be understood by the citizenry as an acceptance by the government of disciplines comparable to those to which they are to be subjected. Hence, it would have desirable political significance. It would have added economic significance if the budget were balanced by reduced governmental expenditures rather than higher taxes as this would permit increased savings and investment.

3. To be effective, an anti-inflationary program must be sustained for several years. To make this possible the program must have the support of the people. That support requires both (a) more accurate profit reporting and (b) an equitable distribution of the burdens resulting from the anti-inflationary program.

A. For 1973 and again this year many billions of dollars and spurious inventory profits are being reported, misleading investors, workers and the government. Despite "record earnings" according to the latest figures of the Department of Commerce, after-tax profits of non-financial corporations in 1973 (after correction for under-depreciation and inventory profits) were 10 to 30 percent below those for 1965. This compares with more than a 76 percent increase in per capita disposable personal income during the same period. This unrealistic reporting is sufficiently serious, and the need for more accurate appraisal of the size and economic function of corporate profits is of such importance that the Treasury should work with the accounting profession to develop more accurate concepts of corporate profits both for tax purposes and public reporting.

B. If business gets more realistic depreciation for new equipment, then the corporate sector as a whole ought to make up that revenue loss through a somewhat higher tax rate on corporate profits. If the anti-inflationary program results in additional unemployment, the government should supply those so laid off with reasonable income and meaningful activity, for they should not suffer a loss in order to preserve the purchasing power of the incomes of those still employed. If necessary, this increased expense should be offset by increased personal income tax rates on those who remain employed, but this increase should terminate automatically when the unemployment rate drops back below a specified minimum. As many of the unemployed will be young, perhaps the government should greatly augment its apprentice training program.

For the first time in years such a composite program, including both a balanced budget and tax reform, is politically possible. The Congress and the Administration can work together in mutual respect and the people can be led to accept some unwelcome but equitably-distributed disciplines in the knowledge that this is in their own long-range interest.

DR. TILFORD C. GAINES
Senior Vice President and Economist,
Manufacturers Hanover Trust

(1.) The major objective of fiscal policy for the current fiscal year 1975 and for as far ahead as there is any visibility should be control of price inflation. Within that major objective, there are a great many options open to minimize the inequitable effect of restrictive policy upon different groups in the society.

The anti-inflation objective would call for bringing the unified budget into surplus as early as possible. Also, thought should be given to bringing some or all of the sponsored agencies back into the budget, in order that the unified budget documents might give a more accurate picture of Federal finance. An overriding need for many years ahead will be to provide the long-term capital funds needed to support the capital demands of industry, residential construction, and of state and local governments. The Federal government could make an important contribution by becoming a net saver itself, by running consistent budget surpluses.

Meanwhile, as a growing number of people have pointed out, the hardships created by such a policy for certain groups in the economy could be dealt with by specific and not too expensive programs aimed directly at the problems. There is almost unanimous consensus now that a much expanded public employment program should be adopted to provide job opportunities for those young people and others who lack the essential skills needed in a modern industrial economy. In addition, and without significant budgetary expense, the eligibility period for Social Security benefits could be open-ended, so that a temporarily unemployed worker would not arbitrarily lose his source of income at the end of some specified period of weeks. Also, it might be possible to structure unemployment benefits so that those who had been in the labor force a brief period of time would be entitled to minimum benefits while long-term members of the labor force would be entitled to benefit levels representing the major part of the income that they lost when they became unemployed.

The object should be to maintain a restrictive fiscal policy while taking all necessary action to avoid inequitable consequences of that policy among groups in the population.

While the economy presently is in a recession, no thought should be given to a general tax reduction to help stimulate economic activity. In view of the bottlenecks created by shortages of certain strategic materials, there is serious doubt that fiscal policy efforts to accelerate economic growth could accomplish anything except add further to our inflation problems. In fact, a tax increase—perhaps the excise tax on gasoline—would be helpful.

There is not the space to detail the many ways in which the present tax structure might be made more equitable as it bears upon various groups in the economy. In terms of equity, however, perhaps the most important is recommendation that the Congress avoid further reliance upon payroll taxes, the most regressive of all taxes, as a source of revenue for general budget expenditures.

One of the most pressing challenges the U.S. economy confronts in the years immediately ahead is encouragement of business capital spending in industries where capacity is inadequate and simultaneously encouragement of the rate of savings that will be necessary to finance this investment. Tax policy could and should be instrumental in achieving this joint objective.

The most important capacity shortages are in the basic materials industries—oil, steel, non-ferrous metals, etc. Side-by-side with these shortages, there is excess capacity in a number of fabricated goods industries. In this setting, the investment tax credit should be used as a selective instrument to encourage investment where most needed and to avoid encouraging investment where it is less needed. Flexibility could be achieved by providing for variable tax credit rates for different industries.

A number of forecasts suggest that there will continue to be a shortfall between the demands for long-term capital by industry, housing and government and the supply of savings. Savings could and should be encouraged through tax policy. First, some amount of interest income might be made tax-exempt for personal tax-payers. This exemption might apply to all types of interest income or might be restricted to interest from certain types of institutions, e.g., the thrift institutions. Similarly, the amount of dividend income exempt from Federal income taxes could also be increased substantially above the present exemption.

In short, the object of tax policy should be to move the unified budget as promptly as possible to balance or surplus, while simultaneously introducing greater flexibility toward achieving important objectives.

(2) If fiscal policy is to be appropriately restrictive to deal with the inflationary atmosphere that we have created in the past many years, it is essential that the tightest possible rein be kept on Federal spending. It is not possible in a brief statement to indicate precisely where substantial cuts might be realized, but one thing is transparently obvious to anyone familiar with the budget. The possibility for reducing expenditures is unquestionably greatest in the single biggest component of the budget, namely defense spending. One cannot be familiar with budget allocation and supply contracting arrangements in the Defense Department without being appalled at the degree of waste. If the Defense Department is considered a sacrosanct portion of the budget, progress toward a restrictive policy stance might well be impossible.

In addition, greater recognition has to be given to the fact that the simple process of taking a governmental function out of the budget and declaring that it is a "private corporation" in no way lessens the inflationary consequences of that operation nor its impact upon capital markets. Restructuring of the budget along the lines of the original unified budget that was adopted in 1968 based upon the Kennedy Committee Report should be encouraged.

Finally, if progress is to be made in economizing in the whole range of government expenditures, thought should be given to re-establishing a committee similar to the Hoover Committee—under President

Truman to take an intensive look at the myriad of details within the spending practices of all departments of government.

M. R. Hellie
President
Credit Union National Association, Inc.

Persistent and substantial growth in Federal Government spending without corresponding tax increases has been a notable aspect of fiscal policy during the past 10 years. The resulting monetization of the Federal debt has been one of the major causes of present inflation and high interest rates. Therefore, any anti-inflation fiscal policy must set Government and agency spending at a level which will have minimal impact on financial markets. Failure to achieve such a revenue-expenditure balance will, in large part, offset any gains which could be made from the easing of monetary policy.

A positive factor for the long run is the development of the new Congressional budget process. The use of this process, developing a closer relationship between Congress and the executive on budget matters, will allow for greater discussion and better understanding of the impact of Federal spending on the level of economic activity.

At this time it would be unwise to commit the 1976 budget to any particular level of spending or surplus/deficit position. In light of the many economic problems facing the Nation, it would be well to maintain maximum flexibility and adjust spending in response to the changing economic circumstances of the intervening months. Excessive focus on the Federal budget carries the danger of oversimplifying the problem.

Henning Hilliard
Chairman
J. J. B. Hilliard, W. L. Lyons, Inc.

I find almost universal agreement that one of the most important elements in the effort to slow the growth of inflation must be control of Federal spending. This control must start with a balanced budget. The philosophical question to be answered in cutting Federal spending is whether to have preferential cuts or across-the-board cuts. Because of the necessity for prompt action, across-the-board cuts seem to be preferable at this time. Such action would negate the multiplicity of arguments that would arise over the defense of pet projects and programs. However, across-the-board cuts should not be left to the executive alone. There should be a congressional mandate that across-the-board cuts take place immediately at a given level. Only if both Congress and the executive work together on this can the effort be successful.

In the event that spending cuts are insufficient to bring our spending in line with our revenues, then new taxes should be imposed. These should be in the form of a national sales tax. Such a tax would act as a brake on consumer spending without removing incentives for saving and capital spending that are at this time necessary in order to build new jobs and create greater productivity in our economy.

Mr. Harvey E. Kapnick, Jr.
Chairman and Chief Executive Officer
Arthur Andersen & Co.

BASIC PHILOSOPHY

Government services must be paid for currently. Our elected representatives established programs and once established we have a responsibility to fund. We cannot spend more than we receive over any long period. Therefore, except in time of national emergency, a ballanced budget is desirable. We accept the philosophy that our ability to continue social progress is dependent upon maintaining a sound economy. We also accept the philosophy that a graduated tax system or the ability to pay will achieve the best equity among taxpayers—but the rates for any segment cannot be confiscatory or it will create deterrents to produce to capacity by either individual or business.

SOME CONCERNS WITH THE PRESENT SYSTEM

Piecemeal reform requiring further reform has created significant confusion and dissension with allegations of "loophole," "give-away," "special interest benefits," etc. An inflationary economy highlights inequities causing further dissension rather than unison against a common enemy. Confiscatory rates occur in an inflationary economy because of increases which only maintain equal purchasing power for individuals, especially low income groups, and corporations with fictitious inflationary profits. Thus, taxes can consume needed capital and destroy an individual's ability to cover basic human needs in an inflationary period.

AN EMERGING CAPITAL CRISIS

Because of (1) capital required to pay taxes on fictitious inventory profits, (2) transfer of additional capital resulting from increases in the Arab oil cost, (3) amounts required to fund pension plans as required by recent legislation, (4) allocation of funds to risky "tax shelter" investments, and (5) the need to refinance debt of corporations which has grown significantly in recent years, a capital crisis of major proportions can be emerging unless action is taken immediately to alleviate some of the basic problems.

TO RESTORE "BALANCED TAXATION" WE NEED

Ultimately, major revision is needed in our income tax system to achieve "balanced taxation," and simplification is required if our system is to remain effective. In summary, we need (1) savings incentives to save *vs.* consume, (2) productivity and capital recovery incentives to increase productivity and, thus, standard of living for all, (3) incentives to efficiently move capital to our highest social priority, (4) to provide a "brake" on total spending by government and (5) a program to maintain equity during transition to a higher price level resulting from inflation. We should recognize that a great deal of the eroding confidence can be restored by announcing an effective program now.

SPECIFIC RECOMMENDATIONS NOW BECAUSE OF SERIOUS INFLATION AND CAPITAL CRISIS

1. To encourage savings—thus savings incentives:

   A. To encourage savings with investments in stock —eliminate tax on stock dividends when paid in lieu of cash with tax paid upon sale of stock.

   B. To encourage savings for retirement—increase individual taxpayers' deduction for self-initiated pension plans with tax payable after retirement.

   C. To encourage savings and investment in bonds, by individuals, Arabs, and pension funds. Authorize "inflation proof" debenture with regular savings rate of interest, plus capital adjustment of face value annually, based on change in index such as GNP deflator, with payment of such adjustment at maturity of bond and with such capital adjustment a current deduction by issuer.

2. To encourage productivity—thus productivity or capital incentives:

   A. In lieu of multitude of all various options, provide for alternative 50% write-off of plant and equipment as incurred, with tax benefit used to reduce cost of property and straight-line depreciation over economic life used for both tax and book purposes.

   B. To retain capital in corporations for improving productivity, provide for deduction of increase in value of inventory based on change in price level with amount of such price change going directly to capital and, thus, not inflating reported earnings. This would be similar to LIFO but would retain value of inventory on balance sheet at current value and, thus, not distort various financial ratios.

3. To maintain equity during transitional period to higher price levels:

A. Increase annually graduated tax brackets based on change in GNP deflator.

B. Allow "transitional inflation credit" for low income groups to maintain purchasing power and offset with "transitional inflation surcharge" of like amount for all income in excess of $25,000 for individuals and corporations.

4. To maintain "brake" on government spending:

A. Provide for mandatory surcharge on all incomes in excess of $10,000 for individuals and corporations to cover deficit for past fiscal year.

B. Allow Congress by specific vote to suspend such surcharge in any year.

5. To move capital to highest social priority:

A. Reduce capital gains tax after appropriate holding period so that movement of capital is not artifically restricted.

Once a new approach is adopted to try to develop the concept of balanced taxation within broad categories of objectives as illustrated above, the general public can better understand the incentives being allowed and the social purpose for such incentives. The concept could be applied even further to individuals where such deductions as interest on mortgages and taxes on homes encourage home ownership, medical deductions offset basic needs, etc. Social programs can and will be better understood and conflict between various segments of our country eliminated if such an approach is pursued. Appropriately communicating the purpose of incentives or deductions is as important as the deduction itself!

Mr. Bruce K. MacLaury
President
Federal Reserve Bank of Minneapolis

In the past year, monetary policy has shouldered too large a part of the task of resisting inflation. As a result, interest rates have been pushed to extraordinary heights and capital formation depressed, particularly in the housing sector. Fiscal policy must now take a more active role in slowing the rise in prices.

The announced goal of cutting expenditures to no more than $300 billion in fiscal year 1975 seems highly desirable, both as a symbol of administration determination to attack inflation and as a means of getting Congress to reconsider its many programs and formulate standards for evaluating them. (Similar expenditure restraint must be extended in Fiscal Year 1976 budget.) Within the $300 billion total, an amount of perhaps $3 to $4 billion should be allocated to an expanded public employment program that goes into effect when the unemployment rate goes above 6¼ percent. Such a program seems absolutely essential for an equitable sharing of the burdens, while reducing the risk of an early abandonment of the entire anti-inflation effort.

Tax rates should be changed to provide relief for those who have suffered most from inflation and to improve the market for equity capital.

A. Relief could be given by granting every taxpayer a $100 tax credit. Relief plus reform could be achieved by reducing payroll taxes and gradually shifting social security financing to general revenues, mainly the income tax.

B. A step should be taken now to eliminate the double taxation of corporate income by permitting corporations to deduct a specified amount, say 20 percent, of dividends in computing their tax. The effect would be to increase cash flow, earnings, and the market value of equities. Households and pension funds would gain an immediate increase in their net asset value. Further, this change would begin to remove the present disincentive to equity financing and thus help to put business firms on a sounder capital base.

C. Tax revenue lost through the changes suggested in A and B should be recouped to the greatest extent possible by enacting the Administration's windfall profits tax, increasing the tax on preference income, ending the percentage depletion allowance, etc.

MR. REX J. MORTHLAND
President, American Bankers Association

MAJOR FISCAL OBJECTIVES FOR FY 1975, 1976, AND BEYOND

Deficit spending under present economic conditions fuels inflation and curtails anti-inflationary policy options in the monetary field. For the immediate future, we recommend that spending be held to $300 billion during this fiscal year, and to $310 billion during FY 1975/76. In addition, more attention must be paid to the impact of burgeoning off-budget agency financing and government guarantees in the capital markets. Congressional action to limit the annual total of such financing should be considered immediately.

CHANGES IN THE MIX OF FEDERAL SPENDING

We recommend that discretionary expenditures be cut wherever feasible to achieve the above targets. Programs promising the most favorable impacts on productivity, employment, saving and capital formation should not be cut. Some increased spending on a pilot public employment program may be appropriate.

PROPOSED CHANGES IN FEDERAL TAXATION

The basic structure of the Federal income tax system should be changed to eliminate the "inflation-bonus" accruing the government via inflation. The recent revision of the Canadian Federal Income Tax system provides a useful model. Incentive features of the tax system should be changed to encourage savings and investments and to reduce incentives to consumption spending. The proposed $1,000 interest-exemption on personal savings and time accounts deserves careful consideration; as does the proposed tax credit for housing and other priority investments as noted in the Financial Institutions Act (S. 2591). Spending reductions must be achieved to offset the revenue losses of these measures. Finally, full Congressional implementation of the Budget and Impoundment Control Act of 1974 is critical, and the "full employment-balanced budget" concept should not be used to gloss over the inflationary effects of governmental deficits.

DR. ARTHUR M. OKUN
Senior Fellow
The Brookings Institution

1. The assignment of federal expenditure policy in FY 1975 should be to demonstrate clearly that the budget can be controlled at reasonable and realistic levels. Federal outlays have been a source of uncertainty and instability in both private and public planning, and that destabilizing role should be terminated once and for all. The new spirit of executive-legislative cooperation and the new Budget Committees of the Congress should facilitate the task.

2. For FY 1975, $300 billion and $305 billion are both defensible targets for federal outlays. Indeed, the differences between them are negligible in terms of economic impact. The smaller figure might mean a lowering of a few *tenths* of a point in interest rates and the inflation rate, at the expense of lowering real GNP growth of a few tenths of a point, and raising the unemployment rate perhaps a tenth of a point. Both the benefits and the costs represent trivial changes in the overall economic picture. That picture points to a weak economy in late 1974 and 1975. With some help from recent monetary-fiscal restraint, the boom is now dead and buried.

3. The assignment requires setting realistic targets and implementing them with broad support, and with efficient, cool, and deliberate management. Calling the shot and making it is vital; the precise shot that is called is far less important. The principle has several corollaries: a) Fiscal discipline should be properly described as *one* part of the cure for inflation. Only a small part of the recent 8 percent step-up in the inflation rate (from 3 percent at the end of 1972 to 11 percent today) can reasonably be attributed to fiscal excesses. That contrasts with 1966–68, when the inflation was propelled mainly by the budget. b) Anti-inflationary determination should be displayed on all fronts. For example, press rumors on imminent decontrol of the price

of "old" oil (an extra $9 billion dose of inflation for 1975) weaken the credibility of the whole economic program. c) Proposed budget cuts should be made with a scalpel, not an ax. As George Shultz remarked, when a proposal to cut weekly unemployment insurance benefits was included on one list of cuts, he felt that the list had discredited itself. d) Targets should be set at levels that will not require either accounting gimmickry or inefficient interruptions of federal activities.

4. For fiscal 1976, a growth of expenditures of $30 billion, or roughly 10 percent, holding taxes constant, would be in the ball park. That would add a little further to the restraint in the federal budget and make room for additional relaxation of monetary conditions. There is no case for a net tax increase on present prospects (unless one is required for a health insurance program). Indeed, if the priorities point that way, the growth of federal spending could readily be held below $30 billion, thus permitting a tax cut.

Whether such a FY 1976 budget turns out to be balanced or in deficit or in surplus will depend, as it should, on the strength of the economy, which will be reflected in federal receipts. It would probably take a stronger recovery of income and output than is now expected in order to bring federal revenues into the range of $330 to $335 billion needed to balance that budget. But, only if the economy is stronger than the prolonged weakness now envisioned by most forecasters, would a balance or surplus be appropriate. Budget balancing in a very weak economy would be doomed to failure and would be as destabilizing as deficits are in a strong economy.

Mr. Donald T. Regan
Chairman of the Board
Merrill Lynch, Pierce,
Fenner and Smith, Inc.

Leadership in the war against inflation must come from the Federal Government. It must come now. Every weapon, fiscal, monetary or otherwise, must be employed. Sound fiscal policies at all levels of government are the most potent weapon in our arsenal to combat inflation.

As a first step, there should be an immediate reduction in the level of expenditures budgeted for fiscal 1975. An effective way to accomplish this and to avoid prolonged debate about particular programs would be to insist upon moderate reductions across-the-board. I recommend a two-to-three percent reduction for every branch, department, agency. Such an action would avoid serious damage to any single program. But it would have the effect of reducing fiscal 1975 spending to around $300 billion. State and local governments should be urged to follow the leadership of the Federal Government.

As we look ahead to fiscal 1976 and beyond, every effort should be made to balance the budgets at all levels of government. Such near and longer-term restraints by all governments would relieve the demand pressures that are fueling inflation and are straining our economy beyond its capacity.

Fiscal policy should be aimed at expanding the nation's industrial capacity to meet future needs, particularly in areas where shortages exist. And investors, who are the source of funds for this expansion, must be attracted back into the capital markets.

Investment must be encouraged by changes in our tax and other laws. The investment tax credit should be increased, particularly for energy development. Capital gains taxation should be reformed to encourage equity investment. Withholding taxes on dividends and interest to foreign investors should be eliminated. These fiscal policies combined with similar vigorous actions in monetary and other policies should enable our nation to get a handle on inflation.

THE HON. HENRY S. REUSS
U.S. House of Representatives.

Recommendations from the Financial Conference on Inflation, September 20, to the Economic Summit meeting on September 27–28 should include the following proposals:

Fiscal Policy—Federal Taxation: Any policy to fight inflation must defuse the wage explosion already beginning to occur, as workers attempt to catch up with last year's inflation and protect themselves against this year's. A social contract, in which the government pledges social security tax and/or income tax relief for low- and middle-income people and in which workers pledge to restrain their wage increase demands, would reduce cost-push inflationary pressures while protecting the average worker against rising prices. Such tax relief must be balanced, to avoid unwanted fiscal stimulus, by tax reform to end outmoded and inequitable tax subsidies and by other revenue-raising measures.

Monetary Policy—Credit Allocation: The Federal Reserve should pursue responsible monetary restraint, keeping money supply growth to around six peercent for the immediate future.

At the same time, we must establish a system with clear ground rules for channeling the limited supply of credit away from inflationary uses, such as real estate speculation, conglomerate mergers, and commodity buildups, and toward interest-sensitive essential needs such as productive capital investment, low- and middle-income housing, small businesses and farms, public utilities, and state and local governments.

International Economic Policy: To bolster international confidence, let the U.S. lead in putting together a consortium of the leading industrial nations (a) to guarantee that the world's major banks will not be allowed to fail for lack of liquidity (as opposed to mismanagement, for which salvage operations ought not to be attempted); (b) to adopt coordinated programs to conserve fuel, thus reducing short-run dependence on the oil-exporting countries, and food, thus easing the prospect of mass starvation in Asia and Africa.

Wage-Price Policy: To forestall future price rises, we must increase supplies of scarce materials, through a broad range of policies including advance planning, monitoring of potential shortages, sensible import and export policies, and elimination of artificial barriers to competition.

Dr. Raymond J. Saulnier
Professor Emeritus of Economics
Barnard College
Columbia University

The following recommendations are offered with respect to Federal spending policy:

1. The target total of Unified Budget outlays for Fiscal 1975 should be set at $295 billion. This would allow a spending increase of $26.7 billion (10%) over Fiscal 1974—a cut in spending plan, but not a cut in actual outlays.

Actually, a more appropriate target would be a percentage increase in outlays less than the expected inflation rate—say 8%—but this would allow outlays of only $290 billion in Fiscal 1975 and would seem impossible of achievement, the more especially because Congressional actions taken to date suggest spending (if not restrained) well above the $304.4 billion total put forward in the January 1974 budget. The $295 billion target will itself be difficult to achieve: the 1974 budget message points out that only $84.4 billion of the projected $304.4 billion outlays are in the "relatively controllable" category, and that 90% of the nearly 30 billion increase in outlays originally projected between Fiscal 1974 and Fiscal 1975 are "mandatory increases . . . unavoidable under present law."

2. The extent to which outlay increases are mandated under present law makes it obvious that a significant restraint on spending cannot be achieved without new legislation. This could be passed early in the 1975 Congressional session, provided the urgency is recognized, but if Congress chooses to reconvene after the November election recess it should be urged to make expenditure control be first if not the only item of business in its calendar.

3. It is imperative to exercise restraint also on expenditures by "off-budget" agencies and government—sponsored enterprises. These have increased from $4.2 billion in Fiscal 1972 to an estimated $15.6 billion in Fiscal 1974—it is impossible to believe they will drop to $4 billion in Fiscal 1975, as the January 1974 budget message estimates

they will. More likely, expenditure will increase immensely over the already swollen Fiscal 1974 total unless restraints are imposed.

In the present circumstances, the rule should be a lessor percentage increase in these of budget outlays than in the expected inflation rate, which suggests holding them to an increase of say 8%.

4. Off-Budget outlays, which consist largely of loan disbursements are now so large, so difficult for an outsider to follow, so little understood by the public, and make such prodigious demands on capital markets that there is an urgent need to reexamine the way they are reported in budget accounts. As it stands, the so called "unified budget" is no longer even remotely "unifying" of Federal outlays. An Executive Branch task force should be appointed at once, under a mandate to reconstruct budget accounting to correct this deficiency and it should be required to complete its restructuring of accounts in time to make the results at least a tentative basis of budget presentation for Fiscal 1976.

5. The "full employment budget surplus" concept should be dropped unceremoniously from budget presentations. It has given nothing but wrong guidance on Fiscal policy.

6. It is impossible for anyone outside government—indeed for anyone outside the Budget Bureau—to write a full and operationally-adequate bill of particulars on where to make specific adjustments in spending plans. This can only be done in the Budget Bureau. What is needed is a list of adjustments that would hold the total to $295 billion in Fiscal 1975, accompanied by a statement of actions—legislative or discretionary—necessary to put them into effect.

Obviously, one has to look to areas of proposed spending in which increases are largest, but categories of spending must be rated also according to their priority in an economy that is destructively inflationary. This points clearly to defense, where an outlay increase of $6.2 billion (7.8%) is projected, and to HEW, for which (according to the January 1974 Budget) spending increases of $14.2 billion (14.7%) are planned. But there are doubtless many other areas (International Affairs and Finance; Space Research and Technology; Agricultural and Rural Development; Natural Resources and Environment) where adjustments could appropriately be made.

If necessary, a Presidential Commission should be enpaneled at once to report a spending priority list within 60 days.

MR. ROBERT H. STEWART, III
Chairman
First International Bancshares, Inc.

At least two fundamental conceptual changes in the federal budget system would seem to be in order.

First, use of the so-called *full employment* budget—with all of its built-in expansionary biases—should be left solely to those professionals who appreciate some of its weaknesses and its strengths. Perhaps its official use as an analytical device should be limited to the Council of Economic Advisors and its staff, who would utilize it along with other tools in periodic evaluations of the economy's performance. Surely we have now learned about the large fiscal policy mistakes that this approach can camouflage.

Second, adoption a few years ago of the *unified budget* concept was a large step towards improving the process. But, it should have better been called the "partially unified budget" concept. Fiscal activities of the *off-budget* agencies have grown rapidly and, at particular times, have been a very large marginal presence on the demand side of the money and capital markets. If their budget figures are not unified into the unified federal budget, perhaps that could appear in a special reference section of the budget document for policy guidance.

Given current and prospective *economic* conditions, it is highly unlikely that the budget for Fiscal 1975 can be brought into near-balance in the nine months that remain. But, a large start must be made this year by minimizing the deficit (some say it is to be $9.5 billion; some say it is to be $15 to $20 billion unless serious restraints are adopted quickly). In future high employment (95%) years, it is imperative that projected increases in budget expenditures be at least in line with the expected performance of the overall economy and thus with projected increases in revenues (given a stable tax structure). And in future 95% employment years, balanced budgets or budgets in surplus are mandatory.

Given current and prospective *political* conditions, it would appear that a uniform, across-the-board percentage cutback in federal spending in program areas that are *reachable* would result in less oratory and controversy. Reachable program areas should include both some so-called controllable and some so-called noncontrollable areas. Specific legislative actions by the Congress would be required in the latter.

CHARLES J. ZWICK
President
Southern Banking Corporation

A thorough analysis of "cutting the Federal budget" is clearly beyond the scope of this meeting. In the brief time available, only a simple answer can be given, and therefore this must be related to a simple question. I will try.

The appropriate size of the budget can be considered from two points of view—one as a technical exercise to balance aggregate demand within the total economy so that there is a correct amount of slack to dampen inflationary expectations. This would, of course, include specific recommendations for program reductions. Such a technical evaluation can be carried out more appropriately in an environment other than this conference.

The second view of "cutting the budget" is to consider it a matter of equity, a moral issue, if you will. The American people believe that the Federal Government is to a large degree responsible for the current inflation. They therefore believe as a matter of equity the Federal Government should do something about its spending plans before asking individuals and businesses to tighten their belts. Viewed in this manner the issue is not whether the budget should be held to $300 billion or reduced further, but will the Government make a real effort to help contribute to the solution of a problem it had a large part in creating.

What we need, of course, is a procedure which allows the Government to provide the needed moral leadership. I will propose a simple procedure which could be implemented quickly and which would avoid many of the technical issues—these, of course, will have to be handled at a later date.

IV.

Fiscal Policy Conference Proceedings

FISCAL POLICY TO DEAL WITH INFLATION

SECRETARY SIMON: Gentlemen, we will start the afternoon session.

Just a couple of ground rules, so we can continue to move along as we did this morning. I thank you again for not only your thoughtful comments but also for keeping relatively within the time frame, and for your patience with me as well.

This afternoon, we have got the major topics that you see on your agenda with the allotted times. We have picked a discussion leader for the first two topics and two discussion leaders for most of the balance of the topics.

The discussion leader has been told to keep his opening remarks in the three-minute range, and I use the term "range" because we don't have the constraints that we did this morning, but I really would prefer that they didn't run over four.

Then we will have a give and take, you giving it and we taking it, that is; and if there are any questions from the Government people up here, just ask to be recognized and we can ask questions, but primarily, as this morning, this is Government listening to you, and we benefiting from your sound advice.

I am going to limit individual comments on the various areas of discussion as I did this morning, so that anybody who has something to say will have an opportunity to say it.

So fiscal policy, in dealing with inflation, will be opened up by Dr. Gabe Hauge, Manufacturers Hanover Trust Co., New York.

DR. HAUGE: Mr. Secretary, in looking over the job of opening up this big subject in the time allotted, all I can say is that you are going to witness the first three-minute mile in history.

The goal, I would take it, of our proceedings here is to try to fashion a way whereby we can reduce the rate of inflation to a point where it can be ignored in making calculations about the future.

We used to think of that in the range below two percent. What it is now, I don't know. But if we want to get some targets in front of us, and I think it's useful, if we start with the 12 percent rate of CPI and shoot for a reduction of half to a third in the next year, and cut that by half at the end of 1976, it seems to me that for our own purposes we have something that is reasonable.

Now, fiscal policy presumably relates to spending, taxing and borrowing at the Federal level. In approaching this part of anti-inflationary program, I think it is only fair to recall one does it against a background of the revolution of rising expectations that was preached not only for the developing world but for the developed world some years ago.

The whole emphasis has been on stimulation and expansionist trend in the ecomony. That kind of policy was in support of the idea that we could somehow, were entitled to have, a rapidly rising public standard of living, in addition to a rapidly rising private standard of living at the same time.

It was going to be La Dolce Vita, indeed. Now we have found that there is a come-uppance to that, and we are trying to see whether fiscal policy is relevant to the future. Some doubts have been raised, some in this room, in a muted sense, that we are a little too concerned about the Budget, it is only a few billion here and there, that the big impact is in the private sector, and I think those facts are as indicated.

But it is probably fair to say that fiscal policy considerations have a bigger dimension to them, and I want to come back to that.

First, it seems to me that the Administration has an opportunity right now that should not be lost; and that is to shape up what in the world this concept of a budget is that is guiding us.

We have had what is called a unified budget, but as was pointed out this morning, many expenditure and loan programs have been moved off that budget, for reasons that fit the idea of the expansionist trend without having too many numbers to embarrass the concept.

I must confess, I was never intrigued with the idea of the full employment budget from the beginning. Those of you who can remember the discussion will recall how we were promised a fiscal dividend. It has turned out to be a fiscal mortgage.

My own feeling is to underscore what has been said about this by many people this morning; that for whatever use it may have in the recesses of OMB, it either has to be drastically rehabilitated or it should be given a decent and preferably a low-cost funeral very promptly.

I would agree with Senator Roth, that we ought to get back to an administrative budget, in terms of putting it all on a piece of paper as to what is involved.

Now, in approaching, Mr. Secretary, the problem here in this area, I think it's very clear at once that many of the things that are talked about are quite long-term. We are really talking about '74, '75 and '76.

So the short-term goal tends to focus on what I think Alan Greenspan called the other day "measures to reduce Government borrowing." I think that is a rather nifty phrase, because it is that that has had the most adverse impact with respect to inflationary developments, in my opinion, not the few extra billion dollars in the demand dimension; and because of the difficulties on the tax side, that comes to an expenditure control.

It seems to me we ought to try to beat the $300 billion level if we can on expenditures for '74 and '75, and including, as Senator Javits, I think, said this morning, a provision for the public employment program.

I personally would like to see debated the possibility of folding the public employment program funding into the general revenue sharing plan. I tried it out at lunch and there was some support and some attack, but it would be good to hear it discussed, maybe.

We are all hopeful about the Budget Control Act and from Congressman Reuss at lunch we found some hopeful views of the future.

Charlie Zwick's proposal ought to be discussed, and I hope that the members of the Congress who are here will devote themselves to that. Because of the way the public is pointing its finger at the Government, with respect to the cause of inflation in the last Gallup Poll, 48 percent cited the Government as a principal cause, and business, believe it or not, below labor as responsible for inflation -- well, I think here is an area where the Congress, with our support, can do something.

In the field of taxation, I think one starts with the fairly clear evidence that the Internal Revenue Code over the years has been weighted in favor of consumption as against investment, and that this, of course, has reflected the prevailing bias we referred to earlier.

I think the case for a general tax increase or a general tax cut has not been made. I think the idea of that being part of a social contract, I would like to hear the representatives of labor here express themselves on whether or not some kind of a tax reduction for working people who are engaged in labor-management bargaining would have any significance -- would be affected in any significant way, if related to the tax reduction related to the wage bargaining. I have never heard such a view expressed. The idea has been presented mainly by academic people, and I would like to hear labor speak on it.

Finally, I think we have to stop taking production and distribution for granted, that business somehow will do it, regardless of the circumstances.

I think that production and distribution needs care and feeding just like consumption needs care and feeding; and that points us to longer term changes, I think, to encourage saving and investment.

So what we have to focus on in this area is what can be relevant in the next 18 months, as against the next five years. I hope that has opened a few doors, Mr. Secretary, and with that I will subside.

SECRETARY SIMON: Thank you very much, Gabe.

Comments? I thought I would hear from Otto Eckstein, who was just saying "For example" when I said "Thank you" before.

MR. ECKSTEIN: I will pass on this one.

SECRETARY SIMON: Yes, sir, Bob Roosa?

MR. ROOSA: On the fiscal side, there has been a lot of reference, in passing, this morning to the usefulness of variation in taxes as well as expenditure, although the emphasis concentrated on the latter.

I think there is real virtue, and we ought to weigh it, at least, here, in thinking of the use that might come from an additional excise tax on gasoline. The principal argument that I have heard against it is that it cuts too hard on the lower income people, who depend on the use of the automobile; and I think that whatever the revenue produced by such a tax, part of it should then, in a sense, be offset through reduction in the income tax burden on lower income people.

But I think the principal virtue of such a tax is that we need a further reminder, particularly in the current year, when we seem to be skating through without the shortages which are bound to come a little further ahead. We need a further reminder of the need to conserve in particular on this form of oil energy, and I don't see any harm, if we are going to have trouble in controlling expenditures, in having a little tax dividend left over to provide for that reduction in Government borrowing -- if we haven't used all the proceeds of an excise on gasoline to provide tax relief for the lower income brackets.

It does seem to me this is action which could be considered promptly, and would have a role both in helping to limit the use of our expendable fuel, help limit that drain on the balance of payments, and at the same time contribute some relief towards the lower income brackets, where the pain of inflation is so great.

SECRETARY SIMON: Yes, sir, Charlie?

DR. WALKER: I would like to add my support to what Bob said about seriously considering a Federal gasoline tax. I advocated in a column in the Washington Post a year ago that we double or triple the Federal gasoline tax, and then had to start dodging for quite a while both Congress and clients.

I wanted to add to that, however, and in terms of its political saleability, I think, particularly emphasize the important aspect of emphasizing the

the use of the funds. I think Bob is right in the basic direction he was pointing. But, the one thing I would add, if the tax were doubled or tripled, and I am kind of intrigued also with Dick Hill's idea, and I want to think about it a little bit, would be to use at least a portion of the funds that would help further Project Independence, particularly in the R and D direction. If you are going to put more taxes on energy, use some of the proceeds to help solve the energy problem.

The second point I want to make has to do, as being one of the culprits that's been involved in the administrative budgets to unified budgets to full employment budgets, to wherever we are now, I am in fundamental agreement with both Gabe and Senator Roth about the objectives they are talking about.

The problem, as I see it, is one of those that arises in a democracy when politics and economics collide, and the built-in propensity to overspend as a result of the democratic process. People like more spending, and they don't like high taxes, and they don't like tight money, so you have this natural propensity. To the extent, then, that a return to the administrative budget, or some other approach, which would create a bias in the legislative process against spending, impediments -- and maybe the Budget Impoundment Act -- can work in this direction. In other words, I am not concerned so much as to how you get there, Senator Roth, if you can get this sort of bias or slowing or deterrent to overspending -- because I disagree very much, I think it is with Art Okun, that it was only the '65 to '68 experience over the last ten years. I think we have overspent basically throughout the whole period.

SECRETARY SIMON: Thank you. Yes, sir? Mr. Kapnick.

MR. KAPNICK: On taxes, I believe that we have to have better communication between government, the industry and the American people. I would like to encourage you to think in terms of trying to categorize these various areas so that the entire American people better understand the reasons that these are given.

I think also that I would like to encourage us to think in terms of automatic financial controls to eliminate these budget deficits, unless positive action is taken. And I believe that you can categorize these various areas such as savings incentives we have talked about, productivity incentives, the incentive to own your home, which is the interest deduction, and I think it would be better understood.

Then I believe that we should adopt a surcharge to balance the budget each year, unless positive action is taken by the Congress. Congress, we have to recognize, are our elected representatives, and if they decide these are the best programs and they are efficient, then we have to take the responsibility to fund them.

It seems to me one of the big fallacies of the past generation is not to recognize that these are positive decisions that must be made rather than passive decisions. So I would like to propose that a surcharge be instituted to balance the budget once the amount of the deficit is known.

SECRETARY SIMON: Thank you. Yes, sir?

MR. HILLIARD: Point one, on the subject of taxation, Mr. Kapnick just brought up the question of a surcharge. I would like to raise the question of tax equality. I expect I am going to step on a few toes here but there are certain industries in this country that possess a favored position as far as Federal taxation is concerned and I don't think we need to rack our brains too far to recognize them.

The oil industry for years had a depletion allowance and it paid comparatively low income taxes compared to its total income. The investor owned life insurance industry has a very favored position tax-wise.

There are accounting procedures and other tax preferences that benefit some public utilities even though they are very needy. I understand their plight but these should be equalized. And if my friends in the banking industry are waiting for the shoe to drop, why, I'll drop it now because certainly they enjoy tremendous tax favoritism in the country, and if, some of those were equalized, I would think no surcharge would be needed.

SENATOR LONG: May I comment on that?

SENATOR SIMON: Please, Mr. Chairman.

SENATOR LONG: If you look at the taxes that the oil companies are paying at the local level and take into account -- without even taking into account the tax on their product which is the gasoline that they

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produce, just leave that out -- but you take into account all the taxes that the oil industry pays, for example, in Louisiana, even if they are not making a nickel, out of that, we tax them 12 percent on gross. That's whether they make money or not. The average for manufacturing is five percent on gross for all taxes. Now in Louisiana we hit them for two-and-a-half times that much before we ever asked whether they made any money, then, of course, we hit them with an income tax if they did make something.

If you take that into account and in the foreign lands you take into account what these foreign governments are taking away from them on the production, they are paying more taxes than anybody, even the liquor people, where taxes exceed the cost of production by nine-to-one. So that, I mean, in gross, they are paying more taxes than anybody, anybody on earth, and so, when you want to talk about somebody's tax burden, you ought to look at the entire thing.

Now, furthermore, insofar as anybody in Government is getting any kind of a tax advantage, if it's been going on for a long time, that has been discounted at the marketplace. Anybody who has studied economics, if you graduated from college, should have gone far enough in it to have heard of the free flow of capital, that money flows into things more profitable, and the money flows away from things that are not very profitable, all things considered, including taxes.

So, if you are going to heavy up on taxes on the oil industry, all you are going to do is to postpone the day when we find enough capital in this industry to shorten up this energy crisis.

Now, it seems to be a prevailing Government deficit that is creating this inflation -- nothing further from the truth, in my opinion. Louisiana spends about $2 billion a year at the state level. Now, $1 billion, half of that, comes out of Federal Government. Look at those charts you have presented here. If the Federal Government wasn't paying its money through to these states, we would have an enormous Federal surplus. But, if you take into account the state budgets, they are not borrowing money, they are reducing their bond issues because of these high interest rates and they think it's a poor time to borrow.

You take their surplus and lay that against the Federal deficit and, Government as a whole, is running a surplus this year of over $11 billion and that's right there in the President's Economic Report. So, that can't be what's causing the inflation. Inflation is being caused because the OPEC countries trebled the cost of energy for us and it yanked up all the energy around the world along with it. And, what we are going to have to do, as I see it, is to try to channel our investments in the areas that are going to increase production, increase productivity and especially make the increases in those areas where we have the shortages, to hope to bring that back into line.

Now, my good friend, Scoop Jackson, and quite a few other people see the way to solve it is to tax the eyeballs out of the oil business, just tax them out of business -- get rid of them. I don't think that will solve the energy crisis. I think you are going to have to solve it by prevailing upon somebody to make more investments in providing energy for you; and because it's only when you are able to see the prospect of producing your own requirements that I see the prospect of getting these OPEC countries to be more reasonable in the price that they charge for it.

Now, with regard to tax increase, gentlemen, I handled some tax increase bills, and I want you to know its's just a great deal easier to pass a tax-cut than to pass a tax-increase. I've tried it both ways.

(Laughter.)

And if you want to pass some big tax increases, you'd better have a tax-cut on the other end for somebody, because it takes that to put it through. And you gentlemen can expect that the average tax bill that goes through, by the time it gets through with the amendments that will be offered on the House side and the Senate side, it will wind up giving away more revenue than it gains. I can recall Richard Nixon wanted to save that surtax. He wanted to save what was left of it which was five percentage points when he first went in. And how the Democratic caucuses resolved that there was to be no tax increases, which is just extending the tax that existed for another six months. So, no tax increase without tax reform.

Well, by the time they got through tax reforming, which was tax increases on business, they had finally managed to raise $7 billion dollars by repealing the investment tax credit and things of that sort.

Meanwhile, they found some appealing things to put some tax cuts with, so the tax cuts worked out to $9 billion. And you would think that would stimulate the economy but they did such a fine job of taxing everybody in business ~~to reform on~~, they found we were in a recession within six months.

And that can very well be the trend of what's happening now. Look at the House of Representatives. They are getting ready to send us a tax bill. I don't know whether they completed their work on it. It's 52 tax bills all rolled into one. They might not have the final amendment on that, you watch the final amendment. It will be to take every nickel that you gained plus something and give that to labor. You watch.

SECRETARY SIMON: Bob Baldwin.

MR. BALDWIN: Thank you, Mr. Chairman, I would like to go back to some of these possible cuts in Federal spending. I came to Washington as a neophyte in the summer of '65 just at the time we were starting expenditures in Vietnam and just before we went into the Great Society and I have watched many of the programs grow over the years and I am struck by two things: One, we had what was called a fit in the Defense Department, which was a five-year defense projection. Charlie Zwick knows all about that.

So now, we are aware of what the over-runs are in the Defense Department and they were rather large then and I was trying to work on them and we are still trying to work on them.

But I am struck by the fact that we have no five-year projections when we put other programs in other areas of the budget for five years out and then see what those over-runs are. And it seems to me that this would be a very major discipline on expenditures that we have made in those areas and I think the point was made earlier. The second point that I would like to make is, we are going to have to decide between certain alternatives, not only in the spending but what we had in past programs, whether in the Clean Air Act or Safety Act or something like that.

There are tremendous capital expenditures being required as a result of those; and a lot of them are very desirable, but I think we are going to have to spread them out over a period with a capital formation we have got coming ahead of us.

SECRETARY SIMON: Thank you. Mr. Bethke.

MR. BETHKE: Just quickly on taxes. The general needs are pretty clear, but get to some specifics. If one talks with your own families or particularly our young people today, those that are in their twenties and thirties, I think they would all back some specific taxes like an extra heavy surtax, excise tax, call it, on large, new automobiles, based on weight, on horsepower, which would both conserve fuel and material.

I think they would back a bit more gas tax, providing it was exempted from mass transportation use and trucking. I know they would back some increases in the excise taxes on luxuries like jewelry and perfumes and cigaretts and even liquor, or certainly liquor. You can go on like that, plus anything that liberalizes a taxation on net new productive capacity.

And it doesn't have to be only in the shortage industries, and it should be certainly there, but also in agriculture. It's that sort of thing I think we should aim at. You have a grass roots backing for this type of taxation, at least.

SECRETARY SIMON: Thank you. Yes, Jim.

MR. O'LEARY: Mr. Chairman, I'd like to call attention to a point that is of particular importance with respect to the budget concept and that is, this morning it was said by one or two speakers that actually the demands on the credit markets by the Federal Government were comparatively small and that the problem lay in the private area of the ecomony.

Let me give you just a couple of facts here, which I am sure are familiar to you Treasury people, but I think should get out on the table, and that is that in the flow of funds accounts of the Federal Reserve, in the first quarter of this year, the net increase in direct issues by the U. S. Government amounted to $10.3 billion at an annual rate; and in second quarter, $3.6 billion, at an annual rate.

The demands looked moderate, but if you move down to the Government-sponsored agencies, you see that in the first quarter they were running at a net increase of $9.3 billion and in the second quarter at an annual rate of $19 billion. And in the second quarter the Government-sponsored agencies were actually providing in terms of funds advanced at an annual rate of $27 billion.

My own feeling is that when the third quarter figures are available, it's probably going to be another $10 billion on top of that. In other words, it seems to me we are kidding ourselves, if we do not include those Government-sponsored agencies in the burden that's being imposed by the Government in those markets; and the important thing is that the demand for funds by those agencies is completely inelastic. They will go for those funds regardless of what the interest rate is and has an especially hard effect in the whole interest rate situation, and I think this should be definitely part of our discussion.

This is what seems to me, leads me to feel, that we have got to have a different, more realistic budget concept than we have, in bringing those agencies back in to the whole budget picture.

SECRETARY SIMON: Yes, Mr. Needham.

MR. NEEDHAM: I am glad I deferred to you because that was one of the points I wanted to make. I can't stress too heavily the importance of bringing these agency debts within control of the Congress. This is a very bad situation and despite what Congressman Reuss said this morning, I don't have the figures with me, but if someone wants to challenge them I will obtain them. The Federal, State and Local Governments have taken 60 percent of the available credit from the United States in the last several years and that's an increase that's been building up since the mid-sixties.

So I think, clearly, it's safe to say that the United States and other forms of Government within the United States have contributed to the scarcity of funds.

Now, I think one of the points that's being missed here is the fact that we are not just talking about cutting our programs; I think what we are trying to tell you, is that we have lost faith of the ability of the United States Government to manage money.

I think the strains put on the Secretary of the Treasury and the Chairman of the Federal Reserve Board are just impossible. And what we think is, there has to be some fiscal responsibility in the Congress and in the Executive Branch before any one of us - I, at least speaking for the group that I associate with most often - would be willing to pay another dollar in taxes. What we are telling you is: you have got all you are going to get.

Now, let me talk about the excise tax on gasoline. That's retrogressive and already we are just talking about a way of diminishing the demand for energy from the OPEC countries and already some of it's sticking to the Federal Government's hands.

So I would have to oppose it because unless we are going to have the same opportunity to sit here and tell you when you can take that tax off, I would be opposed to it.

Now, on tax equality, Senator Long, you were very eloquent and persuasive and I think, perhaps Mr. Hilliard, if I may just expand on his remarks. We are looking, for example, in the securities industry for tax equality with other financial institutions and I am not going to trot out the numbers that show that some type of financial institutions pay nineteen percent is tax and others pay out five -- I have them here -- but the point is, if you want the free capital market system to work and I believe you do, and I know you do - then you've got to give the securities industry the same opportunity to compete for funds that these other financial intermediaries have. And I think, too, that we have programs which we submitted to your committee and we have submitted them to the Treasury Department.

And when we talk about increasing savings in the United States, I would like to tack on to something that Chairman Burns advanced several months ago, wherein he had proposed a withholding tax, which would be equivalent to a savings program, and then invested by the Federal Government until an appropriate time. I took exception to the ability of the Federal Government to hold onto it. I just think the Federal Government has enough to hold onto. I would like to propose a savings program that would be keyed into a cost-of-living number and I would like to give you a specific illustration.

Let's assume for the moment that we were talking about people who earn $15,000 or more a year. In that, we agree that the guideline-pay increase is five percent.

Now, if we start with someone who is making $20,000, that's the example I have here, and he is given a raise of eight percent, then three or three percentage points would be set aside in a Keogh type savings plan wherein he would have the option of investing it either in Government securities or in some other type of security that would suit his investment purposes. And them, at an appropriate time, certainly a death or total disability, he would be allowed to withdraw; or in the event the consumer index stayed fairly constant for six or twelve month period, he would be allowed to withdraw it then.

I think that's the way to take the demand out of the economy -- to force all of us to save more -- and I just offer this as one example that originated with Chairman Burns. As far as I know, and we refined it, it's in the document we submitted to you, Mr. Secretary.

Thank you, very much.

SECRETARY SIMON: Thank you. Congressman Reuss:

CONGRESSMAN REUSS: Gabe Hauge posed his many interesting questions whether the so-called "social contract" which the Government might see fit to make with labor would find acceptance by labor. Of course, nobody can tell because it hasn't been tried.

By and large, the concept of the social contract is that if the Government could tell wage earners that by and large some of their losses are losses -- by not asking for too high wage increases would be made up by a modest tax cut. If some of their job fears were alleviated by some of the employment programs that have been suggested and if by and large there was some suggestion of the equality of sacrifice, then wage earners might be disposed to ask for less in the wage bargain; and, incidentally, to strike less than would otherwise be the case.

We can't tell what would happen here because it hasn't been tried, but looking abroad, there are instructive lessons to be learned. In the Federal

Republic of Germany ten years ago or more, the Government tried a concerted action program of just this sort which worked very well and in part contributed to the economic miracle of West Germany.

In little Austria they did the same thing, calling it a social bargain, and one of the reasons Austria is surviving and is not a parasite is because of that.

Just within the last week in the United Kindom-not that I would propound the United Kingdom as a model of economic management -- but anyway, they are trying an income policy there and everybody is surprised the Trades Union Congress at Brighton came through with some self-imposed wage guidelines which have appealed to British management as a model of moderation.

So I suggest that the only way you find out is to show some leadership and try and have faith in the proposition that if the Government of the United States will deal fairly with the four-fifths of the nation which are wage earners, the chances are reasonably good, that it will deal fairly with their Government. I think we ought to try it.

SECRETARY SIMON: Thank you, Congressman. We are going to have to move along to George Schultz.

MR. SCHULTZ: One general proposition and then follow it with three specific things.

The general proposition is to strike a blow for what might perhaps be called the new "old-time religion". That is, its amazing how fast counter-cyclical fiscal policy has gone out of style and there seems to be the notion that we should balance the budget at all times at all costs. It doesn't seem to me that we want to do that; and rather that we should have some sense of balance about our objective along the lines that Otto Eckstein talked about this morning. So that's my first point on the budget side.

The second point is that it seems to me that it is extremely useful to set targets. The $250 billion target that was set was widely thought to be unattainable and it was attained. The $270 billion target was thought to be unattainable and it was attained.

My guess is that if a $300 billion target is really set out there, even though it is thought by many to be unattainable, it can be attained. So I think the use of targets of that kind is very useful; and I would suggest following Mr. Baldwin's comment, that an effort be made to set a target for both the appropriations -- what might be expected to result in immediate outlays for the year -- and the authorizations, so that we are forcing ourselves to look down the road across the board in the Budget. So that is my second suggestion.

The third, having to do with the off-budget problem that has been mentioned, in which I think is a very serious problem, if there is resistance to putting those agencies back in the budget, some headway can be made by putting them within the Federal Financing Bank.

So that their borrowings are at least coordinated by the Secretary of the Treasury. And, if you are really bold, give the Secretary of the Treasury just a little bit of authority to have some say, at least when the borrowing would take place, and maybe even a little of whether. Then you begin to get some kind of control over these agencies' borrowings.

SECRETARY SIMON: Thank you. Senator Javits?

SENATOR JAVITS: The only suggestion that I wanted to make was that, instead of looking at the budget problem strictly on the cut side, why not look at it also on the addition side.

In other words, if you want a quick budget reduction to the $300 billion level, why not look at such taxation as can be readily agreed to and utilize some of that.

It is pretty well acknowledged, and I understand clearly how Senator Long feels about it, that there will be some windfall tax respecting the unusual profits attributable to the transitions to very much higher oil prices.

Mr. Bethke suggested some possibilities in the area of taxation. And in view of the feeling of people like Henry Reuss and myself that there are certain aspects of this budget that are going to suffer unwisely and of the general agreement on public service employment, shouldn't the United States Government also consider quick additions to income which is just as good as budget cuts in order to facilitate our tax?

V.

Monetary Policy
Discussion Papers from Delegates

Mr. Richard P. Cooley
President and Chief Executive Officer
Wells Fargo Bank, N.A.

With disintermediation, thrift institutions which are the principal source of housing financing are unable to compete for funds. This unavailability of funds, together with increasing prices due to inflation, higher interest rates, more restrictive terms and conflicts with usury laws in some areas is resulting in a severe decline in housing starts. Most builders are highly leveraged and the reduction in volume and increased cost of carrying inventories is creating serious credit problems. Housing has a great multiplier effect on our economy both on the way up and the way down and as the larger number of starts of the past reach completion and new housing starts decline, the reverse multiplier is effecting the construction industry and businesses supplying goods for new homes. Unemployment in the construction industry is already too high and will increase.

High interest rates are considerably increasing the costs of other real estate projects underway many of which are funded on a variable rate basis. This is a major concern and affects not only the project owner but also all financial intermediaries participating in the real estate market. This situation along with cost overruns resulting from increased material costs exists in many major real estate projects in the United States and in addition to creating credit problems increases the need for additional financing. Higher interest and construction costs also make planned projects economically unfeasible, thus effecting economic growth.

The subject of incentives to thrift institutions need priority rating, including the suggested tax free status of up to $1000 to $2000 of interest. Variable mortgage rates are needed to encourage lenders and to protect borrowers in periods of declining rates.

The real estate industry is the hardest hit sector of our economy in the current inflationary/high interest period and will add further to our economic slowdown if not given immediate relief.

Dr. Tilford C. Gaines
Senior Vice President and Economist
Manufacturers Hanover Trust Co.

(1) The recent clamor for an easier monetary policy is hard to understand. The U.S. economy is in a recession, but it has been a mild re-

cession and there is no evidence to support fear that it will become more severe, although there is evidence to suggest that it might be relatively prolonged. Federal Reserve policy can scarcely be described as overly tight when one looks at what has happened to the monetary and credit aggregates over the past six months to one year. What is of overriding importance is that were the Federal Reserve System to back away from its anti-inflationary efforts to restrain money and credit growth at this point, the damage to public and international confidence could be incalculable.

It is difficult to know what is exactly the right monetary policy for the sort of situation that we now are going through, but it is reasonable to think that what the Federal Reserve System is attempting to do through its money and credit targets is about right to avoid serious recession and at the same time exert a continuing drag upon price inflation. My recommendation, therefore, would be for a continuation of present policy. At the same time, I would hope that the recent effort of the Federal Reserve System to nudge short-term interest rates lower without compromising the basic objectives of policy will be successful. There has been a more than usual number of business failures in recent months, and there might be a significantly larger number in the months just ahead, solely because of the cost of money. If the Federal Reserve is able to get short-term interest rates down without speeding up money or credit growth, it could make a very important difference for many individual companies and for the health of the economy as a whole.

Looking to the future, the object of monetary policy should be to continue its growth targets in the money and credit aggregates at levels sufficiently below the ongoing rate of price inflation so as to continue to exert a drag on inflation. Hopefully, within the next two or three years monetary policy might be able to settle into a fixed set of growth targets, consistent with reasonable price stability, that could then be maintained for a number of years ahead.

(2) Domestic financial markets are currently in a state approaching disarray. This is true of the equity market, the bond market, the mortgage market, and to a much lesser degree of the money market. The single most important reason for this condition is the current rate of price inflation an ddeep-seated fears that inflation will not be controlled.

Going beyond the expectation of inflation, and what that fearful expectation is doing to the state of the market, lie more direct consequences of inflation. On the one hand, virulent inflation is undercutting the ability of the public to save and thus make funds available to the financial markets. On the other hand, inflation has added immensely to credit and capital demands by artifically inflating the values of current assets on corporate balance sheets, the cost of replacing capital equipment far in excess of depreciation allowances, the cost of residential real estate, and the cost of all other major investments of this character. In combination, inflation has created a basic imbalance between the demands for credit and capital funds and the available supply of such funds.

An easier monetary policy would compound rather than correct this problem. Recent suggestions for a system of credit allocation imply a degree of wisdom that no one in the financial community would pretend to have and that the Government should not profess to have. The net result of a formal allocation system probably would be far more harmful than helpful. Present unstable market conditions will not be corrected until there is evidence that price inflation is being brought under control, along with evidence that the flow of savings is more adequately meeting the demands for funds. In this regard, a Federal budget surplus would be most useful.

There is one additional element in current market conditions that is of great importance but difficult to measure. That is the weak capital position of the principal broker, dealer and underwriting operations in our financial markets. Losses of recent years have so reduced the capital base of these companies as to raise questions about their ability to provide the underwriting and trading capability that will be needed in the years of heavy demands on the financial markets that lie ahead of us. Careful attention should be given to possible methods for attracting new capital into U.S. financial markets.

Mr. Ray Garrett, Jr.
Chairman
Securities and Exchange Commission

It is well known that stock prices generally have been declining over the past 18 months and are now very low relative to prices during the prior decade. Investors have a widespread disinclination to purchase equity securities, and, as a result, companies of every sort are finding it difficult or impossible to raise new equity capital on any terms. They are likewise finding it difficult to raise long term debt capital.

Cash offerings of all new corporate securities, which grew from $22 billion in 1968 to $45 billion in 1971, fell to less than $33 billion in 1973. Common stock offerings, which more than doubled from 1968 to 1972 to reach $10 billion, declined to $7.8 billion last year and are at a rate well below that currently.

In addition to other factors causing these declines, I wish to emphasize two factors relative to government impact on the debt and equity markets.

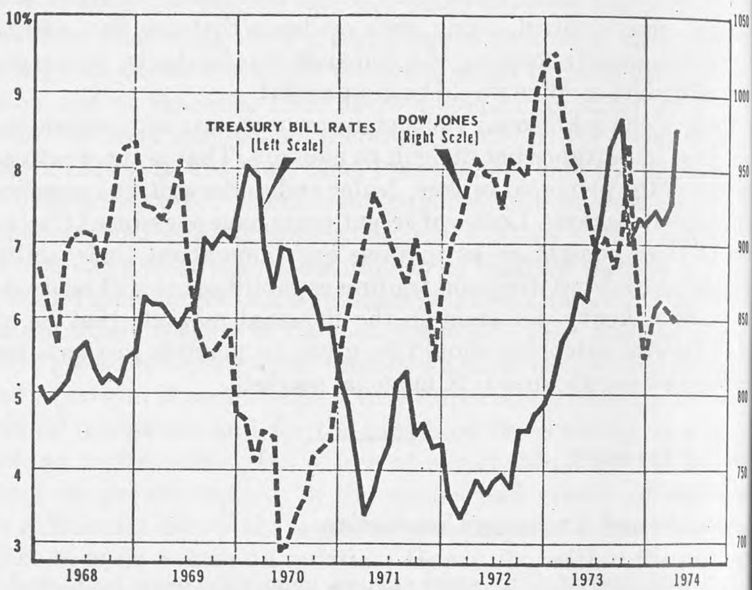
(1) Increased offerings of government securities have probably contributed to private industry's difficulty in raising investment

capital during the last two years. From 1971 to 1973, corporate offerings declined by $12 billion, while U.S. government and government agency offerings increased by $9 billion.

(2) There is a close inverse relationship between interest rates on Treasury bills and stock prices. See the attached graph.

We think that deliberations on the economy and inflation should take these factors into consideration.

The Dow Jones Average and Treasury Bill Rate show a strong tendency to move in opposite directions . . .



This has been true in most recent periods of major DJI change . . .

	Percentage Change	
TIME PERIOD	DJI	TREASURY BILL RATE
May 69 – Aug 69	− 13.5%	+ 20.3%
Nov 69 – Feb 70	− 10.0%	+ 11.1%
May 70 – Mar 71	+ 35.0%	− 50.0%
Mar 71 – Aug 71	− 6.9%	+ 54.3%
Nov 71 – Apr 72	+ 15.0%	− 22.2%
Jul 72 – Jan 73	+ 11.0%	+ 22.5%
Jan 73 – Aug 73	− 14.2%	+ 74.0%
Oct 73 – Dec 73	− 14.0%	+ 5.7%

M. R. Hellie
President
Credit Union National Association, Inc.

While there is reliable evidence that the Federal Reserve has expanded the money supply excessively in recent years, monetary policy in the immediate past period seems to have been appropriate, given the economic conditions of the period. However, the policy was becoming unduly restrictive as a result of the failure to use other appropriate anti-inflation tools, including fiscal measures. Recent signs indicate that the Fed has, in fact, loosened the policy somewhat, and it would be hoped that the money supply would be allowed to grow at a rate approximating the long term rate of growth of the U.S. economy.

MR. RICHARD D. HILL
Chairman of the Board
First National Bank of Boston

Current monetary policy is one of vigorous restraint. The Federal Reserve has doggedly attempted to slow the growth of money and credit since late 1972. Unprecedented inflation and the accompanying deterioration in the debt and equity markets have swelled credit needs of bank customers and resulted in record growth in bank lending. Rather than excessively strain bank liquidity, the Federal Reserve completed the removal of Regulation Q ceilings on large negotiable certificates of deposit in May of 1973. This has enabled banks to acquire funds to better meet their lending commitments. Inasmuch as inflationary pressures are expected to be strong well into 1975, the demand for credit will continue to grow despite a sluggish economy. In addition to these short-term borrowings, liquidity is being progressively reduced by rapidly rising factor costs. If the momentum of current forces is allowed to continue we anticipate an unacceptable level of bankruptcies.

Thus we conclude that the Federal Reserve has assumed the difficult task of controlling inflation by cutting the growth rate of money and credit and yet not draining liquidity to the point that financial crisis results. The policy tentatively may be judged a success, and the perserverance of the Fed is encouraging. At the same time, however, we caution the Fed not to overdo the degree of restraint. In addition to a sharp rise in factor costs, many businesses are now suffering greatly from high interest charges and bankers are justifiably concerned that they cannot continue to pay such high rates and still survive. We urge the Fed to strive for a degree of restraint which continues to limit inflation, but which achieves a lower level of interest rates than is presently in effect. Perhaps a rate structure consistent with a prime rate of 9–10 percent would be appropriate for the near term. Finally, it is important to keep in mind that there is more than just the monetary dimension to economic policy, and the key to rational strategy rests heavily on obtaining a balance between monetary and fiscal measures. Thus, while we argue for some easing in Fed policy to avoid unnecessary financial strains, we also would like to see clear signs of a more prudent stand on federal spending. In our opinion,

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holding the budget to $300 billion, or preferably less, is essential. A clear statement of purpose to this effect would make it easier for the Fed to alter its stand. Some call fiscal prudence a "tired old remedy which won't work." We suggest that there is no evidence of this for the remedy has not been tried.

Mr. Ralph F. Leach
Chairman of the Executive Committee
Morgan Guaranty Trust Company

The state of disarray in financial markets is too well known to require either detailed narrative or statistical description. The decline in the market value of outstanding equities and the attendant difficulty in raising many significant amounts of new equity through stock issues has been widely discussed. The high cost and limited availability of long-term money for either public issues or private placements is well documented. The huge demand for bank credit that is at least partially a result of the drying up of other sources of short-term and long-term financing, has been noted by both official and private observers. Business loans at all large banks are up at about a 25% annual rate since the first of the year and the rate at New York City banks is over 30%.

As short rates have spiraled upward, savers have shifted funds from institutions to direct market investment—with obvious adverse implications for the availability of mortgage credit. So-called tiered markets have been developed, both in the U.S. and the Euro-dollar market, and lesser known credits have either been compelled to pay a premium to renew borrowings or have literally been unable to roll them over. This problem may be accentuated by the concentration of large liquid balances in the hands of oil producing countries. It is a tribute to the strength and flexibility of our financial markets that these huge shifts in fund flows have been achieved without even greater disturbance than we have seen thus far.

Basically these market conditions are the product of inflation. But in the case of financial markets the related concern arising from the expectation of continuing inflation and of the impact on those markets of further efforts to check inflation is also important.

Obviously, progress in the effort to slow the upward spiral of prices would do more than anything else to help restore normality in financial markets. It would reduce both inflationary expectations and the anticipatory fear of further general and selective credit restraints. Hopefully the rate of inflation will be reduced as a result of policy actions previously taken and others that will be taken, partially as a result of these conferences. Meanwhile, progress toward normality in financial markets could be hastened by:

1. Overt action to lessen inflationary expectations.
2. Reassurance to the business and financial community that the

peak of financial stringency is behind us and that, while financial restraint may be required for sometime to come, the kind of cumulative crunch that appeared to be developing around mid-year is not likely to be repeated.

3. Laying to rest recurring rumors that selective ceilings or penalties may be imposed on specific credit transactions.

The latter two actions can be accomplished by the Federal Reserve and the Administration. To be credible, the former should involve specific action by the Congress, since rightly or wrongly, financial market participants and a large segment of the public feel that ultimate authority in many critical areas—especially fiscal policy—rests with the Congress. One way this might be accomplished would be for Congress to act decisively to amend the Employment Act of 1946 to include price stability as an explicit objective.

Mr. DONALD T. REGAN
Chairman of the Board
Merrill Lynch, Pierce, Fenner and Smith, Inc.

Our financial markets today are in disarray and thoroughly demoralized. Not only is the cost of money at historic highs, but, in the hot competition for available funds, many would-be borrowers are locked out completely. And many businesses which would turn to equity capital find that alternative even less feasible. Not only do the different seekers of cash compete for funds; the competition is also among the different types of markets. The short-term, long-term and equity markets interact. The high cost of raising funds in one brings about about unpalatable conditions in the others.

Clearly, as long as the sum of our necessities *plus* our desires substantially exceeds the available amounts of goods and services, liberal augmentation of the money supply would simply worsen inflation. It is essential that we discipline our spending, both individually and as a society, until a reasonable supply-demand balance can be struck.

At the same time we know that turning off the money spigot is no answer either, but it apt to lead to serious economic disruption. Under the present circumstances, high money costs themselves tend to turn into a significant contributor to price inflation.

We feel the Federal Reserve's presumed target rate of about 6% money growth is appropriate. Since growth in recent months was somewhat below this target, the Federal Reserve now has some room to maneuver on the side of moderate ease. This is welcome. We agree that the Federal Reserve's primary concern should continue to be with monetary aggregates, rather than attempting to directly influence interest rates. We also recognize that the Federal Reserve has been forced to accept the role of lender of last resort not only in our domestic banking system but to the Eurodollar market as well.

But too much relaxation could be extremely dangerous. While it could temporarily lower short-term rates, it also would foreshadow a long period of accelerated inflation and thus induce a new rise in long-term rates. And before long, short-term interest would again be up to perhaps even more disturbing highs.

There is traditionally quite a time lag between monetary policy changes and the response of the economy. But this time a turn toward an improved economic environment seems to be waiting mainly for greater availability of credit. Thus, the response to monetary changes should be quicker than usual, and the Federal Reserve can factor this into its decisions.

Meantime, having the patience and fortitude to steer toward a 6% monetary growth target could be a major factor in producing a lower inflation rate by a year from now.

Mr. Ralph S. Saul
Vice Chairman
Insurance Company of North America

Inflation is changing the character of all our financial institutions. The securities markets, particularly, have borne the brunt of our current economic problems.

During the past year, many corporations have been foreclosed from using the securities markets to raise long-term capital. Equity issues—with few exceptions—cannot be financially justified. Stocks of sound companies with good records of earnings growth sell at below book value or at low price/earnings ratios because of lack of demand for equities—not because of the underlying fundamentals. In the bond market, it has been difficult, if not impossible, to distribute most industrial bond issues except for the highest quality borrowers. Many corporations have had to turn to the short-term markets or to banks to supply their immediate credit needs.

The malfunctioning of our debt and equity markets has seriously eroded securities values. We are only beginning to see the consequences of this erosion, e.g., in unfunded pension liabilities to corporate pension funds and in the premium-writing capacity of the insurance industry.

Present trends, if continued, will seriously damage both the securities markets and the securities industry and lead to fundamental changes in the way we create and allocate capital. As I see it, we urgently need a public agency or authority similar to the Federal Reserve System, with the primary mission of developing and implementing policies that will strengthen our securities markets as financial institutions. The existing regulatory structure, built around the SEC with a narrow statutory mandate and numerous and frequently competing self-regulatory organizations, is not adequate to the task. A legislative priority in Washington should be the overhaul of that structure.

ROBERT H. STEWART, III
Chairman
First International Bancshares, Inc.

Although conditions in the money market have improved slightly in recent weeks as a result of a very slight shift in the Federal Reserve's policy stance, they still can best be characterized as tight and jittery. Conditions in the bond and equity markets continue to be chaotic.

The record seems to show that monetary policy was too loose in 1972 and part of 1973. Perhaps it was about right in late 1973 and early 1974. Given the performance of monetary aggregates during the last three months, however, one is tempted to judge current policy as too tight. Maintaining the growth rate of the money supply below a 2% annual rate for long under current market conditions could be risky for the markets and for the real economy.

Without turning over the rocks of whether one thinks monetary policy can deal effectively with controls—repressed inflation, or with supply-side-shortfall inflation, or with cost-push inflation, it seems clear that a shift upward to a money-supply target rate of growth in the 5 to 6% range will soon be in order. If such a shift is "misinterpreted" by market participants as a shift to ease, so much the better. The psychology of the money, bond, and equity markets should improve almost overnight. Given current and prospective economic conditions, a 5 to 6% target range cannot be labeled as inflationary.

Mr. THOMAS I. STORRS
Chairman of the Executive Committee
North Carolina National Bank

Monetary policy in 1974 must be viewed against the background of
(1) significant prior mistakes of national economic policy
(2) substantial increases in world commodity prices
(3) the winter energy crisis
(4) the lagged impact of two devaluations of the dollar
(5) the removal of price and wage controls during the first half of 1974.

It would be simplistic to assume that in the face of such pressures for expanded credit and an increased money supply, the Federal Reserve could have maintained the growth of monetary aggregates within some predetermined limits of small magnitude. In fact, the money supply, narrowly defined, grew until recent months at a rate which would clearly have been unacceptable under other conditions; more recently the rate of increase has fallen appreciably.

Except for the first two months of 1974, monetary policy this year has been appropriate in that it has been as restrictive as was feasible in the circumstances. It has resulted in extremely high interest rates and severe tensions in credit markets. In recent months it has brought about a very restrictive lending policy in commercial banks, the full effects of which are still to be felt.

These and other economic forces have raised serious questions as to the liquidity and solvency of many business firms, and these doubts in turn have led to more critical and sometimes superficial evaluation of the liquidity of financial institutions. The resulting stratification within financial markets has impeded the flow of funds to a wide range of firms, including some banks which normally acquire loanable funds in these markets.

It would be appropriate at this time for monetary policy to be relaxed to a degree which is modest but which would be clearly perceptible in financial markets. The emergence of other anti-inflation programs will make this modification of policy possible. The increasing strains in credit markets and the foreseeable results of credit restrictions make it highly desirable.

Mr. John F. Tomayko
Director, Insurance, Pension and Unemployment Benefits
United Steelworkers of America

Our nation's economy is presently suffering from rampant price inflation and a concurrent unacceptably high rate of unemployment.

While traditional economic theory dictates that the rates of inflation should be responsive to monetary restraint, that relationship must assume that the initial cause of the inflationary spiral is excessive demand for a limited supply of goods and services. Today's inflation, however, is not of the demand-pull type, but rather it has been strongly influenced by a combination of independent forces, including (1) the contrived and artificial shortages of raw materials such as petroleum and food stuffs; (2) excessive capital expenditures at the expense of consumer goods production; and (3) unwise exportation of vital raw materials and farm products.

Because the government has failed to recognize these real causes of inflation, the unimaginative and relentless tight money policy promulgated by the Federal Reserve Board will aggravate the inflationary spiral rather than alleviate it. In fact, it is already the major contributor to inflation.

The labor movement is particularly concerned that the oppressively tight monetary policy has had a disproportionately harsh effect on the sector of our economy which can least afford to suffer—the nation's poor, the unemployed, and the lower middle class worker.

Corporations have outbid the consumer for the limited supply of available money, knowing well that their unstrained pricing policies will absorb the cost of their expenditures in the capital goods market. As a result, our traditional sources of funds for mortgages, small business and consumer loans have dried up. As a result, residential construction and retail sales, two important indicators of economy's health, are depressed and getting worse.

I propose, therefore, that the present course of monetary policy be changed through (1) a moderate expansion of money and credit; and (2) extension of credit on a selective basis to encourage growth in construction of housing, public facilities and selective industries where faced with excessive or chronic unemployment.

In conclusion, if the labor movement is expected to pursue a policy of moderation of wage demands (in the face of declining real income), the financial sector of the economy, and particularly the Federal Reserve Board, must make an equal effort to see that the quality of life of our nation's working class is not unfairly endangered.

Mr. John Winthrop Wright
President
Wright Investors' Service

I. U.S. International Negotiation of An Agreement to Regulate the Creation of "Eurodollar" and Other Foreign Currency Deposits in Non-domiciled Banks.

II. Enact Legislation to Insulate Domestic U.S. Monetary and Credit Policies from the Influence of Excessive Foreign Interest Rates and Capital Requirements.

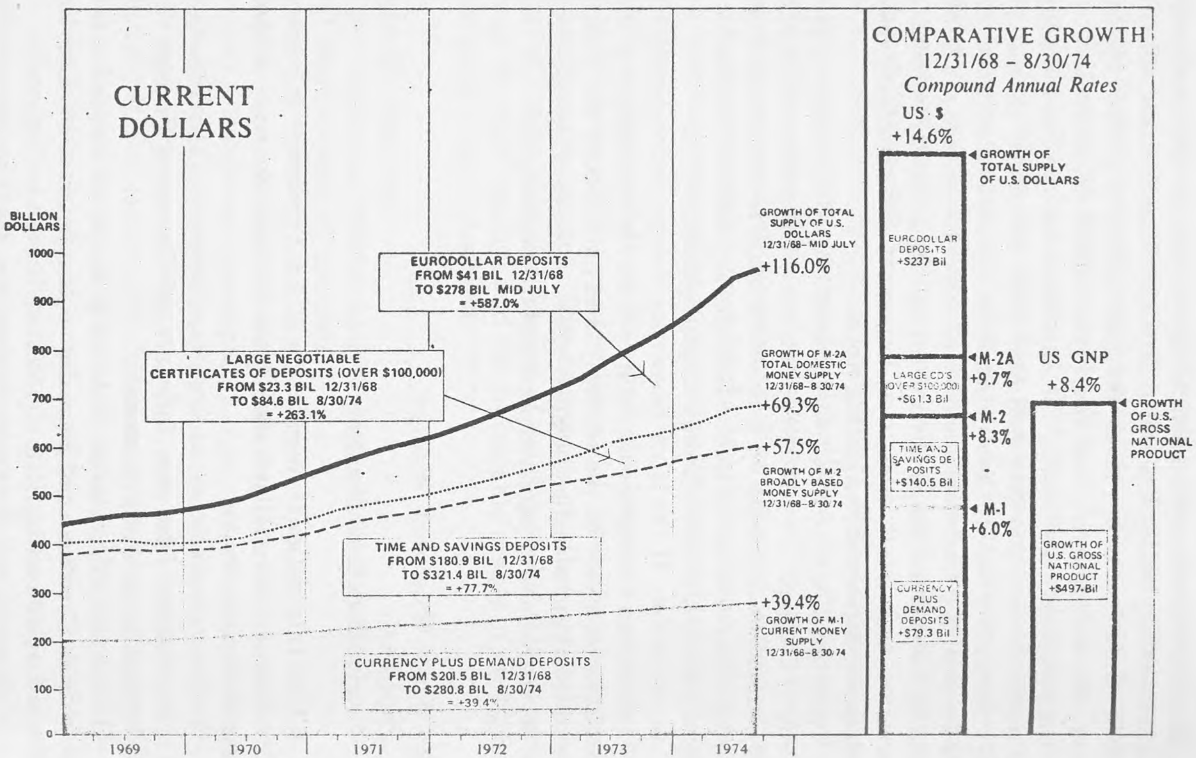
III. Limit by Legislation, Interest Rates on all Deposits Including Negotiable Certificates of Deposit to a Maximum of 1% Less than the Prime Bank Lending Rate or 5%, whichever is Higher.

IV. Expand and Revise by Legislation, the Requirements for and Terms of Office of Membership of the Federal Reserve Board so as to Provide for Broader Representation of Public and National Interests.

V. Expand by Legislation, the Federal Reserve Board's Regulatory Powers to Include Variable Reserve Requirements Depending on the Proportion of Each Bank's Loan Portfolio Allocated to National Economic Purposes and Priorities.

VI. Establish by Legislation, More Precise Requirements and Procedures for National Economic and Financial Policies and the

U.S. GNP VS THE MONEY SUPPLY



Responsibility and Accountability of the Federal Reserve Board for Implementing These Policies.

VII. U.S. International Negotiation to Create an Inflation-Proof Standard of Value in the International Monetary System.

VIII. Repeal the One-Bank Holding Company Legislation and Limit Banks and Banking Corporations Strictly to Banking Functions with No Involvement in Investments, Insurance or Other Non-Banking Activities.

IX. Establish by Legislation, a "Citizen's Capital Investment Tax Credit" to Encourage Savings and Capital Formation by Individual Citizens and thus Reduce Inflationary Spending Demand while Increasing the Supply of Productive Capital.

Mr. Walter B. Wriston
Chairman
First National City Bank, New York

If our goal is to reduce the rate of inflation and reduce both short- and long-term interest rates, then the Federal Reserve should not deviate substantially from its policy objectives pursued this year.

The money in our paycheck or in our pockets has no value in and of itself. It has only a scarcity value. If each one of us had all the money that we wanted, the value of that money to purchase goods and services would approach zero. This is the reason that the amount of money which is printed by the Federal Reserve System is crucial to the control of inflation. It is a truism that the depreciation in the value of our money is another way of saying that our prices are going up. Whether you belong to one school of economists or to another, the foregoing logic is relevant to a consideration of the problem of inflation. If the Federal Reserve prints more money than the goods which are available to be purchased, the price of those goods will obviously go up; on the other hand, if it does not print enough money to keep up with the increase in the productive capacity of the United States, the rate of price inflation will diminish.

The annual rate of change in the narrowly defined money supply has been about 6% since the beginning of this year. This does not represent a materially smaller increase than that for all of 1973. The Federal Reserve has appeared to be more restrictive than it has actually been in nominal terms because the rate of inflation has accelerated rapidly this year and with it very strong credit demands. If the Federal Reserve were to deviate significantly from its target of a moderate rate of growth in money stock in an attempt to alleviate the inflationary demands for credit, it would be feeding the very virus we are attempting to eliminate.

Interest rates have increased sharply this year not because the Federal Reserve has been significantly more restrictive than it was in 1973 but because inflation, including the higher price for oil, has driven the demand for credit substantially higher. Those who see the need for credit or the opportunity to employ borrowed money profitably at a time of rapidly rising prices have bid aggressively for the available supply of credit which, in fact, has increased this year in absolute terms. But that bidding has been considerably greater than the amount which the Federal Reserve has provided. Consequently, interest rates have increased.

There are times when the Federal Reserve for periods of one or two months must expand money growth beyond its longer term target. But then it has corrected for this in the month following. Between February and May of this year the Federal Reserve significantly exceeded its long-term target, but from early June through August it undershot its longer run objectives. It may well be appropriate now for the Federal Reserve to become moderately more expansive to move back toward its long-term target.

It is significant that short-term interst rates climbed by more than 400 basis points between February and June of this year when the Federal Reserve was highly expansive. But since June, short-term interest rates have essentially moved sideways while the Federal Reserve has become more restrictive and the rate of growth in short-term credit has slowed down. It is not the Federal Reserve that determines major moves in short-term interest rates but the private marketplace. For example, more than $40 billion rolls over in the commercial paper market alone every 30 days.

The Federal Reserve has slowed down demands in the economy by refusing to validate the inflationary expectations that were so rampant earlier this year. Any effort to reduce interest rates rapidly through an expansive monetary policy would shortly ignite those inflationary expectations and it would not be long before the private market demands for credit would drive interest rates even higher. At a time like this, efforts to reduce interest rates through a more expansive monetary policy are like trying to smother a fire with gasoline.

V.

Monetary Policy Conference Proceedings

MONETARY POLICY TO DEAL WITH INFLATION

SECRETARY SIMON: We will now move to monetary policy to deal with inflation, which we have allowed 30 minutes for.

Doctor Lee Bach, Stanford University.

DR. BACH: Mr. Chairman, I would like to begin by talking about two general points of perspective about monetary policy.

The first one is, as one looks back over the preceding many summits, one sees a very large amount of agreement that monetary policy has been on the whole good, but it is a little too tight. We ought to pull back just a little bit. Not too much, just a little bit.

I think one should be a little cautious there. We are not going to solve the inflation problem by easing up on monetary policy. Whereas it may be a very good thing to do unless we have some other way to fight the inflation - just a little easing on monetary policy doesn't solve the problem. It would be nice if it did.

A second general perspective point I would like to raise is this: As I argued this morning, I think it is not possible to specify a correct monetary policy or level of restraint without reference to wage-price behavior. There is not today in our system an excess demand, in my judgement -- probably no excess demand at all.

The real issue is cost-push and price-push, if I might put it that way today.

The real issue, to put it another way around, is whether the Federal Reserve will put enough money in the system to validate the cost-push, the higher wages, the higher prices being put there by workers, unions and by businesses. I think that's the way to look at monetary policy, as to whether it will go to the point of supporting those higher wages and prices and therefore providing a higher plateau from which we now go on up to another spiral.

I argued that the issue this morning was whether the Fed would validate these higher prices and wages -- I think Mr. Eckstein was right that we need be awfully careful that we don't promise too much in our policies; that we don't think by a little bit of budget restraint we can really solve the inflation problem. We cannot, is my argument this morning, I want to make it again today. Without an incomes policy of wage and price restraint, a kind of national consensus, to a great extent, the Fed is tied down. It can really halt the thing only by incurring costs that are very great from a social point of view and I just do not think the American Public is going to stand still. I don't think the Congress will stand still for as tight a monetary policy to knock this inflation in the head. It has to do it all by itself.

I think we are seeing today a kind of financial brinksmanship that is required of the Fed, the danger that it will tighten things so much that we will have serious financial trouble. I think it has done awfully well. We should be pleased with it. But I don't think that's the position we can safely put our financial authorities in over the longer period. We ought to try to get away from that situation, where they have to be sitting on the financial brink all the time because the financial pressures, the inflationary pressures, are so strong in the society all the time.

It seems to me that only the strong leadership of the President, working with the Federal Reserve, working with the Congress, working with the people, can develop a social compact, to use the words others have used, that would be viable, that would make it feasible to hold the system down on the inflation front without generating a lot of unemployment, without generating financial trouble.

I have stressed these fundamental conditions for successful monetary policy rather than talking about the details of monetary policy; whether we should ease or tighten it a little bit now; whether we should try credit allocations or not, and the like. Incidentally, I think we should not. This because I think these fundamental conditions are the really crucial issues.

The validation of wage-price spirals that has a nasty way of sort of always easing up and going a little further and you are ready to go up another step or two. We have to face the long-run issues. Looking to short run problems, day by day, the little pieces of the problem would not solve our general problem, I would argue. We cannot safely commit the Federal Reserve authorities to a life of persisted brinksmanship fighting inflation. It won't stop the inflation and risks very great dangers to the economy.

Thank you.

SECRETARY SIMON: Thank you. Mr. Wright.

MR. WRIGHT: I must take issue with what seems to me to be the general misconception that the Federal Reserve Board should be faulted for having had excessive growth of the domestic money supply. There may be other faults, but that isn't one of them.

During the last five years, and I have distributed this around so the facts are before all of you, the growth of a narrowly-defined so-called M-1 money supply in the United States has averaged 6 percent a year. The growth of the gross national product has averaged 8.4 percent a year. That adds up to me to the fact that there is less money for dollar of gross national product with which to finance it to provide the working capital than there was. Five years ago, the three year average was that the domestic money supply averaged 22.7 percent of the United States gross national product. Recently, that's down to twenty-one and a half percent. That's a considerable shortage.

Now, if we took the inflation in dollars and spelled it out in current dollars, we find that the annual rate of increase of the domestic money supply has been four tenths of one percent in constant dollars, and the average annual rate of increase of gross national product in constant dollars has been 2.7 percent. So it is quite clear to me that the Federal Reserve Board cannot be faulted for having caused this inflation by excessive money supply during the last five years.

Now, there is another fact that nobody says anything about. And that is, all the dollars that have been created in Europe. Some of them have been transferred by the export of capital, but a lot has been created, simply by buying money and opening a demand deposit account in a European bank.

I believe it will astonish, completely astonish most of you, not all of you, to know that the size of the dollar money supply on deposit in European banks now is as great as the entire money supply on deposit in domestic banks. When you include that in the growth of dollars available in checking accounts, you find that for the last five years that has averaged altogether 14.6 percent annual rate of increase of dollars all over the world in the money supply as compared with an 8 percent rise in the gross national product.

Now, if there is anything inflationary in this world, that's it.

And I suggest that we direct our attention as to how to get under control the dollars which had been created in European banks without any control at all by any part of the United States Government, including the Federal Reserve Board.

Now, you will find in this little chart, which I have distributed, a series of 9 proposals and when I spoke this morning I suggested general reform. I will take time now only to ask your attention to the first three.

The first of which is to negotiate without delay an international agreement to control the creation of dollar deposits in non-domiciled banks, that is, in European and other non-American banks -- control that. I am sure it can be done, and we should reciprocate by permitting other nations to control currency deposits made in our banks in their currencies.

I think it would be in the interest of all central banks, and I think they can be persuaded to agree to that.

Along with that, I think it should be an article of United States national policy that we are not going to allow the level of interest rates in the United States to be determined in Europe. Obviously, and its been said many times, that if rates were higher in Europe, the Federal Reserve Board here has no alternative except to hold our rates up or else we have a flight of capital.

Well, that certainly is correctible by legislation and taxation on excessive profits from that. We had something like that, not quite like it before, and that can be done.

Finally, I would ask attention to one more thing.

The so-called large $100,000 negotiable certificate of deposit. They were an animal created only about 12 years ago and they didn't amount to much until 1970 when many people, including myself -- believed that the Federal Reserve Board overstayed a restrictive monetary policy and we came near a financial panic in this country. At that time, by agreement, the Regulation Q limit on interest rates payable on large certificates of deposit was lifted and there was reason for it at that time. Because it permitted the banks to raise their rate, attract capital and make what they believed were their loan obligations and thus avoid financial panic. That time is long gone. Now that is the Frankenstein which has caused the continuous excessive rise of interest rates. The rise of interest rates which we have now in this country is not simply the fact that we are somewhat short of our working capital, of our M-1 money supply, it is because there has been no ceiling on the interest rates which banks can pay on large certificates of deposit. There is still a ceiling on what you can pay the average citizen on small CD's, but not on the large amount. For that reason, and I am ending now, for that reason, I suggest that we immediately restore Regulation Q and that when we do so, we pass legislation which will set the absolute ceiling at one percent less than the prime rate, instead of above or it with a minimum of five percent.

Thank you.

SECRETARY SIMON: Alan Greenspan.

MR. GREENSPAN: Mr. Wright, I would like to comment on a couple of points on your chart, without coming to the substance of your policy recommendations as such.

In the first instance, it certainly is true that the Euro Dollar expansion has been extraordinary, the rate of increase is substantial, as in

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fact your chart shows, and it is a major new element of the international financial structure which think we have all been focussing on increasingly in recent years.

However, I think that it is important to recognize when one is looking at the effective money supply on the issue of inflation, not to look on the source of the liabilities, but who owns it.

It turns out, of course, the very substantial part of the liabilities of banks are held by citizens. It turns out that something as I recall in the area of about $10 billion of the total Euro-dollar market is held by American citizens; and since the money supply presumably works on the issue of inflation on the side of the holder rather than on the side of the liability, then one's attempt to estimate the total amount of either M-1 or M-2 or what else we are doing, that technically should include the total domestic liabilities of banks to domestic citizens, plus the Euro-dollar assets of American citizens, and I think -- I have looked at that at one point. It turns out that it does not make a terribly great difference with respect to United States actual holdings. So that in effect the use of the money market data as an indicator does not in my view seriously bias the numbers.

Secondly, you pointed out that the total real increase in the money supply, or M-2, moved pretty much with the real increase in gross national product and I think you concluded that that therefore was not a significant element in the price lever. What that implies algebraically is that the unit money supply, that is, the money supply divided by real GNP is moving directly proportional with the price level. And I think one of the more interesting correlations that we have seen of late has been in fact how closely the unit money supply growth has paralleled the price level; and in fact all it suggests is the so-called income velocity, that is GNP in current dollars divided by the money supply, usually M-2, has been remarkably stable and, in fact, for more stable than it has been in the past.

This is not strictly an academic issue, because what it is suggesting in effect is that in the longer term sense money supply growth is a major determinant of the price level; and I think that one of the reasons why many of us have been so concerned about the off-budget financing items of the Treasury has largely been that it is viewed as a sort of premptive borrowing against private savings flows, which in a sense elbows out of the capital markets private borrowers, who in turn press on the commercial banking system to accommodate themselves in their credit demands. The commerical banks in turn have tried to create the reserve necessary to support the deposits associated with the credit expansion; and it is this expansion of the monetary base which, at least in my view, is a major element in this acceleration that has occurred in M-2 that in effect the tremendous pressure on the commerical banking system of the spillover has just been almost impossible to accommodate; and as a consequence of this, we are looking at the financial roots of the system.

I certainly agree with you that the Euro-dollar problem is something which requires a great deal closer look and its full implications I don't think we fully grasp at this point.

It is an extraordinarly large system. It has got to have monumental effects and with the flows which go in and out of countries, plus the extraordinary intertwining of interbank depositing which goes on in this market, suggests that this has grown into such an extraordinary system, that unless and until we can get a much closer look at it, especially now in terms of the oil revenue, that I think we are looking at a problem, the dimensions of which we haven't really got our fingers on.

I agree with you, that something in this area requires far greater study.

SECRETARY SIMON: Thank you.

Al Wojnilower.

DR. WOJNILOWER: I think what we should take with us from the last couple of points, is that even though demand pull within the United States may be more or less extinguished, there is a demand-pull exerted from abroad which may be not merely cyclical, but which is the consequence of what in financial terms would be a very rapid equalization of levels of wealth and standards of living between the United States and the rest of the world under conditions where United States capital is completely free to flow out and to help generate these enormous sources of demand from abroad on United States resources.

Now, it seems to me our policy ought to take into account foreign as well as domestic demands. In reference to what Professor Bach said earlier when he continued from this point, it is true we had an exercise of brinksmanship in Federal Reserve policy; that is, they go to one brink and the people there try to regulate and go to a different one. Sometimes they meet. But in my over 20 years of association with these markets, Federal Reserve policy has never been effective except when it was willing to go to the brink, and I think to some extent this is true also of monetary policy in other countries.

The problem with incomes policies which certainly make Federal Reserve policy easier to handle, is that they serve in our experience in the United States and in other countries, too, as an excuse overtly or covertly to avoid going to the brink to have easier policies, to avoid unpleasant choices because a couple of percent was chopped off the wage or price inflation, enabling people to believe were really right on front when they weren't.

And, so it seems to me, that if we had some kind of successful price and wage monitoring, it would need to be coupled with also some kind of automatically imposed break that prevented difficult fiscal and monetary choices from being delayed under the cover of a rather deceptive repression of inflation that can take place for six months or a year under incomes policies.

The proposals -- I just want to close by saying that the proposals Mr. Wright made which have to do with reinstating the regulation Q ceiling are really -- I consider them to be very similar in spirit to the proposal I made this morning to regulate the prime rate, which, to my way of thinking, is at the moment a more practicable and smoother way to achieve the objective, whereas now that Regulation Q has been released, putting that particular humpty-dumpty together again I would think as a practical proposition would be very difficult.

I would just like to add, however, that I wouldn't be as nice to the banks as Mr. Wright, and I would set the ceilings so that their cost of money would be above their prime rate, rather than the other way around, in the limit; and if that situation were to be overhanging all the time, it would be much less likely to materialize as contrasted with the presentation, where such a development was considered impossible, and as a result, therefore, it naturally came about.

SECRETARY SIMON: Thank you. Dr. Bach.

DR. BACH: I quite agree that an incomes policy has to be merged together to make any sense, with an understanding by the Fed, with an understanding by the fiscal authorities, that it is all part and parcel of a deal together, if you like.

That is why I said that the President had to really take a leadership role on a meaningful social compact. The Government, including the Fed in effect would have to commit itself to play ball, and to hold down monetary and fiscal expansion at the same time.

The second point is with reference to both the other comments on the use of direct controls. This morning I heard some comments about by all means avoid direct controls over wages and prices. It seems that that argument is equally good about avoiding direct control on interest rates paid by banks, and entered rates paid by other institutions.

Our history suggests that those get us into messes, they don't solve problems. I have in mind things like Regulation Q, direct regulations of bank interest rates, and so on.

SECRETARY SIMON: Thank you. Steve Saulnier.

DR. SAULNIER: Mr. Secretary, this morning and on an occasion this afternoon, a reference has been made to the possibility of instituting a program of direct allocation or direct control, a voluntary program of credit allocations by the financial system. And I should like to express dissent from that.

Someone suggested this morning that we had had that for the Korean period. We did have it in the Korean period, and after it was all over, there were analyses made to try to determine whether that voluntary credit restraint program had done anything constructive at all.

And it is my distinct recollection that the answer to that question was that it had not. I find a good many people in the financial community saying something like this: that the Federal Reserve system ought to be easier in its provision of reserves, and then the banks ought to be asked to restrain themselves.

What this comes down to me, is that someone is saying give the banks more money to lend and then tell them not to lend it. And I would forecast very little success for such a program.

I think as Al Wojnilower has just said, that there is no substitute for going to the brink. I think in the last few weeks or couple of months we have been as close to that as it is safe to be. But the only way to control credit, is by putting a real limitation on the amount of it that there is to lend. And I hope that this conference will not end with the notion in anybody's mind that it can be done otherwise.

SECRETARY SIMON: Thank you.

MR. O'LEARY: It isn't often that I disagree with my very good friend Steve Saulnier. I was involved in that voluntary credit restraint program -- I hate to have to admit that the Korean War period.

I know it is a much maligned program and it is commonly said that it did not succeed in achieving anything at that time. I did see some real success in that program, and I think this is the time in which we ought to not be too categorical in rejecting any of the alternatives because my own feeling is that it would be helpful to have a voluntary program. In effect, what is happening is that the commercial banks, as I view the situation, are already on a voluntary basis, with guidelines, tending to try to allocate capital to the best uses. I think that it was a very constructive thing for the Federal Reserve Advisory Council in consultation with the Treasury to try to work out some guidelines of that sort.

This is a very complicated economy. The invisible hand of Adam Smith isn't going to take care of everything in this situation. I think it would be helpful to relieve some of the pressures on short-term rates to have an effort made in this particular area. I also feel very much like Lee Bach. I like the way he has approached his thoughts on monetary policy, and I think that the big danger here is that there is going to be impatience with fiscal and monetary restraint, because I don't think it is going to have early results in bringing down the inflation rate.

We face the danger of a move, then, to full-blown wage-price controls. I think that an incomes policy designed through guidelines to try to hold down settlements can help to steady the price, the inflation at this particular point in time, and give what must be the heart of anti-inflation, monetary and fiscal restraint an opportunity to work itself through.

I don't think we ought to reject anything categorically here. I think a certain amount of credit rationing -- the banks are already doing it. I feel very confident of that in talking with many of them. It is a very constructive thing, and we ought not to, in any arbitrary way, rule out anything. We need an overall program, and that is part of it.

SECRETARY SIMON: Thank you, Jim.

We will just have Ralph Leach. Do you want to make a brief remark before we move to the next topic, please?

MR. LEACH: I just wouldn't want to leave this area without reminding ourselves and our elected officials that nothing brings about unwanted price increases faster than talking about price controls. There is no greater inducement to speeding up wage and salary increases than talking about wage controls.

Similarly, calls for credit allocation procedures can bring about a burst of bank credit demand which is the last thing we need in the current situation.

SECRETARY SIMON: Thank you.

We are now going to move to capital --
SENATOR LONG: May I make one suggestion?

SECRETARY SIMON: Yes, I beg your pardon.

SENATOR LONG: I think I could support a tax that strikes at those who are needlessly increasing the cost of their product, offset by a tax cut for those who are engaged in a cooperative effort between management and labor to reduce the price of their product to the consumer.

A lot of people, if you give them enough encouragement, might be able to increase their units of production, keep the plant operating a few hours longer, produce a little more, put a little more on the market. I know, for example, that if you gave the oil companies that incentive -- I understand a little bit about their business while they are not asking for it, if you would say, "All right, now you take your volume stations and if you cut the price at those volume stations, because you can if you want to, we will give you a tax cut to go along with that. And we will let you advertise that this is an efficient, low-cost station."

Well, in that case you would see a lot of people pulling into those stations, in addition to those pulling in already, because they are getting the product cheaper there. The first thing you know, even the fellow that doesn't want to cut his price might find he has relatively little choice about it, he has to do it. And anything that would help reduce the cost of living, I think, would be an appealing tax.

There are some taxes we could pass. I think that type of thing would have appeal.

Thank you, Mr. Chairman.

VI.

Capital Markets and Capital Formation Discussion Papers from Delegates

Mr. ROBERT H. B. BALDWIN
President
Morgan Stanley & Company Inc.

Clients of Morgan Stanley & Co. have indicated a need for large sums of money in the form of equity or debt in the period 1975–84. Consequently, the Firm has made extensive studies aimed at advising these clients, with particular emphasis on whether the future total supply of funds will meet the potential total demand. Our conclusion is that the capital requirements of governments (Federal, State and local) and industry, which are necessary not only to provide a rising standard of living and a growing number of jobs but also to meet environmental standards and to help solve the energy requirements, can be met provided certain fundamental steps are taken fairly promptly.

I. It is our opinion that the rate of inflation must be lowered from the present double digit figures to a significantly lower rate and that stringent fiscal and monetary polices must be followed even though temporarily the economy may remain in a recessionary phase for a longer period than most would desire. "Inflationary expectations" must be broken. We are happy to see recognition of this problem by the Administration and we welcome the steps being taken in an effort to find practical solutions. These attempts are being undertaken none too early as we are already witnessing a breakdown in the capital raising ability of our securities industry which, in coping with its problems, needs a sympathetic attitude on the part of government, particularly the SEC. Electric utility companies, unless their credit is of the highest, find that they can no longer finance in the normal way with long-term bonds without sinking funds and that, if they are fortunate enough to be able to sell common stocks at all, they can only do so at prices well below book values per share. In our opinion, industry as a whole in recent years has relied too heavily on borrowing, and it will be necessary for industry to raise substantial sums of equity capital; it cannot do so on a reasonable basis during a period of rapidly rising prices and high interest rates.

II. It is our opinion that total savings must be increased, not only absolutely but also as a percentage of gross national product. An increase in savings of individuals and of corporations is imperative. This can only be accomplished in a society which encourages profits rather than looks upon them as something evil and in a period when the rewards of saving are not destroyed by inflation. This is one place where Government can play a promient role. Another is in the field of taxation. Space restrictions prevent any detailed recommendations, but basically Government policies must be geared to encouraging investment instead of consumption.

A.—*Individual Savers*—A number of tax changes could encourage savings. Only a partial list of suggestions would include (1) a reduction in capital gains taxes, especially when capital gains arise because of inflation and (2) increasing the amount of dividend income not subject to tax.

B.—*Corporations*—The sources of corporations' capital for investment and working capital are internally generated funds and external funds. Internally generated funds consist of funds resulting from the investment tax credit, from depreciation allowances and from retained earnings. Increased corporate profits can result in higher retained earnings if dividends are not increased commensurately, but an increase in retained earnings as a result of paying too little in dividends could be counterproductive if stocks became less attractive to savers. After-tax cash flow, as distinct from retained earnings as reflected in accounts, can be increased by companies adopting LIFO accounting; those companies not now using LIFO should be encouraged to do so. The Government, of course, can play a vital role in the field of taxation, and we recommend both a permanent increase in the investment tax credit and adoption of new depreciation allowances which, in an inflationary era, will allow companies to recapture investments in a shorter period of time.

III. An increase in savings of individuals and corporations, accompanied by an attitude in Government (including the State public utility regulatory authorities) that is pro-profits, will do much to increase the flow of funds into the long-term debt and equity markets. Demands for credit are so great, however, that there will be a need to change the share of total savings directed to various components of the economy. In particular, it is our opinion that the Federal Government must not compete with private industry for savings. We strongly recommend that the Federal Government move rapidly toward a balanced budget and, in the future, a surplus.

DR. ROBERT G. DEDERICK
Senior Vice President and Economist
Northern Trust Company

In view of the enormous needs for new investment over the next decades, it is essential that the nation's long-term capital markets—equity, bond, and mortgage—be capable of absorbing large volumes of financing at moderate cost. As current experience indicates, there is no automaticity involved in matching potential demands with available supplies. Thus, if our investment requirements are to be satisfied, public policy must be closely concerned with the effective operation of these markets. Action will be required on several levels.

1. ACHIEVING NONINFLATIONARY GROWTH

A healthy economic climate is an absolute necessity for healthy long-term capital markets. Above all, therefore, policy must be geared to breaking the current inflationary spiral and restoring the economy to a noninflationary growth path—one closely in line with underlying productive potential. Without substantial growth, the additional real income with which to make new savings and investments will prove inadequate; without reasonable price stability, savers will be unwilling to commit funds to the long-term financing of investment at prices satisfactory to potential real investors.

2. BOOSTING THE SHARE OF NATIONAL INCOME AVAILABLE FOR SAVINGS AND INVESTMENT

While a necessary condition for healthy long-term capital markets, non-inflationary growth may not be sufficient in itself to assure that an adequate volume of external financing occurs. In such an event, direct steps will be required to bring about a larger investable funds total—involving increases both in the public's ability to save and its incentive to save, as well as actions to encourage greater capital inflows from abroad.

A variety of approaches are available, some of which would remove existing contraints on the private market mechanism and some of which would offset remaining inadequacies in this mechanism.

One key step would be to hold down the growth of government spending on public consumption and other nonproductive activities, thereby reducing the aggregate tax burden. The benefit would be even greater if spending were to be constrained sufficiently to shift the Federal budget into surplus, thus providing funds for debt redemption. Reducing the progressivity of the tax system would tend to raise the private savings share as well.

Also beneficial would be moves designed to boost after-tax corporate profits—both in *toto* and for particular industries, e.g., the energy sector and public utilities. (The increased profitability would not only reduce the need for external financing by the affected businesses, but would also raise their attractiveness to potential providers of such financing.) Included here would be such measures as increases in the investment tax credit, a further acceleration of depreciation allowances, removal of burdensome price restraints, and provision for the expensing of business firms' environmental and anti-pollution expenditures.

As regards individuals, their savings could be stimulated by eliminating various interest rate ceilings now in effect and by granting favored tax treatment either to the share of income going into savings or to the dividends and interest earned on savings.

3. BOOSTING THE SHARE OF INVESTMENT FINANCED VIA LONG-TERM SECURITIES

Even if the total pool of investable funds is sufficient to match potential investment demands, the share devoted to equities and to long-term debt instruments may be insufficient. Policy measures can be taken which relieve this problem—again involving either the removal of market constraints or the provision of special incentives.

It is essential, of course, that the distribution network for new and outstanding stocks, bonds, and mortgages be operating at a high degree of efficiency. This viability, in turn, requires that the institutions which make up the network be enabled to make a reasonable return on their own capital and that barriers to new entry be limited.

Special measures may be necessary to bolster investment via each of the three broad areas—equities, bonds, and mortgages. Thus, for example, consideration should be given to granting more favorable tax treatment to capital gains and losses as a means of stimulating equity purchases. Meanwhile, Federal guarantees or interest rate subsidies could be applied to long-term bonds issued by public utilities or other corporations whose expansion is viewed to be in the national interest. As for the mortgage market, numerous special stimuli are available—and applicable to both borrowers and lenders. In the case of borrowers, mortgage interest rate subsidies are an obvious—and already used—approach. The graduated payment mortgage is also worthy of experimentation. As for lenders, steps can be taken to increase both their ability nad their incentive to grant mortgage credit—including a relaxation of usury ceilings, active encouragement of the variable rate mortgages in existing portfolios, a broadening of the asset buying and liability creating powers of thrift institutions, favored tax treatment of funds placed in savings accounts, and financial incentives directed at increasing the share of funds allocated to mortgages by lending institutions.

DR. OTTO ECKSTEIN
President, Data Resources, Inc.
Professor of Economics
Harvard University

1. OBJECTIVE: Over the next few years, the United States should raise the fraction of its Gross National Product devoted to business fixed capital formation from the traditional 10½% to approximately 12%. This increased capital formation is needed to relieve

capacity shortages in primary processing industires, provide for the general expansion of the economy, introduce technological progress, develop new energy sources, and improve the environment.

2. The process of capital formation is now being disrupted by the extreme swings of monetary policy and the worsening credit crunch. So far, most reductions in business investment plans, such as the reduced investments of the automobile and airline industries, have been justified by weakening markets. The reductions in electric utility investment, although hastened by financial difficulties, also reflect a 25% reduction in the projected capacity needs of this industry by 1980 because of the lesser projected energy growth.

If the current credit crunch continues and the economy stumbles from middling recession to severe recession, even the larger corporations will substantially reduce their investment plans as they did in 1970. This would worsen the inflation outlook during the next business cycle upswing. Capacity shortages would develop too early, and the relief that could be achieved from our current problems would be deferred.

3. In the longer run, a healthy financial system is necessary to accomplish the effective transfer of savings into investment. The higher investment ratio will require a larger flow of savings from the household sector to industry. Fortunately, the investment needs for housing in the later years of the 1970's will be moderate by historical standards, and the repayment flows on existing mortgages will be rising rapidly. As a result, the household sector will be able to make available many billions of additional savings to help finance industrial investments.

4. A healthy equity market has been a critical element in the performance of the American economy. The equity market makes possible the financing of new companies and promotes the continued growth of rapidly expanding companies. It also provides a necessary supplemental source of capital to utilities and other capital intensive industries where a sound balance sheet requires a growth of equity beyond internally generated funds.

More fundamentally, a healthy equity market promotes the competitiveness of the American economy. If the current stock market situation were to persist, there would be an increased concentration of the economy. The larger companies tend to be the most credit worthy and have the ability to stand at the head of the line at the lending windows of the large commercial banks. The banks would become as powerful as they are in Europe and Japan.

5. Tax incentives to encourage capital formation: While the anti-inflation strategy prevents us from tax reduction on personal incomes, it would be inequitable to provide tax breaks for business. The effective tax rate on the federal corporate income tax has already fallen

from 40% in 1971 to 36% in 1973 under the impact of the investment tax credit, increasing foreign tax credits, and the DISC tax preference. Selective tax or credit aid may be required for very specific sectoral problems in the economy such as the primary processing industries and utilities.

MR. RAY GARRETT, JR.
Chairman
Securities and Exchange Commission

Ensuring the availability of adequate long term capital over the next decade is clearly one of the most necessary requirements for this country's future economic growth. However, in addition to measures designed to make capital available for investment and to make investment attractive, we must be certain that the mechanism for raising equity and long-term debt is not destroyed by the disappearance of a high capacity, diversified, securities industry.

The securities industry is in an alarming downward trend. New York Stock Exchange member firms, which account for approximately 75 percent of the revenues of the industry, lost $66 million before tax in 1973 and have reported a $49 million loss for this first half of 1974. The profit problem is widespread: in eleven of the last twenty-four months, 50 percent or more of the New York Stock Exchange firms have reported losses. And between 1971 and 1973 the number of New York Stock Exchange carrying public customer accounts declined 16 percent. Further, it does not appear that the industry is simply suffering through the low point in this profitability cycle, offsetting the high point in the late 1960's. Our preliminary data indicate that the return on equity in the industry currently is well below that experienced at the bottom of the previous cycle and about one-tenth of the median rate of the past seven years.

An upward trend in prices and volume will benefit the securities industry, but there are other adverse trends that need examination. I recommend that interested government agencies conduct a coordinated review of the respective role of, and government policies toward, our many different financial institutions considering both existing statutes and future requirements with respect to the process of capital formation for American industry. As one example, securities industry has expressed deep concern that the aggressive expansion of banks and bank holding companies into new services in recent years while the securities industry has been declining, has created an unequal competitor for the securities industry, both because of the size of the banks and because they appear to be regulated by agencies whose primary concern is the health of the banking system. If we are to preserve a healthy securities industry independent of domination by commercial banks, protective measures may be indicated.

M. R. HELLIE
President
Credit Union National Association, Inc.

Persistent inflation has caused severe problems for the capital markets of the United States. To the extent that individuals view inflation as permanent, long-term commitments to the debt or equity markets become less attractive.

In order to support the capital requirements necessary to expand our productive capacity and thereby lessen supply-induced inflation, it may be necessary to increase incentives to those willing to commit their funds to the long-term markets. It is important, however, that any incentives created apply equitably to all forms of capital commitments, be they equities, debt, or deposit and share accounts at financial institutions.

To encourage savings and investment, all financial institutions should be granted the power to establish term savings, deposit or share accounts. Those individuals who prefer to make capital commitments through financial institutions should be given equivalent incentive to those that wish to invest directly in stocks or bonds. This incentive approach should increase the proportion of disposable personal income going to savings and lessen the demand-induced price pressures in the consumer sector. It would make more capital available to housing, and because of the time commitments, lessen the disintermediation impact on financial institutions during tight money periods.

MR. GUSTAVE L. LEVY
Partner
Goldman, Sachs and Company

CAPITAL MARKETS AND CAPITAL FORMATION

1. Two areas of government regulation seem to be having a particularly negative effect on the efficiency and functioning of the financial markets. The first is the regulatory policies of the various public utility commissions. With inflation pushing up the cost of long-term money, adequate rates of return on investment are necessary for utilities if we are to have sufficient electric generating capacity. Second, the regulations limiting the interest rates paid by the major mortgage lending institutions are at the heart of the sharp declines of housing activity during periods of tight money. I would endorse measures over the long run to eliminate the ceilings on the rates that savings institutions can pay and at the same time give these institutions greater

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flexibility in their investment policies rates of return on their investments can be increased to pay the higher savings rates. In the short run, a tax credit or exemption for some portion of interest earned on savings accounts would help.

2. Inflation is the basic cause of the current problems in the availability of capital funds. Inflation increases the risks faced by long-term investors in bonds and stocks. As a result, the cost of long-term money rises sharply and the flow of investment funds moves in the direction of shorter term securities. This threatens the supply of adequate long-term investment funds which is critical to the long-term growth of the U.S. economy. A reduction in inflation is the major key to alleviating these problems.

3. In recent months, many corporations have been urging managers of their pension funds to invest their cash flows in debt instruments, particularly, of a short-term nature. This is completely self-defeating because these same corporations are complaining that prices of their stocks do not reflect their inherent values. It is essential in the long run for our markets to more truly reflect inherent values so that corporations may finance, through the sale of common stock as well as the sale of debt. Therefore, in my opinion, corporations should be urged not to instruct their money managers to avoid purchases of equities.

Mr. Bruce K. MacLaury
President
Federal Reserve Bank of Minneapolis

Recent data on capital appropriations and on plans for plant and equipment spending indicate that capital formation is now moving ahead at a substantial pace in those industries where bottlenecks and shortages were recently acute, including steel, nonferrous metals, chemicals, petroleum, and paper. The obvious exception to this generalization is in the public utility sector where the greatest impediment to financing and construction appears to be the reluctance of public service commissions to review and pass favorably on requests for rate increases. The federal government has already begun to use its influence to overcome this reluctance, and it should continue to do so.

Home construction, an area of special concern, has been greatly depressed since the turn of the year. Raising Regulation Q ceilings would provide some relief. Other actions will also be needed. In choosing them, emphasis should be placed on those measures that reduce or eliminate barriers to competition in the construction industry and to those that promise improvements in productivity.

A mandatory credit allocation program to channel funds to "essential" areas should be avoided. Such a program would prove difficult if not impossible to administer fairly, and lead to a worse rather than better allocation of credit and resources.

Demands on credit markets by federally sponsored agencies should be given much greater publicity, and subjected to Congressional scrutiny as a totality, in the same way that is now proposed for federal expenditures.

Mr. James J. Needham
Chairman of the Board
New York Stock Exchange

The NYSE is deeply concerned with the problem of continuing inflation, the consequent severe disruptions in the nation's financial markets, and longer-run prospects of a tremendous shortage in the supply of sorely needed savings for investment purposes. This shortage threatens our national priorities not only in housing, energy, mass transportation and a host of other critical areas, but in combating inflation itself.

The Exchange's research economists have prepared the attached detailed projection of the capital needs and savings potential of the U.S. economy through 1985. Their conclusion is that a huge gap is in prospect, with savings falling short by as much as $650 billion over the next dozen years. Such a financial deficiency would, of course, be only a mirror image of a shortage in real resources—of physical capacity, essential materials and supplies, power and energy, and production and productivity. In an increasingly service-oriented economy, the achievement of productivity gains becames more difficult but no less urgent. As wage rates continue to climb, productivity improvements are an essential offset if inflation is to be curbed.

Therefore, the immediate challenge of dampening inflation requires a strong upsurge in saving and investment to increase productive capacity, together with a determined effort to restrain cost-push pressures generated by the continuing round of wage settlements.

A decisive, comprehensive program is essential to achieving these objectives. I believe the following recommendations can play a significant role in meeting the nation's immediate and longer-run economic needs:

1. *A reduction in Federal expenditures* would go a long way toward reassuring the American people of the government's determination to curb inflation. Moreover, a reduction in Federal outlays would reduce Federal borrowing and ease monetary conditions *even in the absence of any change in Federal Reserve policy.* Essentially, I believe that monetary policy should be eased somewhat with a shift in the mix toward more stringent fiscal measures. As an adjunct, the borrowing requirements of the Federal credit agencies should be included in the total Federal budget.

2. *A mandatory savings program* should be developed to stimulate personal saving, immobilize purchasing power without a tax increase, and restrict the inflationary impact of current wage settlements. My suggestion is that wage gains in excess of some base pay and in excess of a specified percentage, say, 5% per annum, be channeled into savings by means of payroll deduction, with the proceeds invested in government or private securities, or other appropriate outlets. Not all pay increases would be affected. Families whose income is at or below a minimum essential level—using a cutoff point of, say $10,000 or $15,000 per year—would be excluded. Others would have to accept some belt tightening but only as far as income *increases* are concerned. Assume, for example, that a wage earner is granted an 8% increase over his current $20,000 annual salary—an increase of $1,600. He would receive in his paycheck an 8% increase on the exempt portion of his income, say $15,000, plus 5% of the increase on the $5,000 portion of his income which exceeds $15,000. Thus, his gross income would rise by $1,450 (8% × $15,000 + 5% × $5,000). The reminder of the increase, namely 3% on the $5,000 portion of his salary over $15,000—or $150—would be placed on behalf of the wage earner in a trusteed segregated account. In the example, therefore, $1,450 would be the increase in gross salary paid out while $150 would be deferred. These deferred savings would be redeemable by the beneficiary or his heirs upon retirement or death, in the event of a family emergency, or at such time as the consumer price index has stabilized below a predetermined rate—say, 6% per annum—for a one-year period. Many aspects of such a national savings program would obviously have to be worked out very carefully. For example, it might be necessary to handle professional and other self-employment income via tax returns. In any case, the details can be worked out to implement this concept and stimulate increased saving and investment, while helping to reduce inflation.

3. *Structural rigidities* should be eliminated in labor laws, agriculture, foreign trade, communication, transportation and other industries. We are preparing a list of these institutional impediments to production and efficiency. A rise in productivity must be high on the agenda of counter-inflationary policies.

4. *Tax revisions* are urgently needed, particularly in the treatment of investment credits, capital gains, and corporate savings. The NYSE has already proposed a detailed package of concrete tax changes which is attached. Additional tax incentives to increase output and capacity in our productive industries, including tax credits and more liberal depreciation allowances, are clearly needed.

5. *Commission to Study Capital Flows.* I also urge, as a high priority item, creation of a national, non-partisan Commission to focus on prospects of a major capital shortage and to present to the Presi-

dent and the Congress within six months a constructive program for dealing with this critical problem. This Committee should be responsible for a full and comprehensive review of all options, including means to stimulate savings, appropriate tax and other policies, and methods of strengthening our capital markets. The Commission should operate under the aegis of the Executive Office, with members drawn from the Treasury, Federal Reserve Board, Council of Economic Advisers, the Senate and House, and knowledgeable representatives of the private sector.

Should the momentum of inflation fail to yield within the foreseeable future, and should financial market conditions remain in disarray, consideration might be given, as a last resort, to the possibility of temporary credit and capital investment incentives and guidelines, particularly bank lending guidelines, as a means of permitting an easing in the Federal Reserve's tight monetary policies. I strongly oppose, however, any long-run government allocation of credit.

Definitive policies are needed to strengthen the securities industry. In this area, the Exchange has already made specific legislative and regulatory recommendations aimed at preserving the vitality of the capital raising process in this country. It would be clearly unwise to force a hasty, basic restructuring of the securities markets at a time when continued effective operation of those markets is more essential than ever to the economic health of the nation. I have prepared a separate report on this subject under the topic of "Financial Institutions and Inflation."

MR. DONALD T. REGAN
Chairman of the Board
Merrill Lynch, Pierce, Fenner and Smith, Inc.

We stand on the brink of an historic crisis for American capitalism, and the brink is crumbling. Inflation plays havoc with the availability and cost of money and capital. Savers are discouraged from making long-term capital commitments, and penalized by a rate of inflation that cruelly exceeds the rate of return. Borrowers are forced to pay bloated costs. A liquidity crisis widens and deepens with every day that inflation goes unchecked.

The need for massive increases in productive capacity is imperative. Major materials producing and processing industries are operating at unsustainable rates of over 90 percent of capacity. Utilities, energy related industries, and others will need enormous sums of capital over the coming years.

Part of the needed expansion capital must come from internal sources, and help is needed to enable companies to channel more funds into expansion. Investment tax credits should be increased, especially for energy-related and other priority projects.

At the same time a large amount of the needed funds must be raised through the capital markets. The investment environment will be helped by progress in dampening inflation since investors can be offered attractive rates of return at a cost that the issuing company can afford.

However, inflation progress alone will not fully restore health to the capital markets. Savings by individuals should be encouraged by government action. With the worst financial markets in 40 years, investors have become discouraged. They must be afforded incentives to return and provide the much needed capital. The most positive step would be to relax the capital gains tax, which has been an inhibiting factor for the nation's 30 million investors.

Elimination of the withholding tax on interest and dividends paid to foreigners is also essential. These withholdings inhibit portfolio investments from abroad, precisely at the moment when we seek such investments to relieve inflationary pressure on our capital markets, aid our balance of payments, and when we are struggling to provide opportunities for recycling the petro-dollars.

Providing the needed capital also requires a healthy securities industry. This industry must be strong enough to finance the capital raising operations and to provide the large distribution network needed to place the new securities with investors throughout the nation and, increasingly, throughout the world. Furthermore, the securities industry must be in position to operate an active secondary market because investors will buy new securities only if they have reasonable assurance that they can be re-sold whenever desired. Reforms which are in the best interests of the nation's investors should be encouraged by all branches of government.

VI.

Capital Markets and Capital Formation Conference Proceedings

CAPITAL MARKETS AND CAPITAL FORMATION

SECRETARY SIMON: Now, we will move to the discussion on the capital market and capital formation: Robert Baldwin of Morgan Stanley.

MR. BALDWIN: I guess what we want to try and emphasize -- and it has been brought out in a recent release by the New York Stock Exchange -- is that our studies show that there is going to be a very large demand for capital in the next eight to ten years. In fact, as best we can see it, there will be inadequate capital to meet the demands and, in fact, putting it another way, whereas in the past 25 years, productive needs have determined how much capital is going to be raised, we see figures that would indicate to us that over the period through 1984, the amount of capital that can be raised will determine what productive capacity is put in.

Now, this has tremendous significance for a whole society, and I think that we must try in this Country, to encourage profits rather than to look on them as something evil and to reward savings and make sure that they are not destroyed by inflation.

Everyone, whether it is Government, Business, Labor, or Consumers, must realize that basically future government policies must be geared to encouraging investment, rather than consumption, or we are going to be unsuccessful in meeting this demand and success will be a victory for all and not for any one segment.

Now, if you look at the numbers, as we see them, just looking at the markets themselves, back in the Sixties, we were raising about a little over $1 billion in equity, and raised between - in the early Sixties - about $4 billion of corporate bonds and $11 billion in the latter part of the Sixties. Our forecast would indicate that we are going to have to raise over $13 billion on an average, in corporate equities, and $23 billion in corporate bonds.

Now, gentlemen, ladies and gentlemen, I just say that this is going to be impossible if we don't lick one thing first of all, and that is inflation; and two, make the proper incentives to save.

It was commented before that we had gone to the brink over the last two months, and I think that is true. I think there is going to be a continuing fall-out from what the inflationary expectations as people, as institutions, change their investing habits. And this is a very worrisome thing to us. I think, probably, as Ralph Leach stated very well, when he said that anybody mentions credit allocations, and you see people start to run for the banks. When people hear that there is going to be an inadequate amount of capital, they start running for the capital markets when they can. Unfortunately, in the case of our public utilities, they have had no place to go. They have raised as much money as they could in the capital markets, and then they've gone back to the banks. Now the banks are forced to tell them that they cannot accomodate them any more, and we see the wholesale cutbacks that are going to influence this country and the job generating capacity around the country.

I think these are the basic points that I wanted to make, Mr. Secretary.

SECRETARY SIMON: Thank you.

Ralph Leach.

MR. LEACH:

I would like to go back to some of the remarks that Alan Greenspan made this morning and, perhaps, associate myself also with Charlie Walkers' plea for greater understanding of some of the figures that are being given to the public.

I think it has come to be widely appreciated that inflation has a very distorting effect on corporate profits. Specifically, inflation overstates profits, because depreciation charges are inadequate in terms of the replacement cost of capital assets, and because so many businesses still use the first-in, first-out method of valuing inventories.

This distortion of profits makes it very difficult to judge how high or low profitability now is in historical perspective. In the forthcoming September issue of our Morgan Guarantee Survey, which will be published on Monday, there is an article which draws on the work of the Commerce Department analysts to try to eliminate inflation's distorting impact on profits, and I will use Congressman Patman's device and ask to file an additional statement in the form of that article.

I believe it is quite similar to one that Mr. Franklin referred to this morning, and I am told that a much more technical analysis of this subject is contained in an article in the Brookings Institutional Quarterly by Professor Nordhaus of Yale.

After adjustment for inflation, corporate profitability is revealed to be comparatively low at present; certainly not high enough to justify much hope of pronounced generalized capital goods strength any time soon. And I doubt that many people will be surprised to learn that there is a very close correlation between corporate profitability adjusted for inflation distortions, and capital formation.

SECRETARY SIMON: Thank you. Mr. Kelso.

MR. KELSO:

Mr. Secretary, I would like in connection with the discussion of the current subject -- the rate of new capital formation -- to tie into the Chart No. 4, which was in the series of charts that I distributed this morning, and to urge upon the Treasury and upon the Administration and upon Congress, the analysis and study of, and really, the questioning of what seems to me to be essentially an old banker's myth; namely, the new capital formation can only be financed out of past savings, or accumulated savings. They can quite as easily be financed out of pure credit and the technique of finance, which uses employee stock ownership trusts to simultaneously finance growth to build ownership -- that is to say, market power -- into the masses of the working population, and then to make that financing to the extent that regulations adopted by Federal Reserve may permit, to make that financing directly discountable with the Federal Reserve Bank, means that once you have used the savings in the system, the reserves of the insurance companies, that you can finance your growth on pure credit. You cannot, of course, finance consumption in this way. To do so would be suicidal because it is not self-liquidating. But new capital formation under the logic of business is self-liquidating and in a very short space of years the cost has been paid off and the tools go on pushing goods and services into the economy indefinitely.

Thus, it is almost the perfect counter-formula for the reversal of inflation: more and more goods and services, chasing fewer dollars.

It seems to me that this is the gateway to raising the productiveness of our working population by building capital ownership into them and by being able to finance the incredible growth which we do face over the next ten years.

SECRETARY SIMON: Thank you.

Otto Eckstein.

MR. ECKSTEIN: Mr. Secretary, we have done some studies on this question: whether there is going to be a capital shortage or not, and the arithmetic that we come up with is something like this.

Last year, we spent $137 billion on business-fixed capital formation. By 1980, if you add up the petroleum needs, and the utility needs, and all of the rest, that figure becomes $280 billion, or a doubling.

Now, out of that $140 some odd billion dollar increase, perhaps $80 to $90 billion will come out of the internal profits after dividends and depreciation allowances on business. Another $40 to $45 billion is likely to come out of personal savings, and the households, which at this time mainly finance housing, by that time we'll be saving considerably more than the housing industry will require. And so the financial industry will have to transfer a large block of savings from the household to the national sector.

Then the rest, maybe it will come from smaller government deficits; maybe a little comes from abroad, but any way you look at it, you end up with a short-fall of anywhere from $5 to $20 billion.

The question, therefore, is a very right one, and if we don't improve our financial system and take no other steps, of course, it will come mainly out of the housing, so every once in a while we will be putting housing through the wringer as we are doing at this time.

In devising policies to deal with the capital shortages, there are a number of different considerations that go into it, and that we have to settle for ourselves before we come up with any one of the many proposals that have been floating around in this room and there are others that are not even in this room.

First, we have to ask ourselves: Do we want this extra capital formation to come out of internal funds of business, or are we going to try to emphasize the use of a capital market -- in other words, not give liberal depreciation but give some kind of savings incentive.

Second: How interested are we going to be in the widest dissemination of the ownership of American business? Are we going to try to encourage mass savings, as is Germany, or some more specific devices?

Third: wehave to ask ourselves: Are we going to focus on very specific capital shortages; the steel industry, the utility industry; at this time, a short-run basis, the housing industry, or are we all going to try to leave it all to the market and just augment total savings?

Fourth: We have to ask ourselves: Should we leave it to the market?

Should we leave it to higher prices?

I think the shortage of primary pricing capacity is being cured in that way. The prices are up; the profit margins have widened; and the industries will be able to finance the larger part of their expansion out of the higher profits, which is exactly the way we teach it to our students.

Now, the final consideration in dealing with the capital shortage is this:

What is the question of timing?

And in what context should this question be dealt with?

Now, at the moment, we are saying the budget should be tough. We are all pretty proud of ourselves for having resisted the desires for a personal income tax reduction in the face of falling personal incomes, in real terms, in a weak economy.

We are saying, "No, we don't do that."

That then raises the question whether it is at all practical or fair to get very excited about, what, in one way or another, probably would be a business tax reduction at a time when we are so resisting the consumer tax reduction.

One other point on this whole question of capital shortage: it is very difficult to assess the question at this time, and the numbers, as I have indicated, still have a considerable margin of error. The reason is we have been living through a period of monetary brinksmanship, as was pointed out by several speakers. And, of course, the disruption of investment plans that is created in a period of very tight money, in itself contributes to the shortage of physical capital in the next business cycle and so that, in itself, makes it very hard to assess what the savings investment flows would be if we could ever escape this roller-coaster of easy money and very tight money.

Thank you.

SECRETARY SIMON: Mr. Gaines.

MR. GAINES:

A couple of brief points.

First, the ones which Otto Eckstein has just mentioned here.

My studies along the same lines as his, suggest that the incidence of need for capital spending is going to be so highly centralized in terms of the petroleum industry, the electric utilities, the communications, the metal industries, and so forth, that they, themselves, will not generate the internal cash flow to meet anything like the 80% or so that Otto has referred to here of their capital requirements.

Granted that all industry might have a cash throw-off that could meet that requirement, but by and large, the industry's throwing off cash will invest that money in short term instruments and will not be immediately available to the long-term capital market, where our problem actually exists.

The second point: If we wish to make it easier -- more feasible -- for industry to finance itself in the huge capital requirements in the years ahead, I would hope that consideration would be given to the adoption of some form of inflation-accounting and recognition of the effect of inflation upon capital replacement costs in our tax legislation.

France, for example, since the Second World War, has periodically permitted industry to revalue its fixed assets at current replacement costs and compute depreciation against those current replacement costs.

I would not propose, necessarily, that we go that far, but some recognition of what inflation has done to replacement costs, I think, would make it easier for industry to finance itself.

The third point -- quite unrelated: Something that I have not heard mentioned here today in connection with the functioning of the capital markets, is the ability of our present underwriting brokerage trading system to do the job that is going to be required in the years ahead.

What I have in mind, in particular, is that capital losses on Wall Street, and other financial communities, have been so large in recent years that their ability to make markets -- either as underwriters or as traders -- has been seriously eroded. An important question is how we attract new capital into the underwriting and trading institutions. Experiences of other wealthy individuals in recent years would not suggest that we might be able to rely upon that avenue as a source of funds. It is, perhaps, indelicate for a commercial banker to make this last suggestion but, as a potential source of additional capital to do the job that will be needed in the years ahead, we must go back and take a look at the Glass Steagall Act.

Thank you.

SECRETARY SIMON: Thank you.

Mr. Kapnick.

I would like to comment just briefly on Mr. Leach's comments, and some of the others -- on the fictitious profits and inventory and the need to do something about it.

I think, you know, that there is one tangible way that you could have immediate help to industry, and that is by some -- adopting some new approach to your LIFO method.

I think that one thing that is very damaging to industry is the requirement of the IRS that they use the LIFO inventory valuation for both book and tax purposes, and that they can not include the inventory on their financial statements at current values, because it destroys their ratios.

I can tell you that in discussing this with many industrial clients, that this becomes an absolute problem because of the problem of ratios that they must meet under certain indentures, and certain debt instruments and this requirement by the IRS I think, could be immediately removed to help those who want to move to the LIFO inventory immediately.

Long range, I think that it would be appropriate to adopt a new approach whereby, if a company took that deduction, that they did not include the amount in earnings, but that they credited the price level change directly to surplus, so that we would not have these fictitious profits in the future.

SECRETARY SIMON: Thank you.

Charlie Walker.

MR. WALKER: Mr. Secretary, could I say a word or two about tax policy and capital formation, and this is partly out of an economic background; partly out of a background of working with Senator Long and Senator Roth and others, on at least two major tax bills.

I agree with Mr. Hauge that our tax system is biased in favor of consumption and against investment. And so I am going to start way out -- way out -- and the way out start is the suggestion that we consider substituting a consumption-based value added tax, which is one that does not tax investment goods, completely for the corporate income tax.

Now, before I get shot down in flames, let me say a couple of things about this.

The value-added tax has been roundly criticized in the Press -- and I think incorrectly -- as being a simple retail sales tax. It's not. It's a tax on gross sales by businesses all through the stages of production, whether it is passed on or not depends upon the strength of final demand at the consumer level. It may not be passed on. But to the extent it is, we develop devices in the Treasury where you can easily make that sort of tax which is said to be regressive, to the extent passed on, you can make it neutral through income tax rebates. You can even make it progressive, as a matter of fact, if you lean over far enough and this quite clearly -- moving in this direction -- would shift the weight of the tax system more on to consumption and away from investment.

There are many arguments for it. The biggest argument against it is: It would put a lot of tax lawyers out of work because you would get away from all of the problems of the Internal Revenue Code, of determining what is income in a corporation and what are actually expenses, and what are actually deductions.

Okay. Too far, too way-out to consider now, so let's go a little bit half way along the road here and look at a couple of other things.

Let us explore, at least, what the French call the a'droit fiscal which is just another word for reducing the double taxation of double dividends, by giving a credit to the individual taxpayer on his individual taxes for some portion of the tax that has previously been paid by the corporation before it pays the dividend.

There are some very interesting developments in Western Europe in this respect, and, as I said, the a'droit fiscal is one.

Also, of course, are reductions in taxes on capital gains. Perhaps, along the lines that seem to be developing in the Congress at the present time.

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But let me make my fundamental point.

Let me apologize just a little bit -- not very much -- just a little bit for perhaps being a little too intemperate with the TV medium this morning. I usually destroy my first drafts, but I didn't have time to because I wrote this at midnight last night. But what really bugs me in the TV media and, to some extent, in the written Press, is not to get over some fundamental points about economics, and the profit system, and the market economy.

Corporations don't pay taxes. People do. The taxes are either passed forward to the ultimate purchasers, and if you double the taxes on the corporations that own the big super-markets that have about a penny for a dollar margin of profit, that is going to be passed forward and be a regressive tax to the people that buy food, or it is passed backward to the owners of the business, reduces the return on investment, and stifles the flow of investment and capital into that business, the very shortage we are talking about.

So the corporation is simply a tool for doing business, and a pretty darned good one, and very successful. People pay taxes, not corporations.

The final point, the real question, is this -- two questions, really. First of all, if it is, then, people who pay taxes, how much do the rich people pay and how much do the poor people pay?

We are very concerned about that, and we want a reasonably progressive tax structure, and the Federal income tax structure, not including payroll taxes -- the Federal income tax structure is reasonably progressive from about zero to ten, the lowest brackets, up to about thirty-three percent.

The second question, and a very important question, is the impact of the tax system on jobs, on investment and capital formation as we are talking about now, on international competitiveness, which is the reason we got the investment credit and accelerated appreciation in 1971, and on the overall growth of the economy.

SECRETARY SIMON: Thank you.

Gus Levy?

MR. LEVY: I would like to answer the criticism that was made of the investment banking industry.

I fully believe that the investment banking industry can handle the financing, the annual financing of $25 billion of bonds and six or seven or eight billions of common stock very simply.

The thing that worries me primarily is that it is not going to be there to finance, because the problem is with equity selling five times earnings, to take an example, that means they have to return 20 percent on the money put up in order to prevent dilution of that equity.

And if equity continues to sell at five percent, I don't see there is going to be any equity financing. If there is no equity financing, the structure of the balance sheets of major corporations will be so bad by financing for all debt that they will lose their ratings, they won't be able to finance the debt.

So it is not the problem of Wall Street to be able to -- Wall Street can finance what has to be financed. Our worry is that there is going to be nothing to finance unless we do something to strengthen our equity market to provide the equity to balance the balance sheets before debt can be sold.

As a matter of fact, Jim, you correct me on this, I believe the last figures of the capital and Wall Street firms and stock exchange firms were around 3.2 billion. The whole -- when we underwrite something, we are charged what we call a haircut. The haircut runs from 30 percent in common stocks to five percent, I believe, in AAA bonds.

Well, there is no problem with financing or underwriting that amount of securities, 25 billion of bonds or seven or eight billions of common stock over a period of a year.

As a matter of fact, we recently underwrote, the Street did, without any problem, $650 million of city bank notes, and the Street had no problem. We can handle an issue like that a week or every day and have no problem.

SECRETARY SIMON: Bob Dederick.

MR. DEDERICK: At the risk of being a bit heretical, even to myself, I would just like to say that there is sort of an implicit assumption that goes through here, and with some people it is explicit, and that is that we do have a system biased towards consumption and away from investment, and in part, in consequence of that, we are going to have unsatisfied capital needs.

I think that this case is unproved, really. It may be correct, I think it may not be. We talked about -- that we sort of overcommit ourselves in the Government area, and we may take considerable -- we do a great deal of criticism of this.

I think some of the shopping lists of what we are going to need in the investment area are really the same sort of thing. We have always had, if one looked ahead, enormous capital needs. Perhaps the only difference between the last few years and the decades before is that we never looked ahead before, and so we never knew the insoluble problems that lay ahead of us, and in consequence, the market made them not so insoluble after all.

So I think what I am trying to say is that we really have to ask ourselves a question, do we need these. To be sure, all these items appear to be desirable, but it is the same thing, as I say, as regards Government programs.

And thus we have to ask ourselves if we do need them, do we really recognize what is involved in satisfying them. We are really talking here in some of the position papers in any event about some rather dramatic changes in the tax structure, some rather fundamental moves, and we really have to ask ouselves, do we need these fundamental moves.

I think myself I would just say that many of these great unsatisfied needs as they appear to be are really a function of the fact that we have gone through an enormous inflationary boom, which has made us perhaps think we have more needs than we will in fact have, when we get into a normal environment.

So my basic final point is that rather than taking this for granted and assuming that, "Something has to be done here," that we really reappraise the entire situation and try to ask ourselves, can the market do this or do we really need these big changes that follow from the assumption that we have enormous demands. I for one think that the case is completely unproved.

SECRETARY SIMON: Yes, I can't see all the way down to the end, there.

MR. ENSLEY: Mr. Secretary, an effective action that could be taken to help with a capital shortage, the so-called shortfall that Otto Eckstein documented very well -- and there have been many other studies documenting this fact -- would be to provide tax exemption or a tax credit for some part of interest earned on savings accounts.

Now, this was mentioned a time or two already today. You know, most western industrial countries do provide some type of tax incentive for savings.

While it is important not to impair Federal revenues at this time, this kind of tax relief provides several overriding advantages. It would stimulate savings, essential in the projected period of capital shortage, and particularly it would alleviate very quickly disintermediation at thrift-oriented thrift institutions and provide funds for credit-starved housing markets, and finally, the estimated revenue loss, about two billion dollars in the case of a thousand dollar exemption, is probably less than the cost of direct subsidy-provided programs for housing through the expanded GNMA or FNMA tandem plan, subsidized FHLB advances to savings institutions, and our other direct subsidy programs which may be adopted if the housing crisis worsens.

Thank you.

SECRETARY SIMON: Thank you.

Who haven't we heard from? Down at the end, there.

MR. REGAN: Mr. Secretary, there is one tax I think should be discussed at this particular moment that I believe is impeding the formation of capital in the United States, and could be of great assistance in relieving the capital shortage not only this year but in many of the years ahead.

I am specifically referring to the withholding tax on foreigners. There are many countries with which the United States does not have tax treaties. Many of these countries are located in the Middle East. Most of these countries are the beneficiary now of an enormous amount of capital. On a government-to-government basis this can be handled rather satisfactorily. But as these sums of money start to flow into the hands of individuals in the Middle East and other places, they are reluctant to invest in the United States if we are going to withhold on their interest and dividends.

I suggest that when forming policies having to do with capital shortage, that that is one tax that should be kept in mind.

SECRETARY SIMON: Don, that has already been agreed to. We did that six months ago and it is already in the bill in Ways and Means.

MR. REGAN: Thank you, Mr. Secretary.

SECRETARY SIMON: Yes.

MR. PRESTON: I would like to associate myself with the remarks of my good friend Grover Ensley of the Mutual Savings Banks. I will just take one minute to amplify.

The Research Department of the U. S. League made quite an intensive study of this matter, and our figures show that with the 1,000 tax exemption, we would attract roughly $24 billion annually in additional deposits to the savings and loan business alone.

This does not, of course, include commercial banks, nor does it include the mutual savings banks.

Now, the obvious question is, where would these funds come from? In our view, overwhelmingly these funds of $24 billion a year would come from existing account holders in savings associations, especially those who are presently drawing down their deposits and investing in fixed income market securities.

We would not expect any significant shift from the stock market. Those people would continue to enjoy the advantages of capital gains treatment and so on. Nor do we believe there would be any shift from the Government market, who enjoy the tax deferral advantages and others. We do not believe there would be any shift from the U. S. Government securities and the municipal bond market, because of the inherent advantages they have.

So the answer to the question on this agenda, how to create additional capital, we say the tax incentive is one very tangible method.

Thank you.

SECRETARY SIMON: Thank you.

Al Wojnilower.

MR. WOJNILOWER: I think one should be very careful not to expect very much from policies that are supposed to alter people's preferences for consumption versus saving, which have been for generations imbedded in the standard of living and the relative position of families in the country.

This particular measure, I think, to provide tax exemption to savings accounts is one that might very well backfire and have to some degree the opposite result.

First of all, there isn't any way, an easy way I can think of, to limit this tax exemption to new accounts as contrasted with existing accounts. And in the current inflationary environment, and recognizing that the old accounts greatly outnumber the new accounts you might get, it isn't at all clear but that you might not get more spending out of what is essentially a tax cut by giving people more of an effective return on the accounts that they already have than you would get new saving on the part of people who are newly attracted into the savings market.

Secondly, if you limit this only to depository institutions and don't include, for example, dividends on equities, and we can widen the scope, this would be one way of nailing the last tack into that particular coffin.

So that it's very difficult to say where you would have to draw the boundaries or how you would draw the boundaries on such a tax subsidy without leaving outside some of that favored boundary some very essential parts of our capital markets.

Finally, we do have to recognize that disintermediation plays a role not in raising interest rates but in holding them down. That is, funds leave one type of institution and investment in order to go into another, where the demand is more intense, and they hold down rates in the area into which they enter.

And if you invent a successful device to increase the effective rate of return in one very large area, you have to ask yourself whether the bidders, in this case essentially the commercial banks and directly and indirectly their business customers, might not very well be in a much better position to up the ante that they are offering in the interest rate market so when you are all said and done, you are back where you started from except that you have a bigger Government budget deficit.

SENATOR LONG: Might I mention the suggestion that I'm sending down to Bill Simon -- he hasn't seen it yet, I guess - but try to get this housing industry going again.

Here is my suggestion. Let's assume that a person buys a hundred thousand dollar house and he borrows 90 thousand to pay it out, and then you have 30 percent plus inflation as you had this year.

Now, that is a terrible beating for the lender to take on his money, regardless of what the interest rate is. But on the other hand, if you finance that at the current high level of interest rates, when prices stabilize, if they ever do -- and we are trying to stabilize them -- then the borrower is going to take a terrible beating by having to pay that high interest rate that was occasioned during inflationary times.

Canada tries to meet that by variable interest rates, and other countries have other methods.

My suggestion would be that you would have what I would call appreciation mortgage that could be agreed to, that the Secretary of the Treasury would take a look at what the current level of interest rates are, and also at the degree of inflation that has occurred during the last year.

He would then fix a percentage figure which would be added to the mortgage on the far end. That would then mean that instead of a person owing $90 thousand on $130 thousand house, by virtue of inflation the house is now worth $130 thousand, so he would owe $100 thousand on a $130 thousand house.

And if that were done, it would be my thought that that appreciation fee should not be taxable, should be treated a a return of capital which, in the last analysis, it is when you look at the fact that the value of the capital had eroded.

I don't know whether I can sell it to Bill Simone but I will make an effort to put it through.

SECRETARY SIMON: Frank Hoenemeyer.

MR. HOENEMEYER: I would like to comment a little bit on what I see developing in the long-term debt markets.

There were some statements earlier that if we gave some tax incentives to the savings institutions, that this would draw money into housing, and it was sort of passed over, but it would draw money out of the bond market.

Gus Levy expressed the opinion earlier that he saw no difficulty in financing the long-term debt requirements of our country. I do agree with him that there is a more serious problem in the equity markets, but as long-term investors look at what has happened to them over the past 10 or 20 years and they compare the results of investments in common stocks, the results of investment in long-term bonds or mortgages and the results of investment in short-term securities, it is very obvious that the best investment has been short-term securities.

We are beginning to think that if inflation continues, that we are going to have to abandon one way or another the long-term market. Whether this becomes a variable interest rate or whether we are in fact lending on a short-term basis, this is going to put additional strains on corporations and on the economy.

And I think this is -- I am not offering a solution to this problem of inflation, but I am just trying to point up another potential danger if we don't lick the problem of inflation.

SECRETARY SIMON: Thank you.

Bob Bethke.

MR. BETHKE: Another possible approach to savings desire. Let's all agree that we have to encourage ourselves and the public to save more, it is much better to have that money to use for productive capacity needs than taxation to do the job for us, and certainly savings takes away some discretionary buying power for a day when it will get us more goods.

But is there a way to encourage some savings without the thousand dollar tax exemption which is bound to cost the Treasury a billion eight or two billion dollars a year at a time when you are trying to do the reverse, keep your revenues in focus?

Well, I might quickly suggest that to encourage net new savings, that is our problem, we consider increasing the Federal deposit insurance coverage for mutual savings banks and S & L associations from $20 thousand to $40 thousand.

This would alleviate, if properly presented, lots of concerns among individuals about the financial stability of individual institutions. We are talking about the small, the common man. Second, increase Regulation Q limits on savings deposits by even a quarter of one percent. This permits the savings industry to get into a whole new advertising pitch, they are pretty good salesmen to begin with, they have done a good job in the face of tremendous disintermediation.

That is not so much more pay-out that many of them would be dipping into their surplus accounts. If there are any in that case, why not set up a special collateralized borrowing privilege at the Federal Reserve for a temporary period, collateralizing against their assets to get through this little period.

Thirdly, what about allowing a tax deferment on a non-take-out or dividend paid savings account, any savings account that has an automatic interest reinvestment like the Series E bonds, allow that account to defer the tax payment for seven years just like the Series E bonds?

This ought to be a fantastic appeal to a man about 58 years old. His children are educated and gone, he can look forward to retirement when he is going to have a little less income. All of these things ought to give the savings institutions enough additional appeal that they can start holding their own in this stream of disintermediation, and be a lot better than tax increases or tax exemptions.

SECRETARY SIMON: Thank you.

Senator Javits.

SENATOR JAVITS: Mr. Chairman, I had first pledged myself to do all I can in respect to this problem of capital formation. Russell has come up with an idea and we have heard many other ideas.

I think the legislators should decide that this is a critical aspect of firming up the economy and pledge themselves to active steps with respect to it promptly, because our problem is time.

Secondly, I would like to raise two other questions of importance to the stock exchange which is here in the person of Jim Needham.

One, if you want -- you ought to have more customers for stocks than you have. You don't have enough. Therefore, I think, you ought to apply yourselves to inducing corporations as part of their activities to set up, like they have done pension plans so brilliantly, a stock ownership plan, and I don't think there is anything to be afraid of there, and I think it is long overdue.

If people at this late date are afraid of having a couple of workers on their boards, then they don't know what is happening in modern times.

Secondly, in order to be conducive to that the worker can't tote around pieces of paper. So the early installation of some form of bankability in terms of entries instead of these pieces of paper which were swiped and otherwise manhandled would be extremely conducive to getting you more customers.

I strongly urge that on you.

SECRETARY SIMON: Thank you.

Congressman Reuss?

MR. REUSS: In searching for capital formation, we may be overlooking, of course, what I think is the best source, namely, the 80 million-odd working families in this country.

A working man, what can he do? He gets a totally unmarketable five-and-a-half percent or so on a savings bond, he goes to a bank or savings and loan and wants to plunk down his money and he is confronted by Regulation Q, which lowers the boom on the market rate of interest he would get.

If he shows up -- if Archie Bunker shows up at the Treasury this week with a thousand dollars and says, "Give me that thousand dollar Treasury bill paying eight or nine percent that is so juicy," our friend Bill will tell him, "Sorry, we changed the rules. You have to have ten thousand."

If, in short, we got rid of all of this dusty paraphernalia, Regulation Q, the artifical distinction between savings and loans and thrift institutions and banks and all of the other archaic rules which are conspiring to add to the inflation, we might then be in a position to get hold of the best source of capital formation there is, namely, the American working people.

Think it over.

SECRETARY SIMON: Thank you, Congressman.

We will have time for one more.

Jim Needham.

MR. NEEDHAM: Mr. Secretary, if I may first respond to Senator Javits, I accept your suggestion, Senator. We are working on increasing the share in the population. Obviously, in this kind of environment, our efforts are not totally successful. That is probably an overstatement.

On the second part of your question, with respect to the stock certificate, we are moving very slowly there but it is being worked on, and I point out to you, Senator, that our biggest problem is not with the vested interests as one might suspect, but rather with the individual himself who is very reluctant to part with that certificate, particularly because of adverse publicity.

Mr. Secretary, while I do have the microphone, let me wrap up my point, here. I think that this subject of the capital shortage or shortfall is complex, and it is debatable, depending upon how you assign priorities to the needs of the American people.

I come back to where I started, and I would like to suggest once again what we do need. We can separate this problem. It is not as urgent as some of the others. It has long-term implications. It really should be studied.

I would like to suggest again that we have a national non-partisan commission appointed by the President with representatives from wherever, and ask them to study this matter and come up with a sensible, logical, thought-out program which could be submitted to the President and the Congress within six months.

Finally, Mr. Secretary, I was just simply delighted to have a member of the banking community speak up on behalf of the capital needs of the brokerage industry. We do have a program, it is called a stabilization reserve, which would give us the same benefits that flow to banks and insurance companies, and which they enjoy, which they are probably entitled to.

That program has been presented to you, Mr. Secretary, and I guess as long as we have the support of one banker, we have the support of all of them.

I urge you to act on it.

SECRETARY SIMON: Thank you.

Just one second, and then we will have to move to the next subject.

MR. SAULNIER: I will be very brief.

I am surprised that this discussion of capital requirements and the ways in which we meet them in this country should proceed without very much attention being paid to the fact that this job is done in the USA by financial facilities, investment banking companies, and brokerage companies, and the brokerage companies today are going out of business.

The personnel of the brokerage business is declining rapidly because there is no place, I would say, in the system today where the losses have been greater than they have been in that industry.

I noticed that the Chairman of the Council of Economic Advisors didn't get a very good press from a similar comment, but I will repeat it because it is a fact.

Now, basically the only way to reverse this situation is an improvement in the economic climate, and in particular, some success in the fight against inflation.

But, I believe, Mr. Secretary, that it is a mistake at this time to be pushing for a system of negotiated commission rates. I have argued this point. I know that it is a controversial one and not everyone in the industry agrees.

But I have a moderate proposal to make. That is that a hold ought to be put for the moment on the move to negotiated rates by May 1, 1975. Whatever you may think of this proposal or this method of conducting the securities business on theoretical grounds, I think you would have to agree that this is a very, very timely procedure.

So I say, put a hold on it, and I would secondly suggest that an investigation be launched, as quickly as possible, to determine what can be done to prevent further damage to these facilities of our country, and many of the suggestions that have been made here this afternoon it seems to me to be relevant to that end.

SECRETARY SIMON: Thank you.

VII.

International Economic Policy Discussion Papers from Delegates

Mr. William H. Franklin
Chairman, Caterpillar Tractor Company

The appropriate role of the U.S. in international economic policy as it pertains to the problem of worldwide inflation is one of leadership in the following areas:

1. *Foreign trade.* The reduction of tariffs and nontariff barriers to trade makes more goods available at lower prices and hence helps to reduce inflation. The current trade bill should be acted on immediately and bargaining with other countries should begin at once.

2. *Export controls.* Export controls make less goods available to the countries that would have purchased the goods had they been available and hence help to increase inflation. The U.S. should press on with a round of discussions aimed at eliminating as many export controls as possible on a multilateral basis.

3. *Exchange rates.* The U.S. should continue to press for a permanent flexible exchange rate system to facilitate increased trade. With a flexible system each country's inflation can be confined to that country by making suitable changes in the exchange rate for its currency.

4. *Balance of payments.* The U.S. should continue to urge seeking a solution to the world's balance of payments problem created by the new price of oil. If the balances of trade deficits are not offset so as to reach reasonable balances of payments, the world may well see the proliferation of trade barriers, bilateral agreements, competitive devaluations, etc., all of which would be highly inflationary. The deficits can best be overcome by attracting foreign investment. To this end, foreign ownership of assets in the U.S. and other countries must not only be accepted, but welcomed. In addition, the U.S. should assume leadership in developing and adopting a code of conduct by governments which would assume the protection of foreign owned assets.

Dr. Tilford C. Gaines
Senior Vice President and Economist
Manufacturers Hanover Trust Co.

Until about two years ago the principal international influence upon world inflation was the proliferation of dollars in the international money market. Since last last year, the increase in oil and other raw material prices has introduced a new dimension that will have the effect of turning the U.S. balance of payments around and that has already made the dollar a desirable rather than unwanted currency in world markets.

Overall, the influence of the surpluses in the oil exporting countries has been anti-inflationary. The huge increase in energy costs has imposed a form of forced saving upon people in developed and developing countries around the world. To the extent that any country has offset this external discipline through its own internal monetary and fiscal policies, the result has been spiralling inflation and balance of payments weakness. Most developed countries, however, have adopted their policies to the constraints imposed by the higher price of petroleum products and, as a result, are in recession or, at best, a stagnant economic situation.

For the time-being, in other words, the increase in oil prices, as well as other basic materials prices, has had an immediate inflationary effect but a longer-term deflationary effect. It is to be hoped that within a reasonable period of time the bulk of the oil surplus money will begin flowing into long-term investments, which will have the dual result of lessening international balance of payments problems and of improving the supply-demand balance in world capital markets, making lower levels of interest rates possible.

Meanwhile, the situation in the Middle East is scarcely conducive to optimism that it will be possible to work our way through this difficult period in history without either political, military, or further inflationary flareups.

M. R. Hellie
President.
Credit Union National Association, Inc.

The effort to reform the structure and regulations of financial institutions that began with the appointment of the Commission on Financial Structure and Regulation in 1970 now appears to have a better chance to be accomplished by means of omnibus legislation. But it is more apparent than ever that the specific recommendations contained in FIA 1973 fall far short of the desired goal.

The change in economic and political conditions since the submission of the Hunt Commission report and the legislative package drawn therefrom, dictates a fresh approach to the task of reforming the structure and regulations of financial institutions.

We think each regulatory agency and the regulated industry should conduct a review of their existing regulations for the purpose of eliminating those that are unnecessary and updating the others. The goal should be to make financial institutions more efficient and competitive.

Then the Treasury should meet with the various financial institutions to revise and reform FIA 1973. Suggestions for revision from the various financial institutions should be treated positively, while negative reactions from competing financial institutions should be of lesser influence.

Through full participation and openness, a more credible and equitably balanced package can be formulated to gain wider industry and congressional support.

In keeping with this approach, the credit union movement is presently studying the full range of credit union member needs. Among the matters under discussion are: (1) The cost-price impact of the 12 percent maximum loan rate; (2) third party payments; (3) shares with varying rates and maturities; (4) a liquidity facility; and (5) greater credit union participation in the residential mortgage market. These studies are responsive to credit union members demands for a broader and more flexible range of financial services.

It is time for a new look at the Financial Institutions Act. The new look should be made openly and forthrightly.

Mr. Bruce K. MacLaury
President, Federal Reserve Bank of Minneapolis

1. It has been suggested that to facilitate recycling of oil revenues, the U.S. government should issue special debt obligations to members of OPEC and lend the proceeds to "needy" oil importing countries. It has also been suggested that U.S. government should extend guarantees to commercial banks to transform short-term OPEC deposits into long-term loans to oil importing countries. There is no good reason why U.S. taxpayers should assume default risks for members of OPEC.

Instead, the U.S. should promote the establishment of a major recycling facility in the IBRD. With such a facility in existence (which could lend to all governments including those of the LDC's) members of OPEC would automatically be able to achieve a certain diversification of risk. The U.S. might also stand ready to guarantee its proportionate share of such a fund against losses.

2. Joint efforts among major countries to monitor—and limit exposure on—foreign currency and Euro-dollar positions of banks should be pursued with urgency. Similarly, clear responsibility for aiding international banks in difficulty should be established.

Dr. Paul W. McCracken
Senior Consultant
Department of the Treasury

Even the large and diversified U.S. economy has learned that it can be profoundly affected by external economic influences. While the present inflation and instability of the U.S. economy is "home grown" to a substantial extent, these do not explain over half the double digit inflation that we have been experiencing. From the end of 1972 to the third quarter of 1973 (before the oil embargo dominated developments), the rise in our exports of merchandise was equal to almost one-third of the rise in our output of goods. Demands from abroad were competing vigorously with overly rapid increases in domestic demands, and these made a significant contribution to inflation.

Again this year international financial strains have cast their shadows over the American financial scene. The concerns about regaining stability are understandable, and policies must respond to these concerns. We must, however, be clear about where we want to go. Two guidelines are particularly urgent.

First, our problems heavily reflect overly expansive domestic monetary policies, and there will be no solution until more prudent and disciplined policies are followed. No "gimmicks" and arrangements can release government from facing this requirement.

Second, the new structures and arrangements which are needed must meet the test that they move us toward and not away from a liberal international financial and economic order—toward freedom from controls, not a growing array of controls. If we *ad hoc* our way with one control after another the world will (as has been true historically in these cases) look back and conclude that we are far down a road that we never really intended to travel.

THE HON. HENRY S. REUSS
U.S. House of Representatives

Recommendations from the Financial Conference on Inflation, September 20, to the Economic Summit meeting on September 27-28 should include the following proposals:

Fiscal Policy—Federal Taxation: Any policy to fight inflation must defuse the wage explosion already beginning to occur, as workers attempt to catch up with last year's inflation and protect themselves against this year's. A social contract, in which the government pledges social security tax and/or income tax relief for low- and middle-income people and in which workers pledge to restrain their wage increase demands, would reduce cost-push inflationary pressures while protecting the average worker against rising prices. Such tax relief must be balanced, to avoid unwanted fiscal stimulus, by tax reform to end outmoded and inequitable tax subsidies and by other revenue-raising measures.

Monetary Policy—Credit Allocation: The Federal Reserve should pursue responsible monetary restraint, keeping money supply (Ml) growth to around six percent for the immediate future.

At the same time, we must establish a system with clear ground rules for channeling the limited supply of credit away from inflationary uses, such as real estate speculation, conglomerate mergers, and commodity buildups, and toward interest-sensitive essential needs such as productive capital investment, low- and middle-income housing, small businesses and farms, public utilities, and state and local governments.

International Economic Policy: To bolster international confidence, let the U.S. lead in putting together a consortium of the leading industrial nations (a) to guarantee that the world's major banks will not be allowed to fail for lack of liquidity (as opposed to mismanagement, for which salvage operations ought not to be attempted); (b) to adopt coordinated programs to conserve fuel, thus reducing short-run dependence on the oil-exporting countries, and food, thus easing the prospect of mass starvation in Asia and Africa.

Wage-Price Policy: To forestall future price rises, we must increase supplies of scarce materials, through a broad range of policies including advance planning, monitoring of potential shortages, sensible import and export policies, and elimination of artificial barriers to competition.

Mr. David Rockefeller
Chase Manhattan Bank, National Association

For obvious reasons, this important conference today is focusing primarily upon our domestic inflation problem. However, it would seem to be critically important that we spend a fair amount of time discussing the international ramifications of this truly global problem. Today, inflation affects all nations of the world and many in a considerably more severe fashion than the United States. Indeed, literally for the first time, we are witnessing peacetime inflation on a worldwide scale. A high rate of inflation in one country cannot help but increase inflation in others—through its impact both on prices of imports and on prices of world commodities generally.

It would seem to be imperative, then, that there be accelerated joint consultation, of the very closest kind, with our friends in the rest of the world. Policies considered in one country which will obviously have an impact in its relationships with other nations, might be reviewed on a consultative basis, prior to final implementation.

In this regard, I find it encouraging that the Ministers of Finance of five major industrial countries, including the United States, met just recently to discuss their joint problems, as well as possible joint solutions.

It would appear obvious that if one country inflates more than others and is faced with a subsequent loss of markets, it often is tempted to fall back on such protective devices as tariffs, quotas, competitive currency devaluations, and the like.

Beggar-thy-neighbor policies of this character are to be avoided at all costs. Permitting them to develop now would be to sacrifice many of the benefits which already have been derived from international cooperations so painstakingly achieved over the past quarter-century and so essential to the future well-being of all nations. Indeed, in my judgment our policy should be to encourage low-cost imports and to maximize trade between nations. For this reason, passage of the foreign trade bill, now before Congress, would be helpful in combatting inflation over the longer run.

This overriding need for continued cooperation between nations is especially evident when one examines the ramifications of the current energy situation. The four-fold increase in the price of oil by the oil-producing nations not only made a major contribution to the recent inflation, but also has left a legacy of financial turbulence, anxiety and disruption. All told, the oil consumers will run a deficit in their current accounts with the oil producers this year of $60 billion or more. By the end of 1976 these accumulated deficits may add up to as much as $200 billion. These are staggering amounts, with serious implications for the stability of international economic order.

If we are to find solutions to this challenge, I believe we must begin by renewing our efforts to bring together the industrial nations of Europe, the Far East and North America so as to devise common strategies to deal with the problems arising out of higher energy prices. We might begin by carrying forward the efforts initiated earlier this year by Secretary Kissinger.

Working with our Trilateral partners and the oil-producing nations, launching a massive research and development program to find economically feasible alternative sources of energy would be desirable. This is essential both to help the world at large and to provide a continuing source of revenues to the oil producers after their reserves have been exhausted. At the same time, we and other industrial nations should seek to undertake common programs for conserving on energy, thereby stretching out our available supplies.

We must, I believe, as quickly as possible, develop new mechanisms and strategies to meet the mammoth recycling problems of countries suffering from serious balance of payments deficits because of higher oil prices. To accomplish this, the large surpluses earned by the oil producers must be channeled back to the deficit countries.

This challenge cannot, in my judgment, be handled solely by the banks and the private market mechanisms as has been the case, to a large degree, up until now. It will increasingly require the combined efforts of governments and international institutions—a fact already being recognized through proposals such as the loan by Germany to Italy, the new oil facility of the International Monetary Fund, and other actions now in the planning stage.

Of course, banks and other investment institutions should continue to play a major role. Their expertise and institutional networks are essential to the oil producers and oil consumers alike, and without them a lasting solution to the problem would be much more difficult, if not impossible. Indeed, there is room here for imaginative new approaches—innovations in the design of new financial instruments to meet the needs of oil producers while channeling scarce capital to industrial nations.

Success in dealing with the recycling problem is also essential if we are to achieve even a semblance of international monetary stability—a critical element in any program for combatting world inflation. And yet, in dealing with this aspect, as well as other components of this multifaceted problem, we must be aware of the risks of adopting measures which would lead any nation into a recession, which in turn could quickly spread to other countries.

Only recently we have seen the temptations and dangers that arise for financial institutions when currencies of different nations fluctuate widely against each other. Less well recognized, perhaps, is the fact that if the United States dollar is permitted to depreciate greatly against other currencies, the cost of all import items rises. This has certainly has been a contributing factor to United States inflation over the past several years.

What we are seeking, is a return to a system that provides greater stability in international currency relationships. Hopefully this is a matter which will be given full consideration in meetings of the International Monetary Fund early next month.

Finally, I believe the United States should bend all its efforts to muster support for programs designed to restore greater international monetary stability. Once again, such a goal can only be achieved through cooperation by all key nations. It would seem to me that both recognizing the problem as international in scope, and, at the same time, arriving at solutions that take this interdependence into full account, is a primary requisite for our mutual success.

Mr. Robert V. Roosa
Partner, Brown Brothers
Harriman and Company

The efficiency and scale of financial relations among countries have been increased so extensively in recent years that inflationary momentum, once started within the leading countries, spread rapidly to all. The flexibility in this financial machinery that had induced and supported record real growth through most of the postwar period became over extended—spreading active demands across the globe at a pace that outran the global supply of goods and services that were available at yesterday's capacity, and costs, and prices. The dilemma today is how to check the temporary excesses of monetary demands being transmitted throughout the world without causing a breakdown of the financial mechanism, while at the same time promoting the sustained expansion of capacity and production which the world needs as the real offset to inflationary forces.

Moreover, in today's setting, any source of supply that can be deliberately controlled or limited—whether of raw materials, or finished goods, or labor—has an opportunity to extract a monopoly surcharge. For this and other reasons, great imbalances develop within the cost structures of each country and across their balance of payments frontiers, with oil presently the prime example of the spreading of distortion.

Clearly no one country can stop the excess demand and promote production on a scale sufficient to solve its own problems alone—not without inconceivably retrogressive to economic isolation. But the United States position is crucial, both through the example we set and through the weight of our own impact on the total results. Moreover, it is through our own currency, the dollar, and through the vast network of American financial facilities erected to service world requirements, that so much of the finance that is needed, as well as that which is excessive is now passing around the world.

The urgent problems are: (1) to evert a disruptive breakdown of the financial mechanism, both through preventive action and through prompt shoring up of the repercussions of any individual failures that may occur; (2) to minimize the disruptive impact of oil payments; (3) to so use the generalizer restraint of monetary and fiscal action as to neutralize financial support for further cumulative inflation; (4) to induce the additional real saving and investment required for expanded capacity and output, and eventually a lowering of real costs; and (5) to cushion the more extreme inequities created during the transition from inflation to normality.

Toward this end the United States should promote: (1) the closest possible harmonization in diagnosis and policy among the largest countries and the principal raw material producing countries, both for the short run and the longer run; (2) procedures for managing exchange rates to assure orderly flows of trade and payments among countries; (3) the stimulation of productive investment in extractive, manufacturing and service industries; (4) the assurance of adequate longer run demand to provide suitable returns from new investment and production as these emerge; (5) the closest approximation to free competitive conditions in all markets by combating, or offsetting monopolistic restraints; and (6) the introduction of selective measures temporarily to employed people and support industries that are displaced during the process of achieving the other objective.

VII.

International Economic Policy Conference Proceedings

INTERNATIONAL ECONOMIC POLICY AND INFLATION

SECRETARY SIMON: We are going to move on to the international economic policy and inflation.

Walter Wriston, First National City.

MR. WRISTON: Mr. Secretary, I think in the last 25 years, since the end of the Second World War, the nations of the world have been engaged in dis-assembling the barriers to the movement of goods and services and people across national boundaries. Those barriers were built after the great depression, and their progressive lowering over the last 25 years has been very salutory for the growth of the economic communities around the world.

I think that right now, we stand in some danger of voices urging that we go back to the jungle of economic nationalism again because of the pressure that is put on us, not just the United States, but on many countries around the world, through the taxes of inflation.

I think this is the time, quite the contrary, that we should take a leadership role in negotiating with our partners around the world in pursuing lower barriers to trade and investment.

To this end, I would urge that we push ahead on the Trade Reform Act, which would give the Executive Branch of the Government the authority to negotiate for the lowering of trade barriers, both tariff and non-tariff barriers, all over the world.

I think that we should support heavily the efforts of our Government to forge truly cooperative relationships with foreign governments in the area of monetary policy, and in general, even on some domestic monetary policies, because we do in fact live in a global economy.

We would applaud the efforts of the central banks to get together to form some common policy on the international financial picture. I think we should also think about the fact that the trade barriers that we have erected in this country are very substantial, and basically deny the consumer the opportunity for a lower price for a product.

I would like to suggest as one starting point that we make a list of all the restrictive practices that have grown up over the years, not just the violations of the GATT treaty but all the tariff and non-tariff barriers which in fact raised the price level to the consumer.

I think such an audit would form a useful starting point in assessing our own trade policies.

SECRETARY SIMON: Thank you.

SECRETARY SIMON: Any comments? Sylvia Porter.

MS. PORTER: Mr. Chairman, I not only second the remarks of Mr. Wriston, but I would like to say that we should assume much greater leadership than we have shown in many years in bringing together the oil-consuming nations of the world, to take a comparatively common stand and certainly a cooperative stance to deal with the actions of the oil-producing nations.

While I would not like to coin a jingo phrase, it has entered my mind enough to repeat it here: that nations have gone to war for far less than has happened to the consuming nations of the world in the past twelve months.

I would think that President Ford's favorite remark, cooperation, could be extended in our actions to bring together the consuming nations in much greater harmony to develop policies, perhaps in the sharing of our available oil supplies so that they will not consider us as, once again, a hated interloper in the developing of policies to deal with price hikes or tax hikes and the massive flows in conservation and in the pursuing of new sources of energy.

And I think, Mr. Secretary, that this common front and cooperation should be extended in our thoughts about other crucial raw materials so that we may handle adverse steps that may be taken against us by producers of these other essential war materials before crisis is piled upon crisis.

I have read Mr. Rockefeller's remarks and I urge you all to read them, too, with the seriousness with which I know he says them. I think Senator Javits just met this point in his final point today when he spoke about new policies on oil and monetary affairs.

I also believe, with all due respect to you, sir, that we are too far timid in pursuing the improvement of our existing agreements, monetary agreements, and financial agreements among nations.

And our action is far too timid for the problems and the challenges that face us. Perhaps we don't need new ones, perhaps all we need to do is to strengthen the existing ones. It is too late, I assume, for us to adopt any new policies or new speeches for the IMF meetings at the end of this month or early next, but it is not too late to talk in the corridors. Whatever progress we have achieved at Basil or at Geneva or in Washington or wherever, is to my humble mind far too little and far too dangerously slow.

SECRETARY SIMON: Thank you. I have hesitated during this day, even though on occasion I would have liked to respond to some of the suggestions, that Government is not always remiss in the area of consumer cooperation.

We have been hard at work on that since last February in the suggestion of sharing oil that you mentioned. We have been meeting every three weeks for the last seven months on that and hopefully the agreement will be signed next month. They're over there working on the final arrangement for that right now.

I think everyone is very aware, as evidenced by the Big Five, if you will, finance ministers that have been meeting, four in the last year-and-a-half to two years and continue to meet on a continuing basis to discuss mutually our problems and the coordination of all our policies together in recognition of the interdependence and the dangerous elements that exist in this world today.

But you people didn't come here to listen to me speak.

MR. ROCKEFELLER: I'm delighted to hear what you just said and I think it's encouraging that these meetings have been going on and that results are to show themselves shortly.

I think most of us were, in fact, disappointed that the initiative of Secretary Kissinger, after his trip to the Middle East, his spectacularly successful trip in the Mid-East in January, when he recommended a conference in Washington to discuss these problems, was not met with more general enthusiasm.

It is true that there was a final agreement and that there have been meetings. We haven't heard very much about them and it's reassuring that perhaps we will in the future. But it does seem to me, in support of what Sylvia Porter has just said, that the increased price of oil and its implications for balance of payments and shift to resources in the world has, on the one hand, provided a new and overwhelming threat to the world, which could be extremely grave if it's not dealt with.

On the other hand, I think it equally offers a challenge and an opportunity if we will seize it to use this new threat as a reason particularly for the tri-lateral nations of Western Europe, North America and Japan, to work more closely together than they have in the past.

I hope and feel this is a basic necessity, not that they should work exclusively and against the interests of any other group, but that they have a lot in common and that before they can deal effectively with the rest of the world, they need to sort it out more than they have, hitherto, their mutual problems.

Hopefully, having done that, I would hope that they would work more closely with the petroleum-producing nations to resolve the recycling problem which I still think is a very grave one, and also through a massive program of research and development to develop new resources of energy so that in the future we won't be faced with some of the shortages that we saw particularly grave last year, but which I'm afraid are by no means over.

It does seem to me that perhpas more has been done than is known to the public. That I would think, unless it's a great deal more, would make room for very considerable further international cooperation along these lines.

SECRETARY SIMON: Thank you.

Charlie Walker.

MR. WALKER: Mr. Secretary I agree very much with what Mr. Wriston said and what Ms. Porter said and what Mr. Rockefeller said.

I would like to add to that, however, something I think that is very important and that is, the compelling need in fact, we're way late--in this Government developing the type of comprehensive integrated, cohensive, international economic policy that can enable us to supply the leadership that the rest of the world is crying for.

For too long, our international bargaining has been on a splintered basis: Foreign Minister vis-a-vis Foreign Minister; Finance Minister, vis-a-vis Finance Minister; Agriculture Minister, vis-a-vis Agriculture Minister; Trade Minister, vis-a-vis Trade Minister; Defense Minister, vis-a-vis Defense Minister; when you combine all of these factors in the United States, if you combine them, we have a tremendous amount of bargaining strength and a tremendous potential for leadership.

Where the difficulty comes is partly in attitudes in some departments which I won't identify, called the "Foggy Bottom" in Washington; partly because the buck on this issue, since it involes all of these different facets, has to go right straight to the oval office and the final decisions have to be made by heads of State.

I would recommend for consideration to bring these bargaining eggs into one basket, something like an international economic quadriad consisting of the Secretary of the Treasury, the Secretary of State, the Head of the National Security Council, when those are two different people, when and if they are two different people, and the Chairman of the Federal Reserve Board, who would be the President's chief advisers in this area and then, in addition, and not just for parochial reasons and background, that the chief implementator and spokesman for such policy should be the Secretary of the Treasury.

SECRETARY SIMON: Thank you.

Mr. KAPNICK: I believe, Mr. Secretary, that the last several speakers in commenting on the importance of a defined and unified foreign policy as a means of greatly facilitating our relations with our foreign neighbors, has an aspect similar to the problem that Senator Javits mentioned recently.

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Just as we have failed to build a stock ownership constituency into the American worker in the United States and their techniques for doing this that are highly sophisticated and efficient, we have also failed to develop on the part of our multinational corporations an international constituency.

We put Twentieth Century capital instruments down in the middle of a Tenth Century wage structure. They pour out billions of wealth but the power of the citizens of the host countries to consume is not raised.

The reaction that we have gotten from the Middle Eastern sheiks and shahs and what-have-yous, is, in part, our own fault in failing to build a corporate--an international corporate constituency in those countries.

It seems to me that this should be a major facet of any consistent foreign policy that we may develop.

SENATOR LONG: I used to enjoy back there in the Eisenhower Administration referring to what I called the Republicans "good news" announcements that usually went something like this: "Hurray! Unemployment did not increase this month as rapidly as it increased the month before." It increased, of course, but not as rapidly.

"Now, "Hurray! Crime did not increase this year as fast as it increased the year before." I've become very irritated and I know those in Government know it, about these so-called "good news" trade figures. They leave out the cost of the freight and the insurance on their imports. They add in the cost of everything you are giving away just as though you are being paid for it.

For example, a billion dollar gift of grain to India goes down as though we made a billion dollars even though we never expect to get anything for it--oh, a dollar back in here sometime, just to keep it from being one-hundred % correct, but if you take away from the plus side what you've given away, and you add to the minus side the cost of the freight like everybody else does, then our deficit on an annual basis is five-and-a-half billion dollars more than they tell us.

Now, even when they get through leaving five-and-a half billion dollars out, they then proceed to report it on a quarterly basis, so they only report one-quarter of what your loss is going to be for the year.

Now, I wouldn't object so badly to losing the 5 1/2 billion plus a year on the trade figures if we were making it back with our investments, as some like to contend that we are. But you can't count that five billion dollars that our investments are earning us twice; you can't use that to pay for the troops in Europe, the troops around the world; a foreign give-away program to a hundred different nations and also use the same five billion dollars that your investments are earning for you and to pay off your trade deficit.

If we can, and we're going to at least amend that Trade Bill, to make them tell us how much we are losing.

Stewart Symington likes to say that each department blames somebody else for its cost. They'll say the military people will say, "Well, the troops in Europe ought to be laid over against the State Department budget," and then somebody else says, "Well, this ought to be laid against that."

So each of them work it out in such a fashion that their program really isn't costing you anything. When you get through adding up a long column of pluses and you get down to the bottom and you have a tremendous minus.

Now, there are abroad, we're told, about $160 billion Euro-dollars. Now they call them Petro-Dollars. Half of that got that way by our trade policies being overly-generous and letting the other fellow get the better of us all the time.

We simply cannot continue that because that is playing a major part in this inflation. When you have all of those American dollars overseas, it means that you're going to have to pay more for what you're buying from abroad and that adds to the inflation.

So if we can, and I believe that we can at least do that in the Senate, we're going to try to move this nation toward what would be an honest balance of trade, and that would have to mean the we'll either have to sell more or we'll have to buy less.

MR. KENNEDY: I'd like to make a comment about Mr. Kelso's remarks earlier. I think there has been surprisingly well handled recycling of substantial amounts of these petro-dollars in loans to under-developed countries, guarantees of credits to under-developed countries, loans to developed countries and as I believe Chancellor Healy remarked recently, the international financial mechanism has handled the balance of the funds with impressive skill and great courage.

The remarks I made earlier about talk of wage and price controls and other credit allocation applies here as well. Many of the holders of these funds have a great passion for anonymity and to suggest much greater controls or research into the uses of those funds may well turn out to be one of the great mechanisms to move that money into other financial markets than the U.S.

SECRETARY SIMON: Thank you. I think it might be useful if we took a five-minute recess, just sort of stand up and stretch right here.

(Short recess.)

VIII.

Financial Institutions and Inflation Discussion Papers from Delegates

Mr. Morris D. Crawford, Jr.
Chairman of the Board
Bowery Savings Bank

Dr. Grover W. Ensley
Executive Vice President
National Association of Mutual Savings Banks

Inflation is indeed "domestic public enemy number one." Among its chief evils is the inequitable impact resulting, in part, from imbalanced federal anti-inflation policies. The absence of fiscal discipline has led to excessive reliance on monetary restraint and skyrocketing interest rates—with major victims being thrift institutions and their depositors, home mortgage borrowers, and the housing industry.

At savings banks, net deposit outflows, excluding interest, totaled \$2.7 billion in the five month period from April through August 1974, over 2½ per cent of total deposits outstanding, with even greater outflows in major metropolitan areas. New home mortgage commitments have virtually dried up. Housing starts have fallen to the lowest levels in over 4 years and further declines are imminent.

Thrift institutions are unable to compete with commercial banks and the open market in periods of rapidly rising interest rates, since by law and orientation, their assets are predominantly in home mortgages and other long-term investments acquired earlier at low fixed interest rates. By contrast, earnings on commercial bank loans are predominantly tied to short-term open-market yields.

Since the July 1973 changes in federal deposit interest rate ceilings, which narrowed differentials in favor of commercial banks, disintermediation at thrift institutions has been seriously aggravated. During the 12-month period following this regulatory action, household savings deposit growth at commercial banks actually increased by 19 per cent over the previous year, contrasting sharply with declines of 43 per cent at savings and loans and 62 per cent at savings banks.

The inflation-caused problems of mortgage-oriented thrift institutions would be largely resolved: (1) if the increase in federal expenditures is curbed and all necessary measures are taken to balance the budget or achieve a surplus, thereby permitting an easing of short-term interest rates; and (2) if the asset and liability structure of thrift institutions is modernized to redress current competitive imbalances.

In both instances, decisive federal action is required. In the first, by subjecting each expenditure and revenue item in the budget to microscopic scrutiny; in the second, by enacting the broadened powers and federal savings bank charter authority provided in the pending Financial Institutions bill (S. 2591). Efforts to develop a variable-rate mortgage instrument, equitable to both lender and borrower, should also be pressed forward with appropriate legislation and public education programs.

These economic policy and financial restructuring measures should be adopted without delay, but it will take time for their full impact to be felt. Therefore, the following actions should be taken immediately.

1. *Provide tax exemption or tax credit for a portion of interest earned on savings accounts.* This would stimulate increased saving. In particular, it would expand the supply of housing credit—probably at less cost to the federal government than emergency subsidy programs.

2. *Raise deposit insurance to $50,000 as provided in House-passed H.R. 11221, now pending in conference with the Senate.* Depositors have become increasingly insurance conscious in recent months.

3. *Raise minimum denominations on Treasury and federal agency obligations.* In its recent report, the House Ways and Means Committee cautioned that low denomination offerings should not be at the expense of "serious dislocation" in savings markets. Recent Treasury offerings of $1,000 denominations have resulted in "serious dislocation" at thrift institutions.

4. *Strengthen federal deposit interest rate ceilings by preventing circumvention of ceilings through bank holding company deposit-type issues as provided in Senate-passed S. 3838 and House-passed H.R. 15928.*

One final observation. These proposed measures and actions will assure the viability of thrift institutions and their continued competitive presence in the financial system. Over the long pull, this will enable the small saver to maximize earnings on his savings and assure the availability of mortgage funds at the lowest possible cost.

Mr. Rex J. Morthland
President, American Bankers Association

INFLATION AND FINANCIAL PRESSURES

Spiraling inflation is the prime cause of today's high interest rates. Compartmentalization of financial institutions, and regulatory rigidities in pricing structures in combination with these rates, are producing serious stresses in some financial markets, especially the mortgage markets.

PROPOSED CHANGES IN LAWS AND REGULATIONS

Significant changes are required, as suggested in the Financial Institutions Act (S. 2591), to enhance the responsiveness of financial institutions in serving their fund-moving functions under today's inflationary pressures. ABA supports S. 2591 with minor modifications. In addition, we recommend that serious attention be given to proposed tax incentives to encourage savings and thereby discourage consumption. Exemption from Federal taxation of the first $1,000 of interest on individual savings and time accounts should be considered immediately. A tax credit for investment in housing and other social priority needs also warrants immediate attention. Vigorous action is needed at the state level to repeal or liberalize usury laws which prevent funds from reaching their intended beneficiaries.

Trust departments should also be given greater latitude in offering services that involve gathering investment funds from small savers.

CREDIT ALLOCATION

As inflationary pressures mount in financial markets, pricing regulations and other institutional restraints distort flows of funds to key areas such as housing. Such distortions would not be prevented by compulsory allocation of credit resources of regulated financial institutions. Positive market-oriented incentives—such as tax exemption of interest on savings, and appropriate tax credits—are more effective in channeling adequate funds from the total market, both regulated and non-regulated, into savings and toward social priority loan areas. If additional incentives are required, direct subsidies to high priority user groups—e.g., housing subsidies to poor families—should be considered. These approaches make the social costs of favoring a given area or group obvious and amenable to adjustment when needed.

MR. JAMES J. NEEDHAM
Chairman of the Board
New York Stock Exchange

My comments in this area relate solely to the securities industry as a financial institution since this is the focal point of my expertise. The importance of strengthening the securities industry is not simply a parochial matter. It affects our future ability to raise huge sums of new capital required to stimulate economic growth, to meet the expectations of the American public for a rising standard of living, for full employment, for minimizing inflation, and to satisfy the social objectives of the nation. Without a viable securities industry, there is little hope of generating over $4½ trillion in investment funds required by U.S. industry and government to 1985.

At present, the principal areas of concern to the New York Stock Exchange are the well-publicized problems of the securities industry generally. These involve not only broad economic problems but also the current unprofitability and uncertainty about the future role and structure of the industry. In more specific terms, there is a growing concern about the impact on the industry and public investors from negotiated commission rates and the changes which will be wrought in the industry as the result of the so-called Central Market System.

The overall lack of industry profitability, uncertainty about the future prospects of the securities industry, the bleak economic picture generally, and the potential loss of revenues from the advent of negotiated commission rates—could lead to a withdrawal of capital which finances securities industry operations and, more clearly, the failure to attract new capital in the industry. These prospects appear more certain when one reviews the investment opportunities for investment capital elsewhere outside the securities industry.

I do not wish to repeat here all of the specific legislative and regulatory recommendations we have made to preserve the vitality of the capital raising process in this country. But I urge again that no hasty steps be taken which threaten to frustrate the continued effective operation of the securities industry.

The industry cannot operate without an adequate base of capital. Since the beginning of this year, the industry's total capital has already declined by $303 million. Profitable operations are the *sine qua non* for retaining capital. This requires a better economic climate as well as a regulatory framework which recognizes the plight as well as the significance of the securities industry in the country's financial network.

In this connection, we have advanced the attached legislative proposal to permit the securities industry to establish a tax stabilization reserve. This proposal recognizes that the securities industry is an essential financial intermediary and is subject to extremely severe cyclical fluctuations in earnings. The recommendation would merely grant securities firms treatment similar to that now accorded other financial institutions.

We also urge that steps be taken to relieve and minimize the reporting and regulatory burdens on the securities industry. In that connection, we urge amendment of the Securities Act of 1934 to grant equal authority to all regulatory authorities and exchanges so as to relieve burdensome duplication. We also urge that the SEC be directed to study disclosure requirements to ease the complexities and expenses presently imposed on companies seeking to raise capital.

The securities industry is in crisis. Those who would perform surgery in its present weakened state should pay close heed to the importance of this sector of the financial industry in promoting essential economic growth and in reducing overall inflation through an adequate flow of investment funds.

VIII.

Financial Institutions and Inflation Conference Proceedings

FINANCIAL INSTITUTIONS AND INFLATION

SECRETARY SIMON: Gentlemen, we are working our way a little bit into Financial Institutions and Inflation. We will see if we can't get through that in 20 minutes instead of 30, and maybe we'll just borrow five from the next subject.

Charls Walker is going to lead off the discussion.

MR. WALKER: Mr. Secretary, if the five members of the Hunt Commission are here I'm not sure why I got this assignment.

SECRETARY SIMON: We knew you'd be impartial, Charlie.

MR. WALKER: If financial institutions are interpreted as referring primarily to privately owned institutions such as commercial banks savings banks, there is little legislation that can be enacted that would greatly or signficantly reduce inflation because financial services simply do not loom that large in the cost of living. But, if inflation control is, as it should be considered in the broader context of economical and efficient service of consumer financial needs, then there is legislation under Congressional consideration--the Financial Institutions Act--which should be enacted at the earliest possible date. I refer to the Nixon Administration's adaptions of the recommendations of the Hunt Commission.

Although the issue is controversial, although I've learned today much less controversial than it was just a short time ago, a very strong case can be made that the reforms proposed will increase the competition among depository financial institutions, raise the rates consumers earn on savings. The legislation would eliminate the antiquated Regulation Q which is now administered and means the rich man gets 11 to 12 percent on his savings, while the person with less than a hundred thousand dollars to invest gets only about half that amount. It would increase the convenience to the consumer in using financial services and lower the cost of his mortgage loan. In addition, the legislation would in, my judgment, decrease the wide swings and interest rates on, and availability of, mortgage credit over the business cycle.

And also in the long run, increase the total flow of funds into housing. This last point is hotly contested by some people, but I think they're wrong. Since the proposals would broaden the lending and investing powers of thrift institutions, they could obtain more short-term assets which turn over quickly, as in commercial banks, as opposed to long-term mortgages with locked-in yields. Therefore, they could compete more effectively with commercial banks and the open market in periods of high/short term interest rates. Disintermediation, although not eliminated, would be reduced. The long run expansion in mortgage credit would result in the faster deposit growth of the thrifts because the deposit powers would be broadened, even including something like checking accounts. These are institutions which cut their teeth on mortgage lending and are not about to turn their backs on it. Somewhat less of the total asset pie might go to mortgages. But the faster growth in the pie itself should easily offset the percentage reduction. Seventy percent of something is a lot more than 90 percent of nothing, in other words.

In addition, the legislation would grant a tax credit to all mortgage lenders, not just thrift institutions, thereby attracting to mortgage lending many smaller and medium-size commercial banks which thus far have not gone far into the mortgage market.

The irony involved in the opposition to the Hunt Commission proposals is that the reforms would take place regardless of whether Federal legislation along these lines is passed or not. Competitive and technological developments are inexorably moving the depository financial institutions in that direction. The only question is whether the facilitating legislation is enacted piecemeal and over several years at the state level or at one fell swoop at the Federal level. I think and hope it will be the latter and recent reports from the Hill are encouraging. If so, the cost of living, except perhaps in the mortgage rate area, is not likely to ratchet downward greatly as a result, but the beneficial impact on the financial consumer can be very great indeed.

I submit for the record a much longer statement I wrote for Business Week a year ago in which I said this is an idea whose time is coming and I think maybe it's an idea whose time has come.

Tied to that, two very quick points on the proposed deduction or credit for savings accounts.

The two questions that were not discussed in the very excellent points made by Al and others has to do with equitability of the proposal if it's a tax deduction. Coming off the top line, it means $700 to the 70 percent bracket taxpayer and $140 to Archie Bunker. If, on the other hand, you make it a tax credit and take it off the bottom line you have a real question of how much clout the credit would have in attracting new savings--a very important question.

The other point is the danger of straight-out extrapolation of current events.

If you grant the incentive, and once these get in the laws, they're awfully hard to get out. If the Treasury sticks to $10,000 note minimum, if it is true that short rates are the most important factor in this intermediation and if Walter Wriston and his people and others are right about bill rates coming down considerably more in the months ahead, possibly in the years ahead, in enacting the incentive do we risk pulling too much into the thrifts and housing with even more shortages for productive plant and equipment spending?

Thank you very much.

SECRETARY SIMON: Thank you.

Rusty Crawford from Bowery Saving Bank.

MR. CRAWFORD: Mr. Secretary, inflation is indeed the Public Enemy Number One for the thrift institutions, their depositors and their borrowers. At savings banks and loans net deposit outflows total 2.7 billion in the five month period ending August, 1974, over two and a half percent of total deposits outstanding. New home mortgage commitments have virtually dried up. Housing starts have fallen to the lowest levels in over four years and further declines are imminent.

This morning Alan Greenspan in his opening remarks referred to those institutions of our society which were structured to operate in a non-

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inflationary climate or in a low single-digit inflationary climate and how ill-adapted they are to operate in double-digit inflation. This is the essential dilemma of the thrift institutions. We are frankly unable to compete with the commercial banks and the open market in periods of rapdily rising interest rates. This is because our assets are predominantly in home mortgages and other long-term investments acquired earlier at low fixed interest rates.

By contrast, earnings on commercial bank loans are predominantly short-term or tied to short-term open market yields and are therefore more responsive to interest rate changes.

The inflation-caused problems of thrift institutions would be materially reduced one, if the increase in the Federal expenditures is curbed and all necessary measures taken to balance the budget or achieve a surplus, thereby permitting a significant easing of short-term interest rates. And two, if the asset and liability structure of thrift institutions is modernized by enacting the broadened powers in the Federal Savings Bank charter authority provided in the pending Financial Institution bill.

These economic policy and financial structuring measures should be adopted without delay. But it will take time for their full impact to be felt. Therefore, I believe the following actions should be taken as soon as possible.

One: provide a tax exemption or tax credit for a portion of interest earned on savings accounts. I realize this is a controversial matter. It has come up on a number of occasions today. It will require very hard thinking by Congress and some very difficult priority judgments.

We're convinced it would stimulate increased savings and particularly it would expand the supply of housing credit and probably at less cost to the Federal Government than the emergency subsidy programs.

Two: raise the deposit insurance to $50,000, as provided in the House-passed bill which is now pending in Conference in the Senate. It's not surprising in the present climate that we find more and more people concerned with safety, as is evidenced by their moving accounts, spreading accounts around to be sure they are covered by the present limits of Federal Deposit Insurance.

Thirdly, to raise, or perhaps now, Mr. Secretary, to maintain the higher minimum denominations on Treasury and Federal Agency obligations. That recent Tressury offering of $1,000 denominations resulted in very serious dislocation at our thrift institutions.

These proposed actions will help assure the viability of thrift institutions. Over the long pull they will enable the small saver to maximize earnings on his savings and assure the availability of mortgage funds at lowest possible cost.

One caveat: None of the short-range remedies I referred to are going to improve thrift institutions' earnings. And even enactment of the Hunt Commission recommendations or the Federal Institutions Act will only modestly improve earnings unless and until a really effective variable rate mortgage instrument is developed and put into place. Until that day comes, thrift institutions will continue to experience competitive disadvantages in periods of rapidly rising interest rates and will require some regulation Q protection.

It hasn't been referred to too much, but I would like it to be understood, that it is not Regulation Q that limits the return on thrift institution savings accounts. It is the earnings of thrift institutions that sets those limits. As long as we are the principal suppliers of credit to the fixed interest long-term home mortgage market, as is really ordained by public policy today, there will be times in the business cycle when our payout is not as attractive as the open market.

But I would remind you that of other phases of the cycle. We're the best game in town.

Thank you very much.

SECRETARY SIMON. Thank you.

Jim Needham.

MR. NEEDHAM: Thank you, Mr. Secretary.

The exclusivity of Charlie's definition of a financial institution maybe leaves the securities industry out of it. We are depository, but we don't pay interest.

Mr. Secretary, there are some things that could be done right away to reduce the cost of operation within the securities industry. And reduction in those costs would be an anti-inflationary step.

I think we could all agree upon that. And it could be done very quickly, right now.

On the Hill there is pending reform legislation and it should be a simple matter to insert in that legislation a grant of authority to the exchanges and to the NASD which would make them equal in their regulatory scope. If that were done, it would then be possible for a member firm or a registered broker-dealer, to state it differently, to select the regulatory organization they wish to subject itself to. That would eliminate the duplicative form-filing that goes on, the repeated examinations by various regulatory authorities and would all be vested in one place. And I'm certain that would save the securities industry millions of dollars.

And to that end, Mr. Secretary, we have filed for the record,the statutory language necessary in order to accomplish that goal. And I urge the Treasury Department to support us in its sincere attempt to reduce the costs of operation within the securities industry.

Secondly, Mr. Secretary,I would like to recommend that the Securities and Exchange Commission review its registration process to see if there is not some way to reduce the cost of filing. Legal fees, accounting fees, printing costs have all gone up, and it seems to me that within the context of protecting investors, that it ought to be a relatively simple task for the SEC to review its current practices to determine if the public interest in any way would be jeopardized by lessening the requirements presently in effect.

Third, Mr. Secretary, I'd like to dust off the Gasch Report.

The Gasch Report didn't receive much attention in Washington while I was here, but I did support it when I was a Commissioner of the SEC, and I continue to support it. And it seems to me that this has an anti-inflationary impact as well.

I'm also concerned, too, about another aspect of the scope of regulation -- not only of the SEC but at other regulatory bodies-wherein the judicial functions performed by the Agency which prosecutes, and prosecutes the alleged violators of its laws.

It seems to me it's time to move out of the regulatory agencies, the judicial function, and to put it into a separate Federal Court system.

Lastly, and I won't dwell on this because we do have a laundry list of taxing forms -- it's absolutely clear to me and I am sure to everyone else that there is an important interrelationship between tax laws and the efficacy of whatever industry it is that we're talking about. And therefore, Mr. Secretary, I respectfully urge you to give serious considerations to the tax proposals the New York Stock Exchange has advanced.

Thank you.

SECRETARY SIMON: Thank you.

Jim O'Leary.

MR. O'LEARY. No. 28.

Mr. Secretary, I may not be the best person to make this point. It might be Frank Hoenemeyer's province but I have had, as many of you know, a long experience with the Life Insurance business, and I think it is a mistake to limit this discussion just to the deposit institutions, and we should be thinking about the problem of the life insurance companies.

The life insurance companies of the country have lent new money each year for the long term capital markets of something like $17 billion. Their gross cash flow in the long term markets is something in the order, maybe, of $35 million.

I may be low on these figures.

They are a tremendous factor in the corporate bond market; the commercial mortgage market; the residential mortgage market--particularly in the multi-family area.

There are almost insoluble problems of a disintermediation nature for the life insurance companies in a period in which interest rates are as high as they are.

As everyone around this table recognizes--but I think ought to be stressed--is the fact that most of the life insurance cash value life insurance outstanding carries a contractual interest rate of 5%--borrowing rate of 5%.

In the life insurance business today, there are some "Life" companies that have upwards to 50% of their policy reserves on ordinary life insurance now in policy loans.

At this level of rates, the potential drain from those institutions has made them very, very gun shy about commiting money out into the loan markets.

The effect on them alone really poses a very, very serious problem for the viability of the long term markets.

There are ways that this problem could be dealt with. The life insurance companies, themselves, to some extent, have found ways to, in effect, charge a higher policy loan rate and to discourage borrowing against those policies.

I would urge at the national level, a study of this.

One of the great difficulties is in the State of New York, where there is a statutory interest rate of 5% which sets the practice generally throughout the country, because every company wants to do business in New York and, unless they abide by that 5% Statutory Ceiling, they cannot do business in the State of New York. There is no reason in the world why the Legislature there in the State of New York, if it were realistic in this situation, should not permit the life companies, at least on their new business, to write into those policies a policy loan rate that was consistent with what the level of interest rates is.

So that this is an area of national policy in terms of the viability and the growth of long term capital markets that I think is highly important to take a look at, in terms of the money involved there, it seems to me that it is a larger volume of money than would be true in the case of so many of the deposit insititutions, and it is neglected in this sort of discussion.

Thank you.

SECRETARY SIMON: Thank you.

Rex?

MR. REX MORTHLAND.

I simply would like to second what Rusty Crawford had to say about the repressive effects on the payment of interest on time deposits, of the limitations on earnings.

These, typically,--he didn't use the word--these come about through the use of usury ceilings.

We have wide diversities of them between States. They are established by the States, but in a significant number of States, the usury ceilings really prevent the financial institutions--the intermediary--who really is a merchant who buys money and sells it. And they prevent the financial intermediary from charging a high enough rate to the borrower to compensate the saver.

When we are concerned about housing, we are concerned about any kind of borrowers, but in a capital shortage economy, one that basically has price bases, then we must be able to charge enough to the borrower to help allocate the resources as economically as possible.

I know that the Federal Government itself--at least, I believe the Federal Government doesn't want to go into the area of trying to set usury rates every place. We do have a provision in one of the Bills that has been passed in the Senate, and is possibly coming up in Conference, which would change one of the percentages in the National Banking Law.

The point I am trying to make, though, is that in order to help the small saver, the financial intermediaries must be able to collect from the borrower a higher rate of return and, by numbers, I don't have them in my mind, but the number of savers far exceeds the number of borrowers if we have a consumer orientation.

I discussed earlier this morning, briefly, the philosophy that I thought was behind the recommendations in the Hunt Commission Report, which now appears in the name of the Financial Institutions Act. So I shall not repeat them now.

But I do repeat that the American Bankers Association as a whole--I won't say we have unanimity by any means, Mr. Secretary, but we have a consensus and we keep forging a little better consensus as it goes along--believes that the Financial Institutions Act--the philosophy behind it--is a move which will help us make the financial markets more efficient. We do repeat, though, that no set of financial institutions can operate effectively in a system of as high interest rates, and as wide fluctuation in interest rates and inflation as we have had recently.

Thank you.

SECRETARY SIMON: Thank you.

Mil Hayes.

Mr. Hayes.

I would like to emphasize again what Mr. Crawford and Mr. Morthland said: The Independent Bankers of America represent 7,000 banks in the country, mostly in the agricultural area. They are small savers that don't get a chance to go in and bid for Treasury Bills in large amounts, nor for large C.D.'s.

So any savings aspect that can be proposed, such as the tax proposal, would certainly bring in more savings.

This area of the economy, by the way--I should point out--is very profitable now in the communities in which they operate. They have had fine years, and the savings are good, and banks are sound; but we can bring in more savings to these institutions. The largest one in our group now, one bank alone, is about a billion dollars; but most of the banks are between $5 and $10 million. So they are small banks in agricultural areas.

All of the points raised by Mr. Crawford and others about what can be done in those types of institutions, we would like to emphasize.

Thank you.

SECRETARY SIMON: Thank you.

Bob?

MR. DEDERICK: Said earlier, at the risk of being considered a heretic, I guess I would have to say now, at the risk of physical damage to myself, because I have two "savings types" beside me, I just want to emphasize that we have to be awfully careful here to distinguish between short term, immediate problems, and those which are longer term in nature, and when looked at from a longer term point of view, may not be problems. I think in this particular area, what we have to be awfully careful to do is to avoid confusing the short term needs of the Housing Industry with a longer term and, therefore, to avoid doing something now--taking steps now--which would have longer term implications.

Up until very recently, I was not aware of any housing shortage. Not so long ago we were talking about an excess of housing.

Again, we have been in an extraordinarily unusual environment, and we don't want to put in policies which, once this environment is gone, we will, perhaps, regret having it with us.

Many of our problems today are the result of our putting in measures for short term need, which disappears, and yet the measures stay with us. But what I would emphasize is: housing may not be a priority need in the years ahead, as it is right now, and so what we do in the way of relief measures at this time should be of the sort which are genuinely recognized as that, and which, therefore, are generally recognized as being subject to removal once the immediate term problem is passed. Thank you.

SECRETARY SIMON: Thank you.

Mr. Hoenemeyer.

I'd just like to pick up on policy loans where Jim O'Leary left off.

This is a very serious problem for the Life Insurance Industry. Unfortunately, there is no short term solution to this.

All of our policies--outstanding policies--do have fixed loan rates of 5% and, more recently, 6%; so anything that is done in this area today would not have any impact for some time to come.

We are frustrated by trying to get the rate on policy loans changed. Unfortunately, legislators around the country--and these are subject to State regulation--feel that any increase in the rates on policy loans is an additional charge against the small man. It's like raising usury rates and, actually, just the opposite is true because the small individual--the little individual -- is not the one who borrows on his insurance policy. It's the larger, more sophisticated individual who takes advantage of these low guaranteed rates.

So we are very anxious--looking to the years ahead--to get some change, but it isn't going to be something that would have an immediate impact on our flow of funds.

SECRETARY SIMON: Just one more; then we have to move to the next subject.

MR. HARPER: I would just like to chat about a problem of the Central City Banker.

We know very well that the well being of our banks financial stability depends upon the stability of our customers, and we have found that, in the central cities in this country, that we have a disproportionate number of individuals who are forced in and out of the labor market as the cycle changes.

During a sharp decline--as the monetary policy that we're pursuing now will bring about--then a greater number of people will be forced out of the labor market.

I would like to submit to you this: That these individuals are individuals, speaking of public relations--these individuals are the individuals who have faith in this country because they go back into the labor market when times become good.

During a long incline--and I can see this during the late sixties--these individuals went out and purchased homes; they went out and bought a car. As a matter of fact, during the peak of the incline, some unsophisticated bankers actually made auto loans to some of these individuals, only to have to reposses these autos later on.

Now, I would submit: why should these individuals, speaking of equity--suffer the unusual burden of this type of system. I'd just like to lay this on the table. There's no way for me to leave here today without saying it. I think these individuals talking about tax inequality--Senator Long talking about the oil industry being taxed, overburdened--these individuals are supporting our economy. If you didn't have people willing to go in and out--because there's a growing mass of people who won't play the game any more; and that's the reason why we see welfare roles rising. People want stability, and there is a mechanism for stability and net income over time may be much better on welfare than it will be going in and out of the labor market, supporting an economy. Today, no one has brought this problem up, I think, except Mr.Kennedy, and he only referred to it in the Labor Act. I don't know what that Act entails, but I would probably believe that it would not address itself to the chronic problems that we have in cities.

Thank you.

SECRETARY SIMON: Thank you.

IX.

Wage - Price Policy
Discussion Papers from Delegates

Dr. George Leland Bach
Professor of Economics and Public Policy
Stanford University

Although special developments like the recent food and energy crises may temporarily dominate price movements, the fundamental cause of inflation in the U.S. (and most other major industrial nations) is "excess income claims," validated by expansionary monetary and fiscal policies. Workers, businessmen, farmers, the elderly, national defense proponents, all of us together, have come to demand, almost as if it were a divine right, a rising total of wages, profits, prices, social security benefits, national defense, education, you name it, that substantially exceeds the output of the economy at stable prices. In the old days, these higher wages, prices, etc. would have priced products and labor out of the market before long, with unemployment and recession halting the inflationary pressures. But no longer. Today, the Federal Reserve, White House and Congress, given the nation's high priority on avoiding unemployment, generally increase government spending and the money stock to avoid substantial unemployment albeit at the cost of validating the inflationary cost and price increases. Then the wage-price spiral is set for another round up, from the new higher plateau of prices and money incomes as everyone tries again to increase his real income faster, with little fear that inadequate final demand will punish him.

Any economist can tell you one sure-fire way to stop this cost-push demand-pull inflation spiral. Cut the growth of the money stock to zero, shift the federal budget to a large surplus, and the growth in spending and prices will grind to a halt within a few months—but at a terribly high cost in unemployment and probably financial panic. What we need now, above all, is some way to slow the growth of excess income claims (wages, prices, and government benefits) so monetary-fiscal policy can hold the growth in total spending to a reasonably noninflationary rate without generating unacceptable unemployment.

Concretely, what we need is strong Presidential leadership in establishing openly with business, labor, agriculture, the general public and Congress a realistic, moderate set of guideposts for wages and prices, to be backed up by an announced, moderately restrictive monetary-fiscal policy. Such guideposts need *not* involve absolute sacrifices by any or all. If we could thus get the economy growing fairly stably again, groups and individuals in the nation would only have to hold their claims for income increases to about ¾ percent annually on the average, assuming that to be roughly the long-run growth rate in real output. To illustrate, if our short-run goal is, say, to slow inflation to 5–6% next year, labor would need to agree to a wage guidepost of 8% or so, while product prices could rise no more than 5% or so. (The old early-1960s "guideposts", with the substantial flexibility they had, suggest the appropriate general type of relationships.) The Federal Reserve would need to cooperate with a monetary policy leading to a growth in money GNP of about 8⁄10% per year. In 1976, if all goes well, the amount of inflation could be further reduced, with slower nominal income rises while real incomes continued to rise in proportion to real output.

The nation is ready for a strong program against inflation. But the President faces a major job of economic education. We must learn that we cannot have more than the economy produces; widespread attempts to "catch up" or "get ahead" through escalated wage and price increases or government programs will simply lead to accelerated inflation, not to larger real incomes. The greatest contribution these "summit" meetings can make is to drive this fact home to the American people—*to us*—and to provide a foundation for a temporary national "incomes policy" to work with monetary-fiscal policy in slowing the debilitating inflation. Perhaps development of guideposts should include some off-the-record hard bargaining sessions among business, labor, and a few government leaders—under real pressure from the American people and their leaders in Washington. What is needed is a relatively simple, well-understood policy; sporadic, ad hoc jawboning will accomplish little, generate major inefficiencies and inequities, and prove economically and politically divisive. The only real anti-inflation alternative is to ask monetary-fiscal policy to do the job alone, with enormously costly recession; or to move to mandatory direct controls, with their equally great economic inefficiencies and socio-political disruptions.

It is stylish to say that history has shown that incomes policies don't work. This is wrong. They have worked, both here and in Europe, for crucial periods when there was no substantial excess aggregate demand, as there is not in America today. They will not work when there is large excess demand, which is the reason they must be integrated with moderating monetary-fiscal policy to slow the inflation down.

This argument does not, of course, imply that other measures, especially to increase productivity and supply generally may not also be important.

Mr. Bruce K. MacLaury
President
Federal Reserve Bank of
Minneapolis

The Council on Wage and Price Stability should have the power to subpoena records and the authority to delay wage settlements and price increases for ninety days in those major industries where competition appears to be of insignificant dimensions. The agency may have to establish guidelines for wages and profit margins to equitably administer such a program.

Mr. Charls E. Walker
President
Charls E. Walker Associates

Although there is a time and place for direct wage/price controls, the U.S. economy in 1974–75 affords neither the place nor the time.

Arguments made for controls include: (1) Other policies are not working or are likely to work much more slowly than the public will tolerate; (2) a majority of the people appears to favor their reimposition; (3) controls can "buy time" for restrictive fiscal and monetary policies to do their work; and (4) excessive "market power" of business and/or labor can only be controlled through direct Government intervention.

Arguments against direct controls include: (1) They are effective only under very special conditions—conditions which do not now prevail in the U.S.; (2) they are inequitable, distort resource allocation in the short run, and impede production in the long run; (3) they deal with the symptoms rather than the causes of inflation; and (4) both business and labor are opposed to reimposition of controls, so that the probability of legislative authorization is slight.

Any attempt to re-institute direct wage/price controls now would be a bad mistake. False hopes would be raised. Uneconomic actions would be fostered. Long-run supplies would be reduced. And, most important, early reiteration to the public (following the misguided attempt to freeze prices in mid-1973) that there is no Magic Wand in the fight against inflation would further impair national economic morale—a morale that must be strong if inflation is in fact to be brought to heel.

Inasmuch as the political cards are at least temporarily stacked against resumption of direct wage/price controls, the discussion above may be academic. But in fact it provides background for comments on a specific question posed to the Financial Conference on Inflation,

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namely, "How should the wage-price monitoring system be operated?"

The short answer to this question is "Very carefully." The Council on Wage and Price Stability authorized by Congress in late August (see P.L. 93–387) may, if cautiously and wisely operated, lead the nation toward a "social compact for wage-price stability" among Big Business, Big Labor and Big Government. But to rush out in that direction with early adoption of guidelines, while the economy and its constituent parts (particularly labor) is still adjusting to and catching up with recent double-digit inflation, could be highly counter-productive, perhaps hastening a return to direct controls.

Can the Council do more than "not do harm"? Yes, provided the President and the Council are willing to emphasize the two Congressional directives dealing with fostering productivity and identifying inflation-generating laws and actions of the government. As to productivity, both tax policies and labor-management relations are obviously of great importance. In addition, serious consideration should be given to shifting the functions of the National Commission on Productivity, whose accomplishments have fallen far short of expectations since its establishment in mid-1970, to the Council on Wage and Price Stability.

As to ameliorating the inflation-inducing actions of the government, President Nixon initiated a review of this problem through his Council of Economic Advisers last summer. In addition, former CEA member Hendrik Houthakker of Harvard stated in the Economists' Summit that he had constructed a list of some 45 areas that deserve attention.

Hence the Council on Wage and Price Stability might play its most significant role in building on these studies toward legislative and Executive Department action. Stated differently, to the Federal Government and its new agency, the Council on Wage and Price Stability, the best advice might be, "Physician, heal thyself"!

IX.

Wage - Price Policy Conference Proceedings

WAGE-PRICE POLICY TO DEAL WITH INFLATION

SECRETARY SIMON: We'll move now to the Wage-Price Policy to Deal with Inflation.

Dr. Arthur Okun of Brookings Institute.

DR. OKUN: Thank you, Mr. Secretary.

Lee Bach and Jim O'Leary have both made, to some degree, effectively, the case for doing something on the income policy front.

Consequently, I'd like to spend some time, really, just posing the problem of wages and prices as I see it for 1975.

It is really terribly hard to make a substantial dent in inflation for 1975 with current policies, because of the prospect of a price-wage price spiral and, specifically, because of the effort of American workers, unionized and non-unionized, to make up for their loss in real income that they have experienced in the past year by the only means available to them acting separately -- namely, by trying to get a more rapid increase in money wages from their employer.

In the past year, the take-home real value of an hour's worth or work on the average in the American economy, is down 3% for the American worker.

Normally, it is up about 3% a year.

The major problem in redressing this balance is that Labor's losses are not in the pockets of the typical American employer of Labor, he doesn't have it to give to them.

The loss reflects the major increase in food and fuel prices that have tremendously increased -- not through their own fault or virtue -- the incomes of farmers and of producers at home and abroad.

Hence, any increase in wages at a more rapid rate, must be passed through by most employers into more rapid increases in prices.

Recognizing this pressure, the typical forecast of professional economists these days, calls for an acceleration of wages to about 10% or more during 1975, compared with the 7% rate that they were running during '73 and early '74.

Purely as a result of that, inflation is expected to stay close to the double digit level, showing very little relief even in an economy with very weak demand for labor and for goods.

There are really three ways, I think, that we try to deal with this problem to adopt the strategy for income inflation.

It seems to me, in a sense, one can reinterpret old time religion -- very strong doses of monetary fiscal restraint, as a way of offsetting income inflation with deflation that comes from excess supply of machine and man.

It means you have to push the economy down far enough to create enough idle labor and enough idle capital to hold down prices and wages enough to offset the upward push coming from income inflation.

Now, every economist, who studies from past experience, will tell you that can work ultimately, but only at an extremely high cost. And it is an arithmetic game that I don't want to get into, whereby one can calculate that it may cost $250 billion of lost real income over three years, or $500 billion over eight years, if people do what comes naturally, and if the only tool used by Government is fiscal and monetary restraint to hold down the economy.

Some of the optimists on old time religion that I know seem to believe that if the Government makes it clear that it will not ratify inflation this time, business and labor will not do what comes naturally; that they can change attitudes, that they can show more restraint spontaneously.

I must say I don't understand what the mechanism is by which any group of workers or any individual businessman is expected to translate this ultimatum from its Government into its own behavior. It has to act to protect itself.

It seems to me it is against the background of this huge problem of income inflation that one comes to propose some direct efforts to deal with it specifically.

One thing that does is: It puts -- it underlines-- the importance of having good price behavior in food and fuel.

Another thing it does is emphasize that excise taxes are inflationary. They make incomes inflation work, where there are excise taxes on any product that the consumer buys.

I think in light of that, one of the things that we may have to compromise in the battle against inflation is the desire to get a more rational use of our energy resources through the price system.

Beyond that, and obviously most significantly, is the question of whether you can change the wage and price decisions by some direct measures. And the basic element in that is essentially the incomes policy -- the social compact the acceptance, basically by Labor, of some self-restraint on money-wage increases during the coming year.

There is a real paradox in that because it asks the party that has been injured significantly in the past year, not to strike back not to try to catch up, to recognize that it really cannot win that kind of a battle; and it is in those terms that it does seem to me that the good will of the Government, in trying to negotiate restraint from business and, particularly, from labor, is best displayed by being willing to offer some kind of extra assurance or extra benefits that will help to insure that restraint on wages will lead to an actual resumption of gains in real wages and, if that takes a tax reduction, or subsidy, or some promise of an ultimate tax reduction, I think it could well be worth the investment in the effort to negotiate that arrangement.

Thank you.

SECRETARY SIMON: Thank you.

Mr. John Tomayko of the United Steel Workers.

MR. TOMAYKO: Mr. Secretary, I have a few remarks that I have been asked to prepare.

I want to say, first, that since I was told to keep them very brief, I did't go into as much detail as, perhaps, we should have on this very important subject. But I want to assure the group that I appreciate very much the remarks that Dr. Okun has made, particularly on the need for catch-up. Before I say anything further, my new acquanintance over here, Mr. Leach, said that the quickest way that you can get price increases is by threatening price control. And he further said that the quickest way you can get wage increases is by threatening wage control.

Well, I just don't understand the last part. We don't give ourselves increases in wages and we generally have a term in basic industries that is about three years. You have to wait for a long time to come up at bat; and that's why it was so important for Arthur to mention the catch-up, and I'm talking about organized workers and wage earners, Mr. Leach.

It seems to me that merely a threat of wage increase -- I doubt very much if any of your employees can rush in to you and say, "I want that wage control, and I want that wage increase."

"I don't think your employees are organized". Any you say, "You will like hell", and if they were organized, you'd tell them when the agreement terminates and when there's an opportunity to discuss it -- but I don't want to become argumentative.

I do want to say this:

That I have been with the Steel Workers Union for 38 years, and I am not an economist by any stretch of the imagination, and my principal function has been to negotiate collective bargaining agreements in the fringe benefit areas. And there are many who think that that is not particularly inflationary.

I first became acquainted with the subject of Wage Stabilization under programs that were developed during the Roosevelt Administration and, more recently, when I served on the Health Services Industry Committee under President Nixon's Phase II.

Now, President Ford held a conference with the leaders of labor last week. I am not an elected leader of labor. I'm a labor technician, employed by the Steel Workers Union.

Now. President Meany stated Labor's position, and he stated it quite eloquently, and it would be presumptuous for me to take any other position; but I should briefly highlight what I understand is his stated position.

Organized labor is deeply interested in halting the present inflationary spiral. We took President Nixon very seriously in 1971, and joined in what we thought would be a cooperative effort to get equality of sacrifice, only to discover in a few short months that certain sections of the national economy were more equal than others.

Oh, yes! Wages were controlled. The American people were gouged at the supermarket and squeezed into pay checks -- as Mr. Meany has said.

Many prices were not frozen at all. Exempted from any freeze were interest rates, price of land, capital gains, dividends, and, also, profits were free to rise without any pretense of control.

In fact, during this period of wage control, Business was given tax bonanzas and during President Nixon's Phase One through Phase Four the rate of inflation more than doubled.

Now, no amount of rhetoric can hide the fact that there was no fairness, no equity or no justice in the controlled programs that were developed in the 1971-1974 period.

Labor, therefore, is opposed to any repetition of such a control program in any form or any guise. And in conclusion, speaking as an individual deeply concerned with the welfare of this great country, I am convinced that organized Labor looks with hope to President Ford's war on inflation.

As in the past when, when he determines that extraordinary stabilization measures must be taken, Labor will cooperate fully as long as there will be equitable restrains on every phase of the economy, including prices, profits, dividends, rents, interests, rates, interest rates, and executive compensation as well as worker wages.

Now, I spoke with President Able just yesterday before I come down here and he is happy that I have been given the opportunity to participate, to listen, to find out what you people have to say about the problems of inflation and he wants you to know that our Union looks optimistically towards President Ford's Economic Summit Conference.

We would like for him to give the nation a breath of fresh air in order that we may restore the necessary health and vitality of this great nation.

SECRETARY SIMON: Thank you very much, John.

Let me see if there are any people here that haven't made any comments today. I am trying to get everybody.

SPEAKER UNIDENTIFIED: Mr. Secretary, I submit that there is a fourth wage price policy that is capable of making major headway in controlling inflation that Mr. Okun did not mention in his summary and this particular policy is one that does lie within the control and power of Labor under existing law, namely, a different kind of social contract or compact than that being talked about in Europe, than that being now somewhat talked about here as evidenced by this conference; a social contract between employer and employees that in return for financing a portion of the growth of the corporation in such manner as to use the logic of corporate finance which is to invest in things that will pay for themselves, to build ownership into the worker, for the worker in turn to flatten out his wage demands.

This means simultaneously building an eventual second source of income into him. It means building economic security into him and it means simultaneously solving the economic growth problem of the economy.

This is a collectively bargainable subject today under existing law. Nothing new is needed to do that so that it lies within Labor's power.

I am frankly appalled that Labor Union leadership confines itself to jurisdiction over only one of the two factors of production and that is one that is growing weaker rather than stronger. Technology has the effect of pushing the burden of production off the worker onto the machine.

It's time for the Union to wake up and represent the worker, the Union leadership to represent the worker not only with respect to his job, but with respect to the capital ownership which he must have if he is going to be self-sufficient, self-sustaining and maintain an adequate income without inflationary impact.

SECRETARY SIMON: George Schultz.

MR. SHULTZ: For a long time -- it seems to me that Dr. Okun and Mr. -- I think I will call you "Doctor Tomayko" promote you to the ranks of the economists. I thought your statement was very much to the point and Dr. Okun's statement, you have pinpointed the problem for us very well.

I would like to assume their statement of the problem and say a few words about this social contract idea and try to be constructive about it, because I've thought about it a lot and I've tried to work one out once, and I think on the whole in early 1973 had all the makings in a broad, loose sense, a social contract and essentially it got broken up by things that took place outside of it, so to speak, mainly what took place in the prices of international traded commodities and a lot of associated events.

So I think there are some things that can be done through the social contract route but I also think there are some distinct limitations on things that can't be done.

The statement has been made about the British situation, I will say a statement has been made so I won't attribute it to myself; that the social contract, that is, the agreement between the Trade Union Congress and the Labor Party will well cut your taxes if you show restraint on wages.

That social contract is not worth the paper its not written on. And I think that's probably right and some sort of explicit effort to negotiate something like that here, I think would be subject to the same comment because I don't know who would speak to the Congress. It is very gratifying that two members have stuck with us all day and are listening to whatever one has to say and I think that we owe them a real vote of thanks for doing that.

But nobody spoke for the Congress and a tax bill is a pretty wild thing when it gets going. You just don't know what is going to come out of it for American Labor? I guess George Meany comes as close as anybody does, but then there's the AFL-CIO for the miners, truck drivers, automobile workers, to name three.

And besides that, I think the steelworker, when it comes to bargaining, you figure you are doing that. So there is that dispersion plus the fact that roughly a little better than a fifth of the Labor force is in Unions or a little better than the non-agriculture Labor force, so there are a lot of people who wouldn't be a part of that social contract and you don't know who is speaking for somebody.

So I think there are limitations to sort of being very explicit about that idea. On the other hand, it seems to me that if a comprehensive economic program can somehow emerge, that people think is reasonable, fair, and the people working at it are fair and there has been a chance for a genuine input and that as things go along, there will be further opportunities for input and if things don't go as planned, there will be a readiness to change and to appraise in a reasonably realistic way, then it seems to me you have a basis for people doing what they think is best for themselves, nevertheless having a greater sense of common interest than they would have if they didn't have the same kind of feeling about what was happening to national policy.

So I think as it's developing, these meetings that are being held have all the different groups that have something to say on the economy, are by way, a very good step in the direction of this sort of broad sense of social contract, and I think it is quite a welcome thing that not only is the Executive Branch represented, at least the two that I have been at, but the legislative branch has also been present, and I think that this is something to be worked at very hard in this light.

But without trying to pin people down to some notion that, all right, if we pass this tax bill, will you settle for a six percent wage increase or eight percent or some other wage increase? I just don't think the world works that way, but I do think it does respond to a real sense of the general interest if it can be put out there and put out there with enough confidence that perhaps can be sustained for a little while and all of us can thereby reap the benefits of it.

SECRETARY SIMON: Thank you.

X.

Other Suggestions to Fight Inflation
Discussion Papers from Delegates

Mr. Edwin G. Alexander
President
First S&L Shares, Inc.

A balanced budget must be the cornerstone in the nation's fight against runaway inflation. To do this, we need a reduction in Federal spending by $10 to $15 billion. In addition, we urge that the 7 percent investment credit be extended only to those industries where supply shortages exist. The taxpayer should not have to subsize investment in industries where supply is adequate to handle demand. We further believe the wage-price monitoring mechanism should be extended to the tax area—so that demand can be watched and so that tax increases can be implemented quickly if necessary.

While we fight the battle against inflation through stronger fiscal policy so that monetary policy need not bear the brunt alone, incentives for individual savings through the tax area should be implemented.

For instance, we urge a deduction for up to $1,000 in interest earned from savings accounts—so that the average saver will not have his savings shriveled away by a shrinking dollar. At the same time we recommend a new type of savings certificate, where part of the interest can be deferred as to payment and taxation until maturity.

We believe that the Treasury Department should immediately make deposits of tax and loan accounts in thrift institutions in the same manner as is now done, exclusively, with commercial banks. This, like the tax incentive, will result in increased money for the now-depressed housing market.

The asset-liability structure of our financial institutions is far too rigid and inflexible to cope with today's shifting worldwide demands for capital allocation. Financial institutions will be strengthened if the earnings on assets are made to vary with the cost of capital. To help achieve this, we strongly urge the implementation on a national basis of variable rate mortgage loan program. The unsettled times demand this—and if implemented it would insure a reasonable flow of mortgage money at all times.

Additionally, we urge enactment of the Financial Institutions Act of 1973 with the exception that we believe no elimination of rate control authority should be effected at this time. Also, we believe the section of this legislation that calls for a tax credit for housing investment

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should be tabled pending completion of a number of important studies on the taxation of financial institutions.

Lastly we recommend that legislation be enacted providing an exemption from State usury limits for all federally related mortgage loans. There is no question but that in many states these archaic rules are simply preventing families from securing the funds they need to purchase the housing of their choice. These laws, which were enacted to help families, are in fact hurting them.

Families that want to purchase housing, should not have to bear the brunt of economic policies that have failed. While we all recognize that we must take difficult steps in order to cure the inflation cancer in our economy, we must also provide the wherewithal to insure that the basic needs of our people are met. One such basic need is, of course, housing.

To meet this dual objective, the recommendations of the National Savings and Loan League are aimed at two fronts: To insure the economy functions in the future on an even keel by balancing monetary and fiscal policies; and to develop short- and long-range answers to the particular problems facing the housing and home financing markets.

Dr. Robert Ray Dockson
President
California Federal Savings and Loan Association

Regardless of the numerous arguments presented at these Conferences called by President Ford, the fundamental truth is that we have reached a point where we must now correct the excesses resulting from the fiscal policies of the past. The large military outlays of the last decade, along with the more than $80 billion of Federal deficits, has pumped more dollars into our system than the value of the consumer goods and services produced. As a consequence, it is now imperative that Federal spending be curtailed and a sizeable budget surplus be planned. Both Congress and the Administration must prove to the American people that they recognize the need for a budget surplus by reducing Federal expenditures below the $300 billion level. This can be done if specific programs are eliminated and others significantly reduced. The will to do it must be found in the hearts of our Representatives.

After a sensible fiscal policy is implemented and there is evidence that the back of the inflationary spiral has been broken, the current highly restrictive monetary policy should be relaxed. Such relaxation should stimulate investments and thus increase our productive capacity so that the supply side can be increased at the same time demand is being depressed.

In addition to the need for a more conservative fiscal policy, coupled with a less aggressive monetary policy, there is an overriding need to increase the rates of savings and capital formation. The demand for capital is astronomical and there is no way to meet this demand without pursuing policies that result in a higher aggregate level of savings. While it is important that a nation-wide publicity campaign be mobilized to encourage people to save and to reduce their expenditures, the Government's taxing powers also should be employed to encourage a higher savings rate. A tax incentive in the form of a tax exemption for interest income derived from savings placed with financial institutions would offer a most effective instrument to increase the size of the savings pool while simultaneously reducing consumption.

Specifically, it is recommended that the first $1,500 of income earned on savings accounts in either commercial banks or thrift institutions be exempt from the Federal income tax. Such an exemption would benefit greatly the small saver as opposed to the institutional investor and, at the same time, would stimulate housing—the industry that has taken the brunt of the current tight monetary policy. Although the Treasury would have to estimate the exact cost of this kind of program, rough estimates indicate the cost would be less than $3 billion a year, far below the cost of the various subsidy programs being discussed.

A tax incentive along the lines recommended would have other ancillary effects. It would tend to reduce immediately the "disintermediation" taking place with financial institutions and it would return a viability to their financial structure. These savings would be used primarily for home loans and new residential construction and thus employment in the construction industry would pick up and the Federal tax base would be expanded, offsetting the actual loss of revenue resulting from the exemption. A tax exempt program of the nature of that described would reaffirm our Government's recognition of the important role of the American home.

MR. MILTON J. HAYES
Chairman
Government Fiscal Policy Committee, Independent Bankers Association of America

It is probably too simplistic and too self-evident to propose that a sound unit of currency will go a long way toward combating inflation. The counter-point could be made that even nations with a sound currency backed by gold are today also experiencing inflation and this is true, especially in the case of Switzerland. However, monetary and fiscal responsibility may not be enough to control an inflation if the other policies of a nation tend to undermine the strength of the currency and have the citizens question the value of their money.

History is replete with examples of Nations who have declined because the currency was debased and the savings of the people seriously eroded or destroyed. The United States must now face this question squarely and take steps to reverse the process of undermining the currency that has been going on for too many years.

The first and foremost move must be in the area of the budget. Immediate action should be instituted to abandon the full employment budget and adopt a budget based on actual income and expenditures. Then the budget must be brought into balance at once and kept in balance for the indefinite future. All the protestations about the impossibility of achieving this very necessary objective must be dismissed and all the pressure groups must be made to understand the absolute necessity of this action for the protection of the peoples' savings.

We must then take steps to bring the dollar back into the discipline of a gold backing. I propose this be done by the following actions:

1. Raise the official price of gold to $75.00 per oz.
2. Issue the additional Gold Certificates representing the difference between the present $42.22 official price and the new figure of $75.00 per oz. However, these Certificates are to be "frozen" as a backing to the currency and not used by the U.S. Treasury to pay current bills and thus increase the money supply as was done in the two previous increases in the price of gold. This is a vital step and must be part of the legislation authorizing the new official price of $75.00 an oz.

Studies must then go forward to have a statutory gold backing to the currency—this should eventually serve to prevent the irresponsible actions by many segments of our society in demanding special heavy spending programs for a small percentage of the population. History shows that unless there is a forced discipline in the matter of maintaining a sound currency the nature of man is such that debasement is an easy course to follow until the financial structure of a Nation collapses.

If these steps are taken we will find that confidence in the dollar will be restored, that the people will trust the value of their money, that natural forces will cause a decline in many basic commodities from their present speculative heights, and the rate of inflation will be substantially reduced. Time is of the essence in moving forward on this program.

M. R. Hellie
President.
Credit Union National Association, Inc.

Selected Data for JULY 1974

Loans outstanding at credit unions increased $365 million in July, seasonally adjusted, considerably more than the increase in the preceding month and more than twice the January–June average. During the last 3 months, loans were increasing at an annual rate of 15.5 percent, compared with 12.9 percent for the last 12 months.

[Dollar amounts in millions]

Item	Seasonally adjusted				Unadjusted			
	Outstanding this monthend	Increase or decrease (—) from:			Outstanding this monthend	Increase or decrease (—) from:		
		Prev. monthend	3 months ago at annual rate			Prev. monthend	Year ago	
			amount	Percent			amount	Percent
Total assets/liabilities and capital	$30, 628	$198	$3, 680	13. 0	$30, 612	$—185	$3, 535	13. 1
Federal	15, 651	101	2, 004	13. 9	15, 635	—148	1, 931	14. 1
State	14, 977	97	1, 676	12. 0	14, 977	—37	1, 604	12. 0
Loans outstanding	23, 016	365	3, 352	15. 5	23, 166	366	2, 648	12. 9
Federal	11, 649	191	1, 836	16. 8	11, 731	158	1, 379	13. 3
State	11, 367	174	1, 516	14. 2	11, 435	208	1, 269	12. 5
Savings	26, 610	78	3, 160	12. 8	26, 650	—162	2, 889	12. 2
Federal (shares)	13, 692	40	1, 820	14. 5	13, 719	—97	1, 563	12. 9
State (share plus deposits)	12, 918	38	1, 340	11. 1	12, 931	—65	1, 326	11. 4

NOTE.—Monthly figures, except where otherwise indicated, are preliminary estimates based on reports furnished by a group of Federal and State-chartered credit unions that account for about 30 percent of credit union assets. Estimates are revised annually, mainly to incorporate recent benchmark data.

Credit union savings, on the other hand, increased only $78 million in July, on a seasonally adjusted basis. This increase was substantially less than the previous month's gain and more than 75 percent smaller than the January–June average. On the basis of expansion during the last 3 months, savings were increasing at an annual rate of 12.8 percent, slightly faster than for the year ended July 31, 1974.

Loan-to-share ratios increased during the month while liquid asset ratios declined.

Credit union assets total $30.6 billion as of July 31, 1974.

CREDIT UNIONS SELECTED DATA

Item	This month	Last month	Year ago
Number of operating credit unions [1]	23, 028	23, 029	23, 020
Federal	12, 842	12, 834	12, 716
Charters issued	25	37	28
Entered liquidation [2]	17	14	29
State	10, 186	10, 195	10, 304
Number of members (thousands)	28, 700	28, 528	26, 839
Federal credit unions	15, 191	15, 100	14, 153
State credit unions	13, 509	13, 428	12, 687
Average savings per member	$929	$940	$885
Federal credit unions (shares)	903	915	859
State credit unions (shares plus deposits)	957	968	915
Delinquency rate: [3]			
Federal credit unions:			
Number of loans	2. 9	2. 8	2. 6
Amount of loans	1. 8	1. 8	1. 6
Repayments ratio: [4]			
Federal credit unions	9. 6	8. 0	9. 9
State credit unions	7. 4	6. 7	7. 3
Loan-to-share ratio:			
Federal credit unions with assets of:			
$2,000,000 or more	83. 8	81. 9	82. 9
$500,000 to $1,999,999	89. 5	88. 2	89. 2
Less than $500,000	93. 2	92. 3	94. 5
Liquid asset ratio: [5]			
Federal credit unions with assets of:			
$2,000,000 or more	43. 2	44. 7	47. 0
$500,000 to $1,999,999	55. 3	57. 9	62. 7
Less than $500,000	56. 1	60. 6	77. 7

[1] Data for Federal credit unions based on complete reporting.
[2] Net of Federal credit unions that resumed operations during the month.
[3] Loans delinquent 2 months or more as a percentage of the number or amount of loans outstanding as reported by monthly respondents.
[4] Repayments in current month as a percentage of outstanding loans at end of preceding month as reported by monthly respondents.
[5] Represents the sum of U.S. Government securities, savings and loan association shares, and loans to other credit unions as a percentage of notes payable and share accounts larger than $5,000.

NOTE.—Ratios and averages based on data not adjusted for seasonal variation.

Ms. SYLVIA PORTER
Syndicated Financial Columnist

Since I am attending this Pre-Summit Conference in the role of representative of the consumer, it is in this role that I submit the following "other suggestion for controlling inflation."

I

In the anti-inflation fight to date, the consumer has been lectured, exhorted, patronized—but not enlisted. Yet, it is the consumer who is being squeezed by tight and horrendously expensive credit, trapped by soaring prices, battered by crashes in the securities markets.

I believe this is an extraordinary oversight. I also believe that consumers are now as eager to help combat inflation as we were eager in World War II to help combat Nazism. The consumer wants to be a participant in this battle, not just a pawn. There is an unspoken cry of "*WHAT CAN I DO?*" in the hearts of millions of Americans that the President can and should answer.

(1) Work should begin at once on preparations for the President's call for cooperation at the consumer level—voluntary but very definitely, cooperation. There need be no "stick," such as rationing. And the "carrot" is implicit in the fact that the consumer is doing something positive to help ease his or her own squeeze.

(2) Representatives of the widest range of groups of consumers should be called to meetings in Washington to be informed of the plans and hopes, to be asked for policy suggestions and practical ways the program should be carried out. All consumer groups, all national organizations of men and women, all types of educational, religious, civic, etc., organizations should be included. The groups may be broken down so each is small enough to be productive. I have seen this sort of call for action work magnificently under far less urgent circumstances. It could have an electrifying effect.

(3) The help of professionals in the fields of public relations, advertising and the like should be enlisted. They would leap to the opportunity.

(4) The program should be identified with the White House, to give it stature and insure its duration. (Perhaps, it might be placed under the continuing supervision of Virginia H. Knauer, Special Assistant to the President for Consumer Affairs.) But this program is to be implemented at the regional and local—not national level. This is a key aspect of it.

(5) After the details have been carefully worked out, the President himself should issue a major policy statement and kick off the call for voluntary cooperation via a prime time TV address.

Here are several illustrations that come quickly to mind. There must be hundreds of others equally valuable or far superior.

Victory Gardens: Whether on a community or on an individual family scale, the victory garden can help keep some lid on food prices as well as contribute importantly to the individual American's feeling of participation. The "community garden" concept could be spectacularly expanded with the cooperation of corporations, churches, civic groups, schools, nursing homes, etc. Millions of publicly owned acres could be made suitable for community gardens even in densely populated cities.

Recycling: While local collection centers for waste paper, aluminum cans, bottles, etc., have proved comparatively ineffectual, they have helped raise the public's consciousness of the value of recycling in conserving our natural resources and helping to keep a lid on prices. Scrap collection and sale by communities themselves would pay off handsomely in every way.

Energy Conservation: I, for one, am utterly dismayed by the extent to which the U.S. has returned to a "burn-it-up" philosophy. Energy conservation measures must be revived and maintained. The list of moves that can be made by businesses, homeowners and individuals is well known to you. This would be both an anti-inflation and a consumer unifying force.

Educational Pamphlets: Booklets explaining in easy-to-follow language the many significant ways consumers can help hold down living costs—in all areas—could be inexpensively printed and widely circulated by organizations at the regional and local levels. As the Red Cross teaches swimming, for instance, so it could teach other vital subjects. While admittedly sketchy, if found worthy, this idea could easily be carried on from here.

II

In my role as a syndicated columnist specializing in economics and finance, I also submit these suggestions in what must be briefest summary:

The U.S. must assume leadership in bringing together the oil consuming nations to deal with the oil producing countries and meet the exceedingly delicate problems arising out of the oil price increases and production-limiting maneuvers. This *cooperation* among consuming nations is absolutely imperative—in sharing of available oil supplies, in developing policies to deal with price hikes and oil money flows, in conservation, in pursuing new sources of energy. And this common front and cooperation should be extended to other crucial raw materials so that we may handle adverse steps taken by other producers of essential raw materials without first piling crisis upon crisis.

III

Work must be speeded up well beyond what is apparent now on development of new international financial agreements and financial institutions—or perhaps strengthening of existing agreements and institutions—to handle the challenges of massive flows of funds. Our policies have been much too hesitant. Whatever progress has been achieved as a result of our timid steps to date seems to me far too little.

Mr. George B. Preston
President
U.S. League of Savings Associations

We would suggest the following general anti-inflation programs and policies by the Federal Government:

(1) Achieve a Federal budgetary surplus at the earliest possible date. If at all possible, such a surplus should be sought without an increase in taxes, but a surplus is necessary even if taxes must be increased to attain it.

(2) The Federal Reserve Board should restrain the growth of money supply and not relax its restrictive monetary policy too quickly—even though thrift institutions are particularly hard hit by tight money policies.

(3) New tax incentives are needed to encourage savings, thereby reducing inflationary pressures. We recommend a tax exclusion for the first $1,000 of interest earned on savings accounts at supervised financial institutions.

(4) The Federal Government should announce its willingness to serve as the "employer of last resort". This would sever the presumed relationship between unemployment and the program of fiscal and monetary restraint so that anti-inflationary policies could be pursued with vigor.

(5) Special tax incentives should be utilized to increase the productivity in appropriate areas of the general economy.

Specific recommendations to improve the flow of funds into the residential mortgage market:

(1) Swift Congressional action on H.R. 11221, the Depositary Institutions Amendments Act of 1974. Of particular importance is the increase in insurance of accounts coverage by the FSLIC and FDIC from $20,000 to $50,000. This would be of immediate practical help in assuring people that their money in financial institutions is completely safe, would encourage people to place their money in thrift institutions which are the backbone of the housing industry, and would not cost the Federal Government one additional dollar. We also ask support for the House-passed provision to permit 100 percent Federal insurance for deposits of governmental units—another potential source of funds for our institutions and ultimately, homebuyers.

(2) Reconsideration and reversal of the Treasury Department's regulation which effectively prohibits the issuance of tax-deferred

savings accounts. This would permit savings associations to resume a useful service to many depositors—particularly those approaching retirement.

(3) Support for the Federal Home Loan Bank Board's efforts to encourage the use of a variable rate mortgage, thus encouraging lenders to make new commitments even under today's trying conditions.

(4) Separate the controversial subjects of ending savings rate control and repealing the bad debt deduction tax treatment for thrift institutions from discussions on the Financial Institutions Act, so that Congress might consider and move ahead quickly on this important legislation.

MR. CARLTON P. WILSON
Chairman of the Board
Robert W. Baird and Company, Inc.

President Ford has stated loudly and clearly that inflation is the number one problem in the United States. That leadership in our government has even identified the problem is encouraging. As we meet for this Financial Conference on Inflation, let us not lose sight of the number one problem and the priority that its cure deserves. All that we discuss or debate should relate back to the first priority: How can this country cure an intolerable rate of inflation?

Our firm is a regional investment banking firm and our principal focus is doing business with the public. All of our capital over the years has been provided by retention of earnings and investment by our people. In 1973, when the volume of corporate financing was off sharply, our investment banking deals managed or co-managed were up sharply, and we led all regional firms in this category. We have been in the top five regional firms in each of the past five years.

While profitable in 1973 and so far in 1974, we have found it necessary to reduce expenses by $1,500,000 so far in 1973–74. These are substantial reductions for a firm with gross revenues of about $12,000,000. We find ourselves suffering, with the industry, from all the well documented problems: low volume, rapidly rising costs, high interest rates, uncertainty of regulatory rules, illiquidity of markets, etc. etc.

However, we can relate *all* of these problems back to inflation. The intolerable rates of inflation of the past three years are destroying the products we have to sell to investors. Inflation is destroying the individuals incentive to save any kind of a savings vehicle. He is no longer willing to make a long term contract. We can continue to try to attract him with innovative ideas such as variable rate notes, short term notes (Duke Power 13s) and perhaps others to come, but inflation at these rates is wiping out 30 million older people and middle income Americans. These people are the country's savers and investors. New legislation to increase social security benefits, pensions, health insurance are only feeding the fire. And now the results of inflation are filtering back into the capital markets. These markets are breaking down, as a result, just as they have in other countries for exactly the same reasons. Our capital needs by 1985 are estimated all the way from $2.6 trillion to $3.6 trillion with an estimate capital short fall of $400–$600.

It is obvious that we must change our goals in this country. We must be content with a slower growth rate and a permanently lower monetary growth rate. This must be accompanied by a balanced budget or smaller deficits. If these goals are defined, the alternatives accurately described, and the people are asked to make the necessary sacrifices to attain these goals, we believe they will respond. But it will take time and sacrifice. Unless government is willing to assume its painful role in "telling it as it is", the alternatives are frightening. Provide us with the needed leadership to cure inflation and most of our serious problems will disappear.

DR. ALBERT M. WOJNILOWER
Economist and Director
The First Boston Corporation

Our present economic condition is the legacy of a few short years during which the world business community learned that it is cheaper to buy today than to buy tomorrow, and that what is borrowed today can be paid back tomorrow in depreciated currency. Until quite recently, many firms acted as though they really believed that risk could be safely ignored and that caution had been outlawed, much as in a world in which no one bothered to lock any door because some higher power has provided everyone with free theft insurance. This attitude has found its fullest expression in the realm of finance.

When an illness is allowed to go untreated for too long, not many options remain open to the physician. The issue is no longer how to restore the patient to good health but how to save him, and even some rather unpleasant treatment may be adjudged as preferable to doing nothing. Thus, there is little hope, in my judgment, of preventing the emerging recession. Too many sectors of our economy, mainly the industries and financial institutions serving the consuming public, are being ravaged by the inflation and its financial symptoms. They will continue to suffer until the inflation abates materially, which will surely not happen overnight. By contrast other sectors in our economy, mainly those catering to business and foreign demand, have benefited from the inflation and developed their long-range planning on the assumption that the prices of the products they sell will continue to outrage rising costs. For these important industries, the subsidence of inflation is likely to be fully as painful and injurious as inflation's ascendancy has been for so many others.

Nevertheless, I consider it important that certain steps be taken—and others avoided—so that the recession may be mitigated and ultimately do some good by nurturing a noninflationary recovery. The danger is all too tangible—and has been terrorizing the stock market—that antirecession measures may cause prices and interest rates to chase each other upward still faster, even as real economic activity stubbornly goes on contracting and unemployment spreads. Such a conjuncture is to be prevented at all cost, lest we arrive in a matter of months at that point of no return at which some people start to react to the inflation by buying their next year's shirts today, and then the shirts for the year after that (like steel, they will argue, you can always sell them to someone else if you don't need them) while others decide to feast on steak and champagne today, because they have reason to fear that the money won't even buy hamburgers a while later.

Preventing Excessive Credit Expansion

Inhibiting and reversing the inflationary trend and expectations necessitates firm control over the expansion of credit—a control so firmly set in place that the public can visualize it as surviving political counterpressure even after the initial anti-inflationary results. As a practical matter this means controlling the expansion of commercial bank credit, since the growth of other lenders has long ago been pinched off by the overwhelming competitive power of the banks that has been released by the recent dismantling of many of the restrictions placed on them during the 1930's. Controlling bank credit, in turn, must start with curbing the promises that banks make. Most important bank loans originate as the result of formal or informal credit lines or commitments issued by banks to their good clients. These promises, which can be cashed on the shortest of notice, are just as much a part of the nation's spendable money stock as is the money supply reported in the statistics that the Federal Reserve issues and they and we so closely watch each week. As long as loan commitments are readily available and widely merchandised—and the banks who make the promises are also able to deliver on them—inflationary spending (or any other kind) is not inhibited.

What happens if the promises are made but then the Federal Reserve tries to hold back the supply of funds that the banks need to make good? The cost of money rises sharply as banks bid for the available supply—and this invariably prompts the authorities to supply more funds than they originally intended, because everyone is afraid of sharply rising interest rates. Does the rise in rates deter the banks from issuing more promises? It used to, but no more. Until last year, the Federal Reserve's regulation Q restricted the interest rate banks could pay to borrow large sums in the money market. Thus, whenever the price of money was near or beyond the maximum the banks were allowed to pay, the banks' ability to raise funds for lending was sharply curtailed and likewise their ability to make new loan commitments. Also, until last year, the banks' freedom to raise the prime and other lending rates was constrained. Consequently, when the banks' cost of borrowing money in the market rose in relation to what they could charge for their loans, their profit margin was squeezed and their ardor for new commitments cooled.

But since early 1973, these automatic "shut-offs" on the banks' promotion of loan commitments have been removed. Moreover, the practice of charging a "floating" rate has become virtually universal for large loans. On such a loan, the customer undertakes to pay a fixed mark-up over whatever the bank itself has to pay for the funds it passes through to him. The bank no longer needs to care at all what interest rate it has to pay, because it will get even more back from the customer. Nor do the borrowers care very much, because they know that all their competitors' interest costs are floating up (and occasionally down) together with their own, so that all borrowers will be passing through to consumers identical changes in their interest costs. The loan expansion dial is set at infinity.

The chief restraint of high interest rates on short-term and even much long-term borrowing has always been one of timing; in relation to the competition, is it wiser to borrow (and spend) today or tomorrow, or is it perhaps too late to borrow because my competitors were smart enough to borrow earlier when money was cheaper? Under floating rates, this concern over timing is virtually completely dispelled, so that rises in interest rates exercise virtually no deterrent effect. That is why short-term rates have been extraordinarily higher than long-term rates. There is a grave danger, more over, foreshadowed by recent long-term floating rate bond issues, that this cancerous development will spread to the long-term market. If it does, any sustained return to single-digit interest rates will be foreclosed for the indefinite future.

If interest rates do not do an adequate job of rationing credit in the current environment, how does the market distribute credit? After all, the supply while excessive is not infinite. The answer is, when the credit structure is encouraged to overexpand, it doesn't take very long for defaults, insolvencies, and bankruptcies to emerge. These have now become the basis of credit allocation. To have allowed widespread default risks to reappear is playing with lightning; there is no telling when and where default may strike and how many innocent parties—creditors, vendors, suppliers, depositors—may be scarred.

The majority of large market participants, of course, simply take it for granted that the Government or Federal Reserve will supply the wherewithal to bail out the serious cases—as indeed they must in order to prevent irremediable damage to the economy. The unfortunate outcome of this devil-may-care attitude has been, however, that the largest banks around the world—those regarded as having unbreakable umbilical cords to the central banks' money-printing presses—have been operating as though they were branches of central banks run for commercial profit. Because they have seen that it is to their advantage to try to increase their loans to the maximum, and because they and their depositors know that the Federal Reserve is more afraid of bank failures than are these banks themselves, their expansion has been restrained only by the defaults of some of the firms with which they have done business. The consequence of this ruinous competition from these banks is that, viewed in terms of their prospects for institutional survival, the stock, bond, mortgage, and foreign exchange markets, depositary savings institutions, and mutual funds are a shambles—and even the banking system is under suspicion to a degree unknown for more than 40 years.

We have taken a long step backwards to the disaster-ridden banking arrangements of yesteryear in response to which the modern conception of central banking was evolved. Until less than 2 years ago, our inflation, though stubborn, was not unusually rapid. The abdiction to the commercial banks of the de facto control over the growth of credit and money is, I am convinced, the principal cause of the exceptional virulence of inflation since then.

Business Investment Is No Panacea

Investment isn't always a good thing—if it were, we should all be starving ourselves, early Communist style, to finance heavy industry—and investment isn't a monopoly of business firms. Investment concerns creating resources for the future and the most important of these are to be found in our households. The building of the homes in which we live and bring up our children and the buying of cars and appliances which enable more members of each household to take on paying jobs and to get to sources of training and education do not bear the statistical jobs and to get to sources of training and education do not bear the statistical label of "investment in plant and equipment," but they are at least equally important. Such household-oriented activities, however, can never effectively compete for funds in free financial markets with business equipment, since they produce little or no cash flow and since the benefits often accrue not to the would-be borrowers but rather to their children or their community. If we had a truly free market, all but the richest of us would sleep and eat in our offices or at our workbenches, because that is clearly the cheapest and most efficient method of organizing production.

Inflation and high interest rates exacerbate the problems of the industries and institutions that enable American families to live together in privacy rather than in factory dormitories, but these problems would persist in a high-employment economy even if there were no inflation. The regulation of bank interest rates I have already proposed will be of some help in rechanneling funds toward household investment, but it will take a rather thoroughgoing reversal of current Government philosophy which favors deregulation of financial institutions, and which mobilizes the Federal Reserve's lender of last resort function primarily on behalf of banks that lend primarily to business firms, to produce a better balancing of our financial structure between human and engineering values.

Much of the business investment now surging forward is, I am convinced, based on unsound premises. The climate of scarcity that prevails in many basic materials (although fewer and fewer of them of late) reflects the unfortunate fact that over the last couple of years, these commodities have turned out to be the most profitable asset to own—they have far outperformed money, foreign exchange, securities, labor skills, or finished goods as stores of value. Inventory profits have been a source of gigantic profit increases to business firms not normally in the commodity business. Because buying cheap and selling dear is what business is all about, firms have naturally stepped up their inventory orders enormously, beyond the capacity of the producers to deliver—but if prices were to settle, these orders would vanish and some of the inventory buyers might even become sellers in competition with the manufacturers. The desire to substitute inventories and machines for cash, so as to boost profits further, largely explains why a climate of shortage continues to prevail in many markets even though real final demands, and especially domestic consumer purchases, have been shrinking for 1 year or more. Self-aggravating runs from money into commodities are typical of business upswings. In the past, however, credit restraint has curbed the ability to finance such purchases much earlier in the game: in the present, viewed on an international stage, credit restraint has hardly begun to exert a meaningful checkrein.

Control of Bank Loan Interest Rates

To revive the public's fading hope that inflation can be curbed it is essential first and foremost to reimpose a permanent ceiling on bank loan interest rates. The ceiling could be set at current levels; perhaps there will be opportunity to lower it in the future, but only in the most exigent circumstances and only by legislation should it be possible to raise it. The purpose, it should be reiterated, is not to hold down interest rates. Rather, it is to provide a clear and unmistakable warning to large lenders and borrowers, and to business planners, that whenever money rates in the open market are in or threatening to rise into the critical zone, banks will have to curtail their lending commitments in order to protect their earnings. Thus banks could no longer afford to promise clients that large loans will be available under any and all market conditions. Equally no borrower will be justified in assuming that he is somehow immune from having his credit cut off. And the "suction" on the Fed to overissue money to validate excessive bank promises will be relieved.

No doubt such a loan rate ceiling will on occasion, as in the past, cause market distortions at the expense of some commercial banks, but I am sure we would gladly accept the reappearance of these localized irritations if they helped reduce the general worldwide inflationary disruption we are privileged to have now. As for the cost to the banks, they do after all enjoy a legal monopoly of demand deposits and checking accounts; unique access to the Federal Reserve as a lender of last resort; restrictions on the entry of new competitors; and the benefits of Government-guaranteed deposit insurance. Like other public utilities, they should expect to bear certain public-interest costs in return for these enormous privileges.

My other recommendations run along the same lines. Existing interest rate and loan rate ceiling should be preserved where they still exist (although the levels may need updating in some cases). Floating interest rate securities, including variable rate mortgages and, if possible, floating-rate commercial loans should be severely restricted or even outlawed by regulatory policy. (Let us remember that only the Government and the Federal Reserve can credibly guarantee payment on what are essentially open-ended contracts.) And controls over the outflow of capital to the rest of the world will need to be reinstated to prevent circumvention of these rules (as well as for other reasons cited below).

In the absence of measures to this or similar effect, I am quite certain that inflation will, with fits and starts, continue to accelerate. Consequently, I am also quite certain that such measures will eventually be adopted. The later they come, the more Draconian they are apt to be, and the greater the price in terms of inflation and recession we will have paid.

Dangers of an Uncontrolled Capital Outflow

Indeed, to the extent that we may be suffering a genuine rather than a speculative heightening of scarcities, it is international in nature. For many decades, international financial flows (and often trade flows as well) have been dominated by political concerns such as wars and the rise of totalitarian regimes and/or have been administratively regulated for balance-of-payments reasons. Since the beginning of 1973, paralleling the abolition cited earlier of our internal self-disciplining financial regulations, international flows have also been rendered largely free of Governmental intervention. Generally speaking, American levels of resource endowment, accumulated wealth, and consumption are far higher than in the rest of the world. The effect of free financial markets and trade must therefore be in the direction of equalizing, by means of exports of goods and capital from the United States, the standard of living in the United States and that of the rest of the world. While this means a higher standard for the world seen as a whole, it may not mean a higher standard of living for most of us. We have seen this conflict illustrated, in a rather special but nevertheless instructive fashion, with regard to the grain trade. It is also taking place less dramatically—though it could snowball—insofar as OPEC oil revenues are being used to finance increased imports by the OPEC members and those other countries to whom they and their bankers choose to extend credit or grants, while the world pays its oil bills largely by borrowing funds coming from the United States. These are monstrous issues that far transcend economics, but it should be clear that only the most gradual kind of reduction of American living standards can be viewed as a viable policy for the long run.

Translated into purely financial terms, the abolition of the controls over the outflow of U.S. funds has drastically reduced the scope for interest-rate reduction even in the best of circumstances, while the forthcoming freeing of Americans to purchase gold can at best do no good, and at worst wreak havoc.

Leave the Budget Alone

Let me now turn to some things we ought not to do. We ought not to try to cut the budget deficit. To do so will be seen by the business community as making large additional sums available for private borrowing, especially by those industries whose spending is contributing most to the inflationary pressures. Moreover, if Congress reduces the deficit, the Federal Reserve will have to ease credit to bring down interest rates as its part of the bargain. The fear that credit may become unavailable is the major if not the only anti-inflationary deterrent now in place, and it has been operating for only 6 months at most. The last thing we should do is to get rid of our only effective weapon.

As to reducing Federal expenditure, whatever may be the pros and cons in the longer run, it is most unlikely that any cuts can be instituted the timing of whose economic impact can occur any time soon. Why reduce employment on the Federal payroll at a time when large sums are being earmarked for disbursement on public service employment? Curtailment of military outlay on hardware and research and development would help relieve pressure on some of the "bottleneck" sectors in our economy, but such decisions cannot and should not be made to depend primarily on economic policy considerations.

As to taxation, raising individual taxes seems inappropriate when it is likely that within less than 1 year the case may become overwhelmingly strong for a large income tax cut to keep people's finances from being ground utterly to bits between recession and a steeply rising

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cost of living. At that time, there might be a case for offering increased revenue sharing payments to States and localities that agreed to use the funds to cut sales taxes and thereby help to lower the cost of living.

Increases in business taxation would also be unwise, since the effort will be made to pass on the taxes in higher prices. General business tax cuts or investment credits would be inappropriate insofar as they would simply serve to relieve the credit stringency that, as indicated earlier, is our only anti-inflationary weapon. Tax cuts may be justified for certain regulated utilities, where the funds would be used to keep down the rates charged the public rather than to support new expansion plans.

Conclusion

The burden of my proposal, then is to reintroduce into our financial structure certain frictions—in particular, controls over interest rates—that will limit the boundless expansion of credit commitments which in my judgment is what has made the inflation so exceptionally rapid and intractable. While these proposals made to some appear radical or antihistorical, they are actually in the conservative spirit and tradition of Bagehot's dictum that "money will not manage itself," a diagnosis amply confirmed in history and which is the foundation of modern central banking and banking legislation.

It is true that a free financial market is a beautifully efficient motor, but if human beings are beautiful it is precisely because we are not mechanically efficient, limitlessly adaptable, and totally predictably. Putting a jet engine on a tricycle won't improve its efficiency.

The allocation of capital is the rudder by which society steers into the future. That is why no society has ever left such decisions to a largely impersonal process. Indeed the economy cannot be steered like in a missile or a satallite, which will wind-up in the desire predicted place if the computers have been set properly. What is being steered is a vessel with very human passengers who have profound likes and dislikes and differences of opinion about where they want to go, who each in his own way can alter the pass of the ship even though the rudder may be set, and who understands and appreciates, perhaps even better than do those estimable individuals themselves, the strength as well as the foibles of their many captains.

X.

Other Suggestions to Fight Inflation Conference Proceedings

OTHER SUGGESTIONS TO COMBAT INFLATION

SECRETARY SIMMON: Now, we will move on to the final topic of the day: Other Suggestions to Combat Inflation. Dr. G. Bymers from Cornell University.

DR. BYMERS: Thank you, Mr. Scretary.

I hope it is not symbolic of the attention that will be paid to the consumer interest in this problem, that it's placed last on the agenda today.

From the point of view of a consumer, any solution that's offered - this is an obvious statement - should not present us with a poorer set of alternatives than we already have, and definitely heavy unemployment and empty store shelves are poorer alternatives. So is the fact that there is no mortgage money available.

Consumers can and do adjust in the market and I sometimes think they adjust much better than economic planners give them credit for. It is interesting to me that with all the media coverage we had this past year on the high price of fuel, I mean the shortage of fuel and the high price of food that nobody anticipated the fact that a lot of people would trade a vacation for a garden.

We have no home canning supplies this fall. These are the kinds of consumer problems that get home to us on inflation. We're being told that the present inflation is not just too much money chasing too few goods; that's the simple kind. We know how to handle that one.

Instead, it's a wage-price spiral that's combined with the structural price shift in some very important commodities: food, housing, fuel.

Now, these all look the same at the cash register and the fact that the present high price situation is structural that world population growth, world politics, and weather have conspired to shift the relative supply price of food and fuel, means that consumers can no longer expect to obtain these commodities for a declining share of their real income. It was very nice while it lasted.

I suspect that we're going to have to get used to making some shifts in our discretionary spending and this is a decline in our real level of living. Now we need to re-program ourselves to cope with this, to cope with these higher prices.

I object to having to be expected to cope with pay-offs to meat brokers or to oil sheiks under the guise of inflation. And these are the things that are making consumers very edgy today.

All high prices may look the same to consumers, but the analysts, I think, have a responsibility to distinguish among the causal factors and take these into consideration when we're recommending cures.

I would suggest that each special-interest group that has presented preferred solutions to the inflation crisis attach to it an economic impact statement. I think the gentleman over here who spoke about the plight of the customers of the Central City Bank: he had a point. We need to recognize that the impact does not fall the same across the population.

And those in this group particularly have been concerned about the persons who are the source of the savings, and you rightly must be concerned with that group, I think you should be concerned about trying to enlarge that group.

I've been strangely -- well, I guess it struck me as strange today -- there has been no discussion whatsoever of any shift in the Social Security tax structure. Why it is that my secretary has to spend about six percent of her income for Social Security taxes and most of us spend less than three of ours?

There is a shift that we probably ought to be thinking about. We might not have to change the total tax take. I don't know, I don't have the figures; I'm not in that kind of economics; haven't been for a long time.

I do not think that the traditional remedies for inflation that I hear in consumer circles particularly, wage and price controls, I think those are absolutely not a solution for us. But I think if it's not too late, perhaps we ought to be able to combine some of the moderate monetary restraints we have been hearing about today with some readjustment in our tax structure. I think it's the payroll taxes as much as it is the income taxes that have to be looked at.

I think it probably is too much to expect that either wage, either labor or the corporate giants are going to want to willingly take a cut in their wage or profit expectations; however, I think we may have to think about that, too, and I would not like to see us have to go on it through controls. The alternatives are grim enough. Perhaps we ought to give them a try, I mean, give the voluntary solution a try.

I'm intrigued with the idea of social contract. I recognize all the pitfalls. I think I recognize them. Meetings such as this one do focus issues. And they do serve as collection points for much of the conventional wisdom.

Someone asked me this morning had I heard anything new and I said I didn't come expecting to, because new ideas are not brought about at a table like this. They come about through painstaking kinds of research that we social secientists-type seldom engage in, unless it's on yesterday's problems.

And we really need to be researching tomorrow's problems. We seldom do it. I have no solutions, gentlemen; I'm just trying to put across an opinion of a person who looks at it from a consumer's point of view.

SECRETARY SIMON: Thank you very much.

MR. ROBERT BETHKE: Mr. Secretary, this concluding section on other ideas is something like reminding us that we've been talking most of the day about the big, important things in this body's approach to inflation. They are things as important as our heart and our lungs. That is why we talked about budget and taxation and monetary policy.

But each one of us must have come down with some littler things that can be done that maybe are as important as the thumb and fingers on our hands, still making it possible to get on with the job.

So even though these ideas may seem a little far out, I would just like to kick out a few that come to my mind, and challenge others about the table to toss in theirs.

First, I think we should have a variety of spot TV plugs financed by Government and business which regularly ask the public, "What are you doing? Are you doing your share to fight inflation?"

They could give some practical tips on how we are supposed to act. For example, why not have that short plug tell us -- encourage us to return to good driving habits. Tell the housewife who has a garden how she can can it when the crop comes in. How do you avoid waste in your home, alone?

In other words, if TV can sell cigaretts, it sure as heck can sell the idea of ways to lick this inflation problem.

Now, a little on food. I think most of our wives know food costs are up, but they're certainly puzzled as to where's the problem, where's the culprit, at this stage.

You might well set up a very distinguished, capable panel to do a quick study, a panel of private sector experts, some government officials, to get down to reminding us again what happened on this food front. Is it all just the weather, or is somebody along the line from the farmer to the consumer taking a little bit of an unnecessarily big gouge, and what shall we do about it?

Now, one more and I'll challenge everybody. Even in the field of debt management. Whenever possible -- and it is likely that your Treasury can be in this position from time to time now, particularly if we contain the budget deficit, if we get some petro dollars coming to the right places -- but whenever possible, debt management ought to handle itself in a way that proportionately reduces the supply of three and six month bills, that recreates an upward sloping yield curve where short rates are lower than longer or middle term rates.

This doesn't mean that you have money to spend on balance to retire debt; you just shift the relative supply. That shifts the curve a little bit.

What does that do? Among other things, it certainly would contain further disintermediation; it would obviously encourage investors to go out and invest a little longer. It might even encourage some savers and lenders to lend out a little longer.

Finally, it quite well might save the Treasury some net interest money, since the highest proportion of your debt is in this short-term area of the market where the rates might come down a bit just by the shift in supply.

Now, all kinds of other ideas must be about this table in this minor category.

SECRETARY SIMON: Thank you very much.

XI.

Summation

SUMMATION

SECRETARY SIMON: Are there any suggestions? We've had so many today perhaps people are fresh out.

Gentlemen and ladies, I think it's been a long day. I thank you for your attention - and not only studied attention - but paying attention to the detail of not taking up too much time when you were making your remarks. The preparation that you put into the making of the remarks was obvious. It's always more difficult to say something in one minute or three minutes than it is in 20 or 25. Again, all I can say is thank you. You have our deep gratitude. We will see you next week at the summit conference with the President.

There's one thing I think I would like to make clear. It was brought out at the beginning. I guess, Bob, you brought up that in the opening remarks nobody touched on the international side.

I think Paul Judy when he spoke, mentioned that it was in my remarks, and in rereading them this afternoon, the international side was mentioned as far as the world-wide problem of inflation.

Time doesn't permit or shouldn't permit me to dominate by giving a long speech at the outset. There was much more that could have been said. I think that there is one thing I should make eminently clear. We're aware of the danger of the unmanageable oil prices that exist in the world today and recognize that there is a threat of irreparable damage that these prices will inflict on the world economic order.

We also recognize that the flow of funds, the so-called recycling on the massive scale that the world has never before experienced, where this huge flow of funds is being given to so very few decision makers, and that is obviously a problem.

It does pose a threat to the viability of the international financial situation. And we have been acting on several fronts -- "we", the Treasury, the State Department and your central bank -- maintaining a constant liaison and meeting individually and collectively.

I've been the Secretary for four months. I've been to Europe twice and my counterparts have been here twice. We are all aware of these problems.

This liaison is accomplishing a cooperation and coordination on financial, economic and energy policies that, in all our judgements, is going to result in cooperative efforts to smooth the strains that most certainly are going to exist in the translation into definitive actions. That really is the thesis of the interdependence of nations; and, consequently, it's going to result in a strengthened world order.

But obviously, it is inappropriate every time we have meetings to announce any definitive results or what we're working on. This is, as all of you gentlemen know, a highly sensitive subject. But be assured that it is not escaping our very immediate attention.

Now, with that, again my deep gratitude to all of you for the tremendous input that you've given to us today. I will look forward to seeing you all. You'll be getting a schedule early next week on what next weekend's events will be. Thank you again.

(Applause.)

(Whereupon, at 5:20 p.m. the conference was concluded.)

XII.

Pictures and Biographies of Conference Participants

William E. Simon was sworn in as the 63rd Secretary of the Treasury on May 8, 1974. He also continues as Chairman of the President's Committee on Energy and serves on the Domestic Council, the Committee on Economic Policy and other governmental groups.

In December, 1973, while serving as Deputy Secretary of the Treasury, he became Director of the Federal Energy Office.

He began his career with Union Securities in 1952, became a Vice President of Weeden & Company in 1957 and joined Salomon Brothers as a Senior Partner in 1964. He became Deputy Treasury Secretary in December, 1972.

Active in many public and private organizations, he has served on the Board of Governors of the Investment Bankers Association, as National Chairman of Fund Raising for the U.S. Olympic Committee and is a trustee of Lafayette College. He graduated from Lafayette in 1951.

Since 1969, Mr. Alexander has been President of First S & L Shares, Inc. He was Vice President of the company, formerly known as Midwestern Financial Corporation, from 1963–69.

He is also President and Director, Majestic Savings and Loan Association, Denver, and Chairman, Commerce Savings and Loan Assocation, Shawnee, Kansas.

His other organizations include the National League of Savings Associations (Vice President), Savings League of Colorado, Inc. (Secretary-Treasurer and Chairman of the Legislative Committee) and the U.S. Savings and Loan League.

A graduate of the University of Denver, he is National Vice President of Muscular Dystrophy Associations of America.

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Dr. Bach has been Frank E. Buck Professor of Economics and Public Policy at Stanford since 1966. He had spent 20 years at Carnegie Institute of Technology, was founding Dean of the Graduate School of Industrial Administration and served as Chairman of the Economics Department.

He has also served on the Federal Reserve Board, 1941–46, and was Chairman of the Pittsburgh Branch, Federal Reserve Bank of Cleveland, 1963–66. He is now a Federal Reserve consultant.

He has also been a consultant for the Ford, Sloan and Carnegie Foundations and is Fellow of the American Academy of Arts and Sciences.

His many books have been translated into six languages. He has degrees from Grinnell College and the University of Chicago (Ph.D., 1940). He also holds honorary degrees from Grinnell and Carnegie.

Mr. Baldwin has been associated with the investment firm of Morgan Stanley & Company since 1946 and was named General Partner in 1958.

He interrupted his duties as General Partner in 1965 when he became Under Secretary of the Navy and resumed them after leaving that position in 1967.

In addition, he is Chairman of Brooks, Harvey & Co. and a member of the Board of Directors of the New York Stock Exchange, as well as being Vice Chairman of the Board of the Securities Industry Association.

He is also a trustee of the Presbyterian Hospital in the City of New York and the Geraldine Rockefeller Dodge Foundation.

He is a graduate of Princeton University and served in the U.S. Navy, 1942–46.

Mr. Bennett assumed his duties as Under Secretary for Monetary Affairs on July 9, 1974. He had been serving with the Treasury Department since September, 1971.

Previously, he had been associated with the Standard Oil Company, New Jersey (Exxon) working in various capacities since 1955 as Executive Assistant to the Chairman, Treasurer of Esso Petroleum, Ltd., General Manager of Supply for Humble Oil and Refining and as Director of Esso International, Inc.

A member of the Council of Foreign Relations and the Conference of Business Economists, he has published several articles in international finance publications.

Mr. Bennett was educated at Yale University and Harvard University, gaining his Ph.D. from Harvard in 1951. He served in the U.S. Navy from 1943–46.

Mr. Bethke joined Discount Corporation of New York 35 years ago, becoming President in 1974. He was Chairman of the Executive Committee, 1967–74.

He is a member of the Financial Advisory Committee of the U.S. Postal Service and is Chairman of the Securities Industry Association's Government and Federal Agencies Securities Committee. He is a member of the SIA's Public Finance Council.

Mr. Bethke is an investment advisor for the New York Mission Society and the National Council of Churches and is a Director of the Bill of Rights Commemorative Society, Inc.

He graduated from the University of Chicago in 1937, and in World War II served as Assistant Chief Statistician, Army Services Forces.

Mr. Boe was elected Chairman and Chief Executive Officer of Allstate Insurance Companies and Allstate Enterprises, Inc., in 1972.

In his 33 years with Allstate, he has held many positions, including Controller (1955), Vice President (1957), Director (1960–), President (1966) and Vice Chairman (1968). He is also a Director of Sears, Roebuck and Co.

He is a Board member, National Alliance of Businessmen, Highway Users Federation, American Insurance Institute and Evanston (Ill.) Hospital. He was Suburban Campaign Chairman for the Chicago Area Crusade of Mercy in 1973.

He is a graduate of Drake University and the University of Chicago, and has served in the U.S. Navy.

Mr. Bomar's renomination as Chairman of the Federal Home Loan Bank Board was confirmed by the Senate in June, 1974. He had become Chairman in 1973 to fill the unexpired portion of former Chairman Preston Martin's term. He is also Chairman of the Federal Home Loan Mortgage Corporation.

At the organization of the Federal Home Loan Mortgage Corporation in 1970, he was appointed Executive Vice President and Chief Executive Officer.

Before coming to Washington, he was a partner of Armur Associates, a Vice President of Larwin Group, Inc., and was Assistant Vice President of Security Pacific National Bank.

He holds degrees from the California State University, Northridge, and the University of California, Los Angeles.

Chairman of the Board of Governors of the Federal Reserve System since 1970, Dr. Burns was made an Alternate Governor of the International Monetary Fund in 1970.

He has also been Counsellor to the President (1969–70) and has been a member of the President's Advisory Committee on Labor-Management Policy (1961–66). He was Chairman of the Council of Economic Advisors, 1953–57.

He has been both Professor of Economics at Rutgers and Columbia Universities and his professional affiliations include the American Philosophical Society, the Council on Foreign Relations, the American Academy of Arts and Sciences, Freedom House and the Twentieth Century Fund.

He has been President of the American Economic Association and the Academy of Political Science.

He holds A.B., A.M., and Ph.D. degrees from Columbia and has been the recipient of many honorary degrees.

Dr. Bymers has been a faculty member of Cornell University since 1956, becoming Chairman of the Consumer Economics Department in 1969.

She presently serves on the Consumer Advisory Committee of the Federal Energy Office and the Advisory Council to the Select Committee on Consumer Protection for New York State.

Professor Bymers has also served with the Labor Department (1955) and was a member of the Bureau of Labor Statistics' Committee on Budget Statistics (1961–63).

Her academic background includes degrees from the University of North Dakota and UCLA (Ph.D., 1958). She also has been a John Randolph-Dora Haynes Fellow at UCLA.

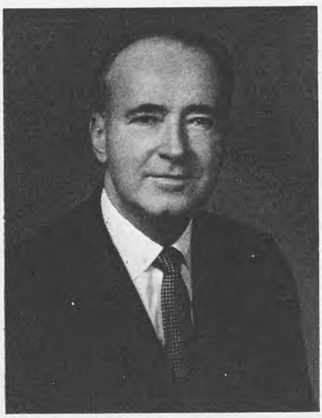
She served in the Women's Army Corps, 1943–45.

Mr. Cooley became President and Chief Executive Officer for Wells Fargo in 1966. He became President of Wells Fargo Bank International in 1967 and President of Wells Fargo & Company in 1968. He joined Wells Fargo in 1949.

Among his professional activities, Mr. Cooley is Vice President of the Association of Reserve City Bankers, Chairman of the Research and Planning Committee, American Bankers Association, and is a member of the Board of Trustees of the RAND Corporation.

He holds Directorships with United Air Lines, Pacific Gas and Electric Company, Northrop Corporation, Private Investment Company for Asia (PICA) and the San Francisco Opera Association.

He graduated from Yale University in 1944.



Active in the labor movement since 1937, Mr. Coughlin is now serving his ninth term as President of the Office and Professional Employees International Union.

He is also Executive Committee Chairman of the American Arbitration Association and is a Vice President of the International Confederation of Commercial, Clerical and Technical Employees. He has served on the New York State Judicial Screening Committee and the New York State Manpower Planning Commission.

He has been a member of the Labor Advisory Council for the President's Committee on Equal Employment Opportunity, the Advisory Committee for Youth Opportunity and the National Advisory Council on Education Professions Development. He has also represented the government in various international labor conferences.

Mr. Crawford's association with the Bowery began in 1953 when he was elected Vice President and Office Counsel. He became Chief Executive Officer in 1965 and Chairman in 1966.

Graduating from Harvard Law School in 1940, he joined the firm of Cadwalader, Wickersham & Taft, practicing until he came to the Bowery.

He has been a member of advisory committees to Presidents Johnson and Nixon and has been President of the National Association of Mutual Savings Banks.

Mr. Crawford is Chairman of the Regional Plan Association and Chairman of the Salvation Army Advisory Board. He is a Director of the New York Urban Coalition, Inc.

He has a A.B. degree from Harvard and has served in the U.S. Army.

Dr. Dederick joined the Northern Trust Company, Chicago, in 1964. Previously he had been economic research manager for a New England mutual life insurance company.

He is also President of the National Association of Business Economists, is Associate Editor of *Business Economics,* and is a Director of the Chicago Association of Commerce and Industry. From 1968–70, he was a member of the Commerce Department's Economic Advisory Committee.

Dr. Dederick holds B.A., M.A. and Ph.D. degrees from Harvard University, has held teaching followships at Harvard and Cornell Universities and has been a lecturer at Boston University.

Dr. Dockson was elected President and Chief Executive Officer of California Federal Savings and Loan Association in 1973. He joined California Federal as Vice Chairman of the Board in 1969. He was elected President in 1970.

He has had long prior association with the University of Southern California; from 1960–69, he was Dean of the School of Business and the Graduate School of Business Administration. He has also been Chairman of the Department of Marketing and Professor of Business Economics.

He is Trustee, California Council for Economic Education, the Committee for Economic Development, and the John Randolph-Dora Haynes Foundation, and he established the Economics Department of the Bank of America.

A graduate of the University of Illinois, he has his Ph.D. from Southern California. He served in the U.S. Navy.

Dr. Eckstein, Professor of Economics at Harvard University, has been President of Data Resources, Inc., since 1969.

He has been a faculty member of the Department of Economics at Harvard since receiving his Ph.D. there in 1955. He has also been Editor of the *Review of Economics and Statistics*, 1962–71, and is Editor of the *Foundations of Modern Economics Series.*

He was a member of the Council of Economic Advisors, 1964–66, and was a member of the National Advisory Council on Economic Opportunity, 1967–69.

He is a Fellow of the Econometric Society and a member of the American Academy of Arts and Sciences. He has also been a Guggenheim Fellow. He has A.B. and LL.D. (honorary) degrees from Princeton University.

Mr. Ellis became Chairman of Household Finance Corporation in 1974. Since joining Household Finance in 1935, he has held many offices with the corporation, including Executive Vice President and is now also President and Chief Executive Officer.

He is also Vice President and Director of the National Consumer Finance Association and member of its Executive and Administration Committees. He is a member of the New York Stock Exchange Panel of Arbitrators, Chicago.

In civic affairs, Mr. Ellis is a member of the Chicago Crime Commission and is Trustee of the Peacock Camp School for Crippled Children in Lake Villa, Ill.

Dr. Ensley has been Executive Vice President, National Association of Mutual Savings Banks for over 17 years.

Among governmental assignments, he has been Executive Director of the Congressional Joint Economic Committee (1949–57), and Fiscal Analyst, U.S. Bureau of the Budget (1941–47). He has also represented the United States in foreign financial conferences.

He is a member of the American Economic Association, American Finance Association and is a Fellow of the American Statistical Association.

He has lectured on economics and has degrees from the University of Washington and a Ph.D. from New York University. He has also served in the U.S. Navy.

Mr. Fiedler became Assistant Secretary of the Treasury for Economic Policy on December 9, 1971. He had previously served with the Department of Commerce since February, 1970.

Mr. Fiedler became a staff member of the Cost of Living Council in August, 1971, and was named its Deputy Director for Phase I in October, 1974.

In private business, Mr. Fiedler has been with Eastman Kodak Company, Doubleday and Company and Bankers Trust Company. He was Manager of the General Economic Department of the National Industrial Conference Board in New York from June, 1969, to February, 1970.

He has attended the University of Wisconsin, the University of Michigan and New York University, where he earned his Ph.D. in 1970. From 1952–55, he served in the U.S. Naval Reserve.

Mr. Franklin was elected Chairman of the Board of Caterpillar Tractor in 1972 and has been associated with the company for over 30 years.

He joined Caterpillar in 1941 as Assistant Controller, was elected Vice President in 1952 and President in 1966.

He is also Chairman of the Federal Reserve Bank of Chicago, a Director of Exxon Corporation, Overseas Development Council and The Joint U.S.–U.S.S.R. Trade and Economic Council, Inc.

A founding member of the Rockefeller University Council, he is a member of the general board for a group of 11 Midwest hospitals.

He is a graduate of Princeton University and has studied at the Northwestern University Graduate School.

Associated with The First National Bank of Chicago since 1934, Mr. Freeman became Chairman of the Board and Chief Executive Officer in 1969. He became President and a Director of the bank in 1960.

He is also a Director of Atlantic Richfield Company, Borg-Warner Corporation, Caterpillar Tractor Company and Time, Inc.

In 1957, he served as Consultant to the Secretary of the Treasury, and has been a member of several Presidential Commissions including International Trade and Investment Policy. Presently, he is on the Treasury Advisory Committee on Reform of the International Monetary System.

A graduate of Dartmouth College and the Harvard Law School, he served as Vice Chairman of the Chicago Renegotiation Board of the U.S. Army Air Force during World War II.

Dr. Gaines has been Senior Vice President and Economist with Manufacturers Hanover Trust since 1967.

He had previously spent nearly seven years as Vice President of the First National Bank of Chicago, directing the Government Bond Department. From 1951–61, he held various posts with the Federal Reserve Bank of New York.

He is a Director of United Merchants and Manufacturers, Inc., Lane Bryant, Inc. and Phelps Dodge, Inc. He is a member of the American Economic Association, National Association of Business Economists and is Chairman of the Committee on International Monetary Relations for the U.S. Council, International Chamber of Commerce.

He holds degrees from Washington University, St. Louis, and a Ph.D. degree from Columbia University. He served in the U.S. Army Air Force, 1944–46.

Mr. Gardner has served as Deputy Secretary of the Treasury since August 2, 1974, after a 25-year association with the Girard Trust Bank of Philadelphia.

After joining Girard in 1949, Mr. Gardner became a Vice President in 1958, Director in 1966, and Chairman of the Board in 1971. He has also served as Chairman and Director of the Girard Company.

Long active in Philadelphia civic affairs, he has been Chairman of the Mayor's Advisory Council and Chairman of the Greater Philadelphia Movement. He has also been a member of the World Affairs Council.

Mr. Gardner attended Harvard University and the Harvard Business School, where he received his MBA in 1949.

Mr. Garrett was sworn in as Chairman of the Securities and Exchange Commission on August 6, 1973. He had previously served with the SEC from 1954–58 and was Director of the Division of Corporate Regulation.

Prior to Chairmanship of the SEC, he was a partner in the Chicago law firm of Gardner, Carton, Douglas, Children and Waud for 15 years.

He has been Chairman of the American Bar Association's Section of Corporation, Banking and Business Law and has been Chairman of the Advisory Committee for Corporate Debt Financing of the American Bar Foundation.

He has taught law at New York University and the Northwestern University School of Law.

He is a graduate of Yale University and the Harvard Law School and has served in the U.S. Army.

Mr. Gilbert has been affiliated with Citizens Savings Association, Canton, for 27 years and has been President since 1965. He is also Association Chairman.

Previously, he has worked with the Cleveland Trust Company and the Federal Reserve Bank of Chicago.

He has also been a member of the Hunt Commission and is a member of the Federal Savings and Loan Advisory Council and the Advisory Committee on Government Securities of the Savings and Loan Business for the Treasury Department.

He is past President of both the United States League of Savings Associations and the Ohio Savings and Loan League.

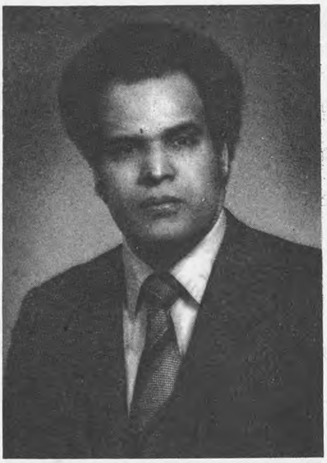
He attended Northwestern University and the Northwestern Business School and has been a faculty member of both Northwestern and Indiana University. He served in U.S. Naval Intelligence from 1941–45.

Mr. Greenspan was President of Townsend-Greenspan & Company, Inc. for 20 years before becoming Chairman of the Council of Economic Advisers in 1974.

He has also been Consultant to the Council, 1970–74, Consultant to the Treasury, 1971–74 and Consultant to the Federal Reserve Board, 1971–74. He has also had associations with the Commerce Department, the Securities and Exchange Commission and the Office of Management and Budget and has served on various Presidential Commissions.

He has been Senior Adviser to The Brookings Institution Panel on Economic Activity, President of the National Association of Business Economists and a member of Time Magazine's Board of Economists.

He holds degrees from New York University and did advanced graduate work at Columbia University, as well as NYU.



Mr. Harper has been President and Chief Executive Officer of First Independence National Bank of Detroit since May, 1970. As President-Designate of First Independence, 1969–70, he organized and capitalized the bank.

From 1963–69, he was associated with Bank of America, San Francisco; his positions included Assistant Operations Officer, General Lending Officer and Commercial and Real Estate Lending Officer.

He has also held teaching positions at Chabot, Laney and Golden State Colleges (1967–69).

He holds degrees from Arizona State University and Chabot and has had four years service in the U.S. Air Force.

Mr. Hayes, Chairman of the Government Fiscal Policy Committee of the Independent Bankers Association of America, has been Consultant to the American National Bank & Trust Company of Chicago since 1973.

He has been associated with American National for over 35 years and has been Senior Vice President of the bank (1967–71). From 1971–73, he was Chairman of the Executive Committee of Mid-America National Bank, Chicago.

He writes a monthly column for the *Independent Bankers Magazine*, and also lectures at the Graduate School of Banking, University of Wisconsin.

He is a graduate of the University of Chicago, did graduate study at Northwestern University and has served in the U.S. Army Air Force.

Dr. Hauge became Chairman of Manufacturers Hanover Corporation and Manufacturers Hanover Trust in 1971. He came to Manufacturers in 1958 and was President, Manufacturers Hanover Trust, 1963–71 and Manufacturers Hanover Corp., 1969–71.

He was both Assistant and Special Assistant (1953–58) to the President for Economic Affairs, was a member, U.S. Council on Foreign Economic Policy, 1955–58, and committees to the Harvard Center for International Affairs, 1964–70.

He is Treasurer, Council on Foreign Relations, Secretary-Treasurer, National Council on U.S.-China Trade, Trustee, Committee for Economic Development and is a member of the Advisory Council of the Federal Reserve System and the Treasury Advisory Committee on Monetary Reform.

A graduate of Concordia College, he received his Ph.D. from Harvard University in 1947, and holds several honorary degrees. From 1942–46, he served in the U.S. Navy.

Mr. Hellie was elected President of the Credit Union National Association, Inc. (CUNA) in 1974. He had previously served as CUNA Treasurer from 1972–74.

He has been a CUNA Director since 1970. He has served as co-chairman of the organization's Governmental Affairs Committee, as a member of the Personnel Policies Committee and CUNA's Legislative Forum.

He is also President of the Colorado Credit Union League and Secretary-Treasurer of the University of Colorado's Federal Credit Union.

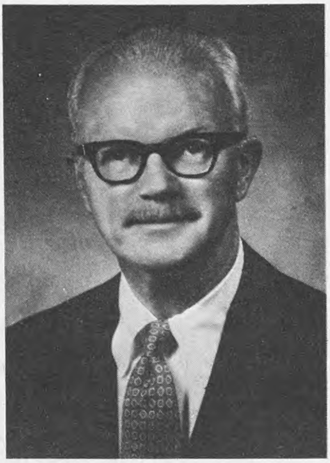
Mr. Hellie has attended the University of Minnesota and has served in the U.S. Navy.

Mr. Hill became both Chairman and Chief Executive Officer of the First National Bank of Boston and First National Boston Corporation in 1971. He has held various offices with First National Bank since joining it in 1946, including President (1966–71) and Director (1966–).

His other Directorships include John Hancock Mutual Life Insurance Company, Liberty Mutual Insurance Company, Polaroid Corporation, Raytheon Corporation and New England Telephone and Telegraph Company.

He is a Director of the International Monetary Conference, a Trustee of Dartmouth College and is a member of the Association of Reserve City Bankers.

Mr. Hill is a graduate of Dartmouth and the Amos Tuck School and has served in the U.S. Naval Reserve (1942–46).



Chairman of J. J. B. Hilliard, W. L. Lyons, Inc. since 1972, Mr. Hilliard was elected Chairman of the Board of Securities Industry Association in 1973.

He became a Partner of J. J. B. Hilliard & Son in 1951; when it merged in 1965 with W. L. Lyons & Co., he became Managing Partner. He joined the Board of Governors of SIA in 1972.

He has also been a Governor of the New York Stock Exchange, 1968–71, and a Governor of the Association of Stock Exchange Firms, 1963–67.

He has been President of the Louisville Chamber of Commerce and is a Regent of Kentucky State University and an Overseer of the University of Louisville.

He holds B.S. and LL.B. degrees from the University of Virginia and served in the U.S. Army Air Force, 1942–45.

In July, 1974, Mr. Hoenemeyer was elected to the Prudential Insurance Company's Board of Directors after having served as Executive Vice President since 1965.

Mr. Hoenemeyer joined Prudential in 1947, serving in the Bond Department. He was made a Vice President in 1958 and became Senior Vice President in charge of the Bond Department in 1964.

In civil affairs, he is Chairman of the Executive Committee of the New Jersey Symphony Orchestra and is on the Board of Rider College.

He is a graduate of Xavier University and the Wharton School of the University of Pennsylvania. He also has an honorary degree from Xavier. He has served in the U.S. Air Force.

Sen. Hollings has served in the United States Senate from South Carolina since 1966 and is Assistant Majority Whip.

He was Governor of South Carolina from 1959–63, and previously served as Lieutenant Governor (1955–59) and was Speaker Pro-Tem of the South Carolina House (1951–53).

In July, 1974, he was named to the newly-formed Senate Budget Committee. He is also a member of the Senate Appropriations Committee.

He is Subcommittee Chairman on Oceans and Atmosphere of the Senate Commerce Committee and is Subcommittee Chairman on Postal Operations for the Senate Post Office and Civil Service Committee. He was Democratic Senatorial Campaign Committee Chairman, 1971–73.

He is a graduate of The Citadel and the University of South Carolina Law School, and has served in the U.S. Army.

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Jacob K. Javits, Senior Senator from New York, is presently serving his third Senate term. He also served in the U.S. House of Representatives (1948–54) and was New York State Attorney General (1954–56).

Currently, he is Senior Republican member of the Committee on Labor and Public Welfare, the Joint Economic Committee and the Select Committee on Small Business. He also serves on the Senate Foreign Relations Committee and the Committee on Government Operations.

He is a graduate of Columbia University and New York University Law School and holds 26 honorary degrees. He served in the U.S. Army Chemical Warfare Service during World War II.

Mr. Judy was elected Chairman of A. G. Becker & Company in 1973. In his 16 years with the firm, he has been Vice President of Corporate Finance and is now also Chairman of the Executive Committee, President and Chief Executive Officer.

He has also served as a member of the Board of Governors of the New York Stock Exchange, Inc. (1968–71.)

A Trustee of the Chicago Symphony Orchestra Association and the Hadley School for the Blind, he is also a Director of the Executive Committee for the Economic Club of Chicago.

Having received his A.B. degree from Harvard University in 1953, he gained his M.B.A. from Harvard in 1957. He has also seen duty with the U.S. Marine Corps.

Mr. Kapnick was elected Chairman of Arthur Andersen & Co., Chicago, in 1970. He is also Chief Executive Officer of the company that he joined in 1948. He has been on the Board of Directors since 1966.

He is also a Director of the U.S. Chamber of Commerce, a Trustee of the Menninger Foundation and Treasurer of the Mid-America Club.

Active in Chicago civic activities, he is Treasurer of both the Chicago Symphony Orchestra Association and the Chicago 21 Corporation.

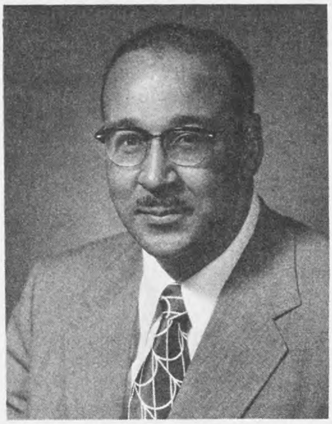
He is a graduate of Cleary College and has attended the University of Michigan Graduate School of Business Administration. He has served in the U.S. Army Air Force.

Mr. Kelso is a practicing corporate and financial lawyer and economist who heads his own law firm and is Chief Economist for Bangert & Company, Incorporated, San Francisco. He is the originator of Employees Stock Ownership Plan (ESOP) Financing.

(Photograph not available)

Mr. Kelso served as a Naval intelligence officer for three years during World War II. Since 1946, he has practiced law in San Francisco. In 1963 he was awarded the degree of honorary Doctor of Science in economics from Araneta University, Manila, The Philipines.

He has set forth his general economic theory in three books, *The Capitalist Manifesto*, *The New Capitalists*, and *Two-Factor Theory: The Economics of Reality*, as well as many articles, essays and monographs.



Mr. Kennedy's career with North Carolina Mutual Life Insurance Company, Durham, dates from 1950. He became Vice President in 1966, Senior Vice President in 1969 and President in 1972.

He is also a Director for RCA Corporation, National Broadcasting Company, Mechanics & Farmers Bank, Durham, and Urban National Corporation.

He is active in many North Carolina civic associations, and is a member of the National Urban Housing Coalition, the Urban Growth and Transportation Task Force and the Commission on the Future of the South.

He holds degrees from Virginia State College, the University of Pennsylvania and New York University. He has also served in the U.S. Army.

Mr. Leach has been Chairman of the Executive Committee of J. P. Morgan & Company and Morgan Guaranty Trust Company of New York since 1971.

He joined Guaranty Trust Company of New York in 1953, continuing in his capacities as Vice President and Treasurer when Guaranty and J. P. Morgan & Co. merged in 1959. He became Vice Chairman in 1968 and Vice Chairman of J. P. Morgan & Company Inc. when it was formed in 1969.

Previously he had been with Harris Trust and Savings Bank, Chicago, and Valley National Bank, Phoenix. He was a staff member of the Federal Reserve in Washington, D.C., from 1950–53.

He is a Director of Niagara Mohawk Power Corporation, Southern Railway Company and the Continental Corporation and is a Trustee of the Presbyterian Hospital, New York. He graduated from the University of Chicago in 1938.

Mr. Levy has been Partner of Goldman, Sachs and Company since 1945. He joined the firm in 1933.

He was Chairman of the Board of Governors of the New York Stock Exchange from 1967–69, and in 1972 was reappointed a Commissioner of the Port Authority of New York and New Jersey.

Holding many Directorships, he is Trustee of Fordham University, Inner-City Scholarship Fund, Inc., John F. Kennedy Center for the Performing Arts and the Museum of Modern Art.

He is also a member of the Advisory Council of Overseas Private Investment Corporation and The Center for Strategic and International Studies.

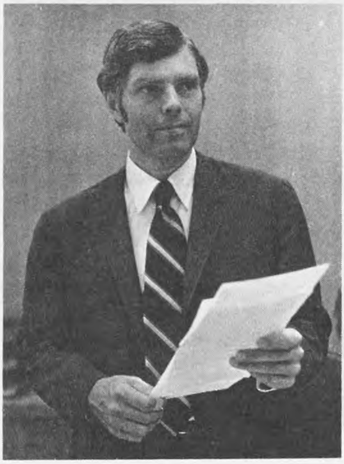
He attended Tulane and New York Universities and has honorary degrees from Tulane and Syracuse University. He served in the U.S. Army Air Force, 1942–45.

Ranking eighth in Senate seniority, Senator Long was first elected from Louisiana in 1948.

He is Chairman of the Senate Finance Committee, Chairman of the Joint Committee on Internal Revenue Taxation, Chairman of the Senate Commerce Committee's Merchant Marine Subcommittee, Co-Vice Chairman of the Joint Study Committee on Budget Control and is a member of the Joint Committee on Reduction of Federal Expenditures.

He served as Assistant Majority Leader for the 89th and 90th Congresses and was named to the Democratic Steering Committee in 1973.

He holds B.A. and LL.B. degrees from Louisiana State University and served in the U.S. Navy during World War II.



Mr. MacLaury has been President of the Federal Reserve Bank of Minneapolis since July, 1971. Previously, he was Deputy Under Secretary for Monetary Affairs at the Treasury Department (1969–71).

He also spent nine years with the New York Federal Reserve Bank and was Manager of the Foreign Department. He worked with the Organization for Economic Cooperation and Development in Paris in 1962.

He is a member of the Council on Foreign Relations and has been President of the Upper Midwest Council.

He has an A.B. degree from Princeton University and gained his Ph.D. from Harvard University in 1961.

Dr. McCracken, Edmund Ezra Day University Professor of Business Administration, University of Michigan, was appointed Senior Consultant to the Department of the Treasury in the Spring of 1974.

He has been a faculty member at Michigan since 1948, except for service with the Council of Economic Advisors, 1956–59, and 1969–71, when he was Chairman. In 1967, he was a member of the Commission on Budget Concepts.

He is a member of the American Economic Association, American Statistical Association, American Finance Association and the Royal Economic Society.

A graduate of William Penn College, he received his Ph.D. from Harvard University and holds several honorary degrees.

Mr. Morthland became President of the American Bankers Association in October, 1973. At the same time, he is Chairman and Chief Executive Officer of Peoples Bank and Trust, Selma, Alabama. He was elected Chairman in 1971.

His career with Peoples Bank and Trust dates to 1946; he became bank President in 1953. He has served in various capacities for the American Bankers Association since 1963, including chairing the Committee on Charter Conversions.

He is a past President of the Alabama Bankers Association, and in 1970 was a member of the Hunt Commission.

His academic background includes degrees from the University of California and a Ph.D. from the University of Chicago. He has taught at the University of Connecticut and U.C.L.A. He served in the U.S. Army for five years.

Mr. Needham was elected as first full-time Chairman of the Board and Chief Executive Officer of the New York Stock Exchange in August, 1972. Previously he had been a Commissioner of the Securities and Exchange Commission, 1969–72.

In his financial career, Mr. Needham has been associated with Price, Waterhouse & Company and has been a Partner with R. T. Hyer & Company and A. M. Pullen & Company.

In 1973 he was elected Vice President of the Federation Internationale des Bourses de Valeurs.

A U.S. Navy veteran, Mr. Needham holds degrees from Cornell University and St. John's University, New York.

Lt. Gen. Nickerson, USMC (retired), was sworn in as first Administrator of the National Credit Union Administration on September 21, 1970, after 35 years service in the Marine Corps.

Gen. Nickerson joined the Marines as a Second Lieutenant after graduating from Boston University in 1935. During his military career, he saw service in China, the Central and South Pacific, Korea, the Middle East and Vietnam.

From 1958–62, he was Fiscal Director of the Marine Corps. As Administrator of the NCUA, he served on the Committee on Interest and Dividends (1972–74).

His military decorations include the Army Distinguished Service Cross, Distinguished Service Metal (Navy) (2), the Silver Star, the Bronze Star, the Legion of Merit with Combat "V" (3) and the Air Medal.

Dr. Okun has been Senior Fellow at The Brookings Institution since 1969 after long associations with Yale University and the Council of Economic Advisors.

He served as a Member of the Council from 1964–69, and was Chairman (1968–69). A faculty member of the Department of Economics at Yale from 1952–64, he was Director of Graduate Studies in Economics, 1963–64.

The author of *The Political Economy of Prosperity*, and co-editor of *Brookings Papers on Economic Activity*, Dr. Okun is a Fellow of the American Economic Association, the American Statistical Association, the American Academy of Arts and Sciences and the Econometric Society.

He graduated from Columbia University in 1949, and received his Ph.D. there in 1956.

Dr. O'Leary joined the United States Trust Company in March, 1969 as Executive Vice President and Economist. He is Chairman of the company's Senior Investment Policy Committee, Money Policy Committee, and Committee on Social Responsibility.

He previously served as Chairman and Chief Economist of Lionel D. Edie & Company, and headed the economic research activities of the Life Insurance Association of America. He also taught Economics at Wesleyan and Duke Universities.

Dr. O'Leary serves as Chairman of the New York State Council of Economic Advisors. He is past President of the American Finance Association and past Chairman of the Conference of Business Economists.

He received his B.A. (1936) and M.A. (1937) from Wesleyan University and his Ph. D. (1941) from Duke University.

Mr. Partee, Managing Director for Research and Economic Policy for the Federal Reserve, has been a member of the Federal Reserve Board staff since 1962.

He is also Senior Economist of the System's Federal Open Market Committee, is a Director of the Securities Investor Protection Corporation and is U.S. representative and Vice Chairman of the Organization for Economic Cooperation and Development Committee on Financial Markets (Paris).

He has also been an economist for the Federal Reserve Bank of Chicago (1949–56) and worked with the Northern Trust Company of Chicago (1956–62).

He has A.B. and A.M. degrees from the University of Indiana and has studied at the University of Chicago.

Representative Patman is presently serving his twenty-third consecutive term from the First Congressional District of Texas. He is Chairman of the House Banking and Currency Committee, Chairman of the Joint House-Senate Economic Committee and Vice Chairman of the Joint House-Senate Committee on Defense Production.

Among his legislative achievements, he sponsored World War I veterans compensation bills, co-sponsored the Federal Credit Union Act (1934), the Robinson-Patman Act (1936), the Full Employment Act (1946), sponsored the Veterans Emergency Housing Act (1946), the Foreign Bank Secrecy Bill (1970) and the Economic Stabilization Act (1970).

In addition, he has led investigations and studies of the Federal Reserve and tax-exempt foundations.

He is a graduate and has an honorary degree from Cumberland University.

Ms. Porter is the author of a daily syndicated financial column that appears in more than 350 newspapers. She is editor of a weekly newsletter, "Reporting on Governments," devoted exclusively to bond and money markets. She is also a contributing editor to "Lady's Home Journal."

She has authored and co-authored several books on consumer finances and taxes, including *How to Live Within Your Income*, *Managing Your Money* and *Sylvia Porter's Income Tax Guide* (published annually since 1960).

She is a graduate of Hunter College, Phi Beta Kappa, and the New York University Business School. She has received many awards and is the recipient of 12 honorary degrees.

Mr. Preston became President of the U.S. League of Savings Associations in 1973. Previously, he had been Vice President of the League.

He is also President and Managing Officer of Fidelity Federal Savings and Loan Association, West Palm Beach, Fla., an institution he organized in 1952.

In League activities, he has been Chairman of the Finance Committee, a League Director and a member of the Legislative Committee for 13 years. He has also been Chairman of the Federal Savings and Loan Advisory Council, President of the Florida Savings and Loan League and a Director of the Federal Home Loan Bank of Atlanta.

He saw active duty in the U.S. Army. 1940–46.

When Merrill Lynch, Pierce, Fenner and Smith & Company, Inc. was formed by Merrill Lynch, Inc. in 1973, Mr. Regan was elected Chairman and Chief Executive Officer. Since 1971, he has held those offices for the now-subsidiary company, Merrill Lynch.

He has spent his entire career at Merrill Lynch, joining the firm in 1946. He became Partner in 1954, Executive Vice President in 1964 and President in 1968.

Vice Chairman of the New York Stock Exchange, he has been a Director of Securities Investor Protection Corporation. He is the author of *A View From the Street.*

Chairman of the Trustees of the University of Pennsylvania, he graduated from Harvard University in 1940. During World War II, he saw duty in the U.S. Marine Corps.

Representative Reuss has served the Fifth Congressional District of Wisconsin since 1954.

He is Chairman of the Subcommittee on Conservation and Natural Resources of the House Government Operations Committee and is Chairman of the International Economics Subcommittee of the Senate-House Joint Economic Committee.

He is also a member of the House Committee on Banking and Currency and the Joint Budget Review Committee.

In public service he has been Special Prosecutor for Milwaukee County and in 1949 he served as Deputy General Counsel for the Marshall Plan.

The author of two books, he holds degrees from Cornell University and the Harvard Law School. During World War II, he served in the U.S. Army.

First elected to the House of Representatives from the First Congressional District of Arizona in 1952, Rep. Rhodes became House Republican Leader in December, 1973. Previously he had served 11 years as Chairman of the House Republican Policy Committee before becoming Minority Leader.

In 1972, he served as Chairman of the Platform Committee for the Republican National Convention. He has been a member of the House Appropriations Committee and its Public Works, Defense and Legislative Subcommittees. He was also a member of the Joint Study Committee on Budget Control.

He is a graduate of Kansas State University and the Harvard Law School, and served in the U.S. Army Air Force for nearly five years.

Mr. Rockefeller became Chairman and Chief Executive Officer of the Chase Manhattan in 1969, and Chairman of Chase International Investment Corporation upon its formation, also in 1969. His association with Chase dates to 1946.

Mr. Rockefeller is Chairman of the Board of Trustees of Rockefeller University, Vice Chairman of Rockefeller Brothers Fund and a Trustee of the Rockefeller Family Fund.

He helped to form the International Executive Service Corps, the Council of the Americas and the Center for Inter-American Relations. He is also Vice Chairman of the Advisory Council on Japan-United States Economic Relations.

He is Chairman of the Council on Foreign Relations, Inc., and is a Director of the Federal Reserve Bank of New York and the Overseas Development Council.

He earned degrees at Harvard University and the University of Chicago (Ph.D., 1940). He has received high honors from nine universities and nearly a dozen nations.

Mr. Roosa joined Brown Brothers Harriman & Company in 1965 after having served as Under Secretary of the Treasury for Monetary Affairs for four years.

He also spent 15 years with the Federal Reserve of New York, becoming Vice President in 1956.

His Directorships include Brown Harriman & International Banks Ltd., American Express Company, The Anaconda Company, Texaco Inc., and Owens-Corning Fiberglas Corporation.

He is a member of the Council on Foreign Relations, the National Bureau of Economic Research and is a Trustee of the Rockefeller Foundation.

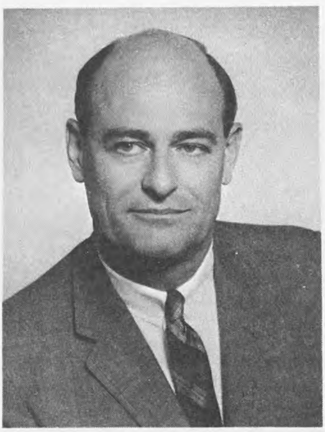
He has taught economics at Harvard and Michigan Universities and the Massachusetts Institute of Technology. He received his Ph. D. from Michigan in 1942 and has served in the U.S. Army.

Senator Roth was elected from Delaware in 1970. He served in the U.S. House of Representatives during the 90th and 91st Congresses as the at-large member from Delaware.

Presently, he is a member of the Senate Committee on Finance, the Committee on Government Operations and was a member of the Joint Economic Committee.

While a member of the House, he authored the Catalog of Federal Domestic Assistance. He has also been Delaware State Republican Committee Chairman, and Chairman of the State Commission on Modernization of State Laws.

He holds a B.A. degree from the University of Oregon and M.B.A. and LL.B. degrees from Harvard University. He served in the U.S. Army during World War II.



Mr. Saul was elected Vice Chairman of INA Corporation in June, 1974. He came to INA after having served as Chairman of the Management Committee of First Boston Corporation (1971–74).

In addition to having been President of the American Stock Exchange (1966–71), Mr. Saul has had varied service in government, including directing the Division of Trading and Markets for the Securities and Exchange Commission. He has also been a Foreign Service Officer and Assistant Counsel to the Governor of New York.

A Director of the New York Times Company and Pitney-Bowes, Inc., he is a member of the Bond Club of New York and the Wall Street Club.

He holds degrees from the University of Chicago and the Yale Law School and holds an honorary law degree from Alfred University.

Dr. Saulnier, Professor Emeritus of Economics, has been a member of the Barnard College and Columbia University (Ph.D., 1938) faculties since 1934.

Currently he is a member of the Advisory Committee to the Secretary of the Treasury and a Public Governor of the American Stock Exchange.

From 1956–61 he was Chairman of the Council of Economic Advisers and served on various governmental committees. He has also chaired the White House Conference on Low Income Housing, has been a consultant to the State Department and was a member of the Hunt Commission.

He has also served as Director of the Financial Research Program of the National Bureau of Economic Research. His most recent book is *The Strategy of Economic Policy.*

Mr. Scott assumed his duties as Associate Director of the Office of Management and Budget on March 16, 1973.

(Photograph Not Available)

He had been a general partner of the investment banking firm of Lehman Brothers in Chicago since 1965. He also served as Senior Managing Director and as a member of the Board of Directors.

Mr. Scott was previously associated with investment banking firms in Chicago and New York. For seven years prior to joining Lehman Brothers, he was a partner with Glore, Forgan and Company. From 1956 to 1958, he was with the management consultants firm of Booz, Allen and Hamilton in New York.

He received his B.S. degree from Northwestern University in 1953 and his M.S. degree from Columbia University Graduate School of Business in 1958.

Dr. Shultz joined Bechtel Corporation as Executive Vice President in May, 1974, after having been Secretary of the Treasury from May, 1972, to April, 1974.

While Treasury Secretary, he was also Chairman of the Council of Economic Policy and was Assistant to the President. He was Secretary of Labor in 1969, and in 1970 became the first Director of the Office of Management and Budget. He also served the Council of Economic Policy as Staff Economist in 1955.

He has taught at the Massachusetts Institute of Technology (1948–57) and was Dean of the University of Chicago Graduate School of Business from 1962–68. He is now also Professor of Management and Public Policy at Stanford University.

He earned his B.A. from Princeton in 1942, his Ph.D. from MIT in 1949 and has served in the U.S. Marine Corps.

Mr. Stanton is serving his fifth term as Member of Congress from the Eleventh District of Ohio.

He is ranking Minority Member of the Small Business Subcommittee and is a member of the Select Committee on Small Business. His other committee assignments are on the House Banking and Currency Committee and the International Finance and Housing Subcommittee.

First elected to public office as a Lake County, Ohio, Commissioner in 1956, he served two terms. He is also past President of the Chamber of Commerce and the Exchange Club of Painesville, Ohio. He is a charter member of the Painesville Junior Chamber of Commerce.

He served in the U.S. Army in World War II and graduated from Georgetown University in 1949.

Mr. Stewart was elected Chairman of the Board of First International Bancshares, Inc., Dallas, in 1972.

He began an association with the First National Bank of Dallas in 1951, becoming Chairman in 1965. He has also been First National Vice President (1953), Senior Vice President (1959) and President (1960). He began his career with the Empire State Bank (Dallas) in 1949.

He is also Director and Chairman of the Executive Committee of Southwestern Life Insurance Company and served as a member of the Hunt Commission.

A Director of the Dallas Citizens Council, Mr. Stewart served in the U.S. Army in Korea and graduated from Southern Methodist University in 1949.

Mr. Storrs joined the North Carolina National Bank in 1960, became Vice Chairman in 1967, President in 1969 and Chief Executive Officer in 1973. He is also Chairman of the NCNB Corporation.

Prior to 1960, he was long associated with the Federal Reserve Bank of Richmond, becoming Vice President in 1956. He headed the Charlotte, N.C., branch from 1959–60.

He is a Director of Black and Decker Manufacturing and Texfi Industries, a Director of the Association of Reserve City Bankers, and President of the Federal Reserve Federal Advisory Council.

Graduating from the University of Virginia, he won his Ph. D. from Harvard in 1955. He is also a veteran of the U.S. Navy, 1941–45 and 1951–52.

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Mr. Tomayko has been Director of the Insurance, Pension, and Unemployment Benefits Department of the United Steelworkers Union for 25 years. He first joined the union as a Staff Representative in 1937.

As Director, Mr. Tomayko heads union negotiations for insurance, pensions and unemployment benefits with all steel, aluminum and can companies.

He has served on governmental and national study groups including the White House Conference on Aging, the Interagency Task Force on Private Pension Plans and the 1970-71 White House Conference on Children and Youth.

During World War II, Mr. Tomayko served in the U.S. Army Counter-Intelligence Corps.

Dr. Walker, President of Charls E. Walker Associates since 1973, served as Deputy Secretary of the Treasury from 1969–73.

He is also Chairman of the President's Advisory Council on Minority Business Enterprises and is Vice Chairman of the Joint Council on Economic Education.

Prior to Treasury service, he was Executive Vice President of the American Bankers Association from 1961–69.

From 1954–61, he was with the Federal Reserve Bank of Dallas, serving as Vice President (1958–61). On leave from the Bank, he was also Economic Advisor to the Secretary of the Treasury, 1959–61.

He holds B.B.A. and M.B.A. degrees from the University of Texas, and was Associate Professor there, 1950–54. He earned his Ph.D. from the University of Pennsylvania in 1955. He is a veteran of the U.S. Army Air Force.

Mr. Wille was appointed Chairman of the Federal Deposit Insurance Corporation on April 1, 1970. At that time, he had been Superintendent of Banks of New York State for almost six years.

Graduating from Harvard Law School in 1956, he joined the firm of Davis Polk & Wardwell. He became Assistant Counsel to the Governor of the State of New York in 1960, and First Assistant Counsel in 1962.

He has been a Director of the National Association of Supervisors of State Banks and has been an advisory member of the committees of the American Bankers Association.

He has an undergraduate degree from Harvard and an LL.M. (Taxation) from New York University. He has served in the U.S. Naval Reserve.

Mr. Wilson's service with Robert W. Baird and Company, Inc. has been continuous since 1939, excepting three years duty in the U.S. Army (1943–46).

He became a Partner in 1950, President in 1965 and Chairman of the Board in 1973. He is also a Director of Acro Welder Manufacturing Co., A. O. Smith Corporation and Milwaukee Brewers Baseball Club.

He was a Governor of the New York Stock Exchange, 1965–67, was Director of Central States Investment Bankers Association, 1960–63, and was a member of first Governing Council of Securities Industry Association.

A leader in various civic groups, Mr. Wilson graduated from Cornell University in 1938.

Dr. Wojnilower, Vice President and Economist of First Boston Corporation, was elected to the Board of Directors of First Boston in 1974. He joined the Corporation in 1964.

Previously, he was Associate Economist, First National City Bank of New York, 1963-64, and spent eleven years as an economist with the Federal Reserve Bank of New York. At the time of his departure from the Federal Reserve, he headed the Domestic Research Division.

Holding undergraduate and Ph.D. degrees from Columbia University, he has had part of his dissertation, "The Quality of Bank Loans," published by the National Bureau of Economic Research.

Mr. Wright has been President of Wright Investors' Service since its inception in 1960.

Previously, he was Chairman, Rototiller, Inc., 1958–59 and was Senior Partner in the financial consultantship of Andres Trubee and Company, 1955–59. He was also Founder and President, Wright Power Saw and Tool Corp., 1947–54 and Executive Vice President, Standard Air Service, 1947–48. He has also served with the Home Owners' Loan Corporation.

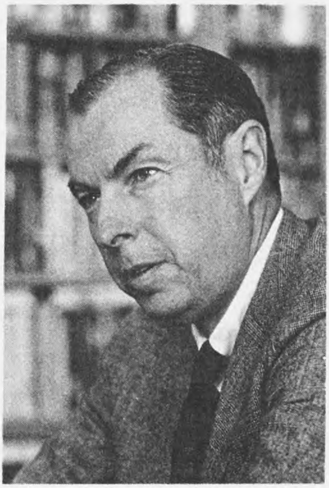
The author of *Q.V.T., Three Keys to Stock Market Success*, he graduated from Amherst College in 1933. He saw duty in the U.S. Naval Reserve, 1940–47.

Mr. Wriston became Chairman of Citicorp and its principal subsidiary, First National City Bank, in 1970. Associated with First National since 1946, he became President of Citicorp upon its formation in 1968.

With First National, he has been President (1961–71), has headed the bank's European district and has also served the bank in Canada.

He now is also a Trustee of RAND Corporation, a member of the Business Council and the Advisory Committee on Reform of the International Monetary System and a Director of the Economic Development Council of New York City, Inc. He also served on the Labor-Management Advisory Committee of the Cost of Living Council.

A graduate of Wesleyan and the Fletcher School of Diplomacy, Tufts University, he has served in the U.S. Army.

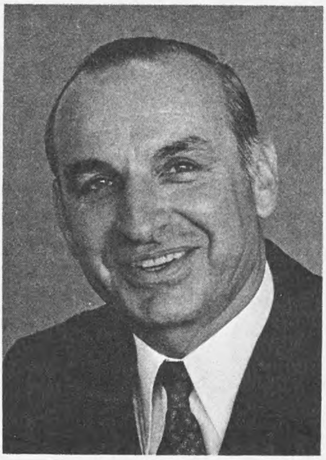


Dr. Zwick became President of Southeast Banking Corporation in 1969, following a career in academics, research and government.

From 1965–69, he worked as both Assistant Director (1965–68) and Director (1969) of the Budget Bureau. Previously, he was logistics Department Director for RAND Corporation (1956–65). He has taught economics at the University of Connecticut and Harvard University.

He is now also Director of the First National Bank of Miami, RAND Corporation and is a member of Committees of Operation Research Systems of America, National Research Council, and the National Academy of Sciences.

He graduated from the University of Connecticut in 1950, and earned his Ph.D. from Harvard in 1954. Dr. Zwick served in the U.S. Army from 1946–47.



XIII.

Addendum

FINANCIAL REFORM TO ACHIEVE

ECONOMIC STABILITY

Presentation of Honorable Wright Patman

Chairman, House Committee on Banking and Currency

Submitted to the White House Financial Conference on Inflation

Washington, D. C.

September 20, 1974

INTRODUCTION AND SUMMARY

Achieving a solution to the economic dilemma besetting the nation -- soaring inflation and deepening recession -- requires major changes in the way in which monetary policy is developed and in the structure of our financial system. For decades, the leadership of this country has attended only to the symptoms of perennial periods of inflation, high interest rates and rising unemployment. All that has been gained by these actions is a temporary reduction of the nation's economic fever, while the underlying illness continues to exist. We have been bandaging the symptoms of our trouble, while the basic causes remain untouched.

Real improvement -- a stable, productive prosperous economy -- will continue to elude us unless the Administration, the Congress, we who are gathered here, and others in and out of government are willing to recognize this paramount fact and act on it forthrightly and with political courage.

What is desperately needed now, and has been needed for a long time, are five basic changes:

1. Formulation of monetary policy aimed at achieving and sustaining a stable economy must be reorganized to be made more directly accountable to the people through their democratically chosen political leaders and the Federal Reserve must be made directly answerable to the President and the Congress for the way in which monetary policy is implemented, the Treasury bonds held in the Federal Reserve's portfolio retired and its expenditures funded by Congress and audited by the General Accounting Office.

2. The structure of our financial system must be changed to provide improved liquidity and increased competition for all sectors of our economy, especially priority areas such as housing, consumers, State and local governments, and small and medium-sized businesses.

3. Federal regulation of financial institutions must be reorganized and streamlined to assure that these goals are expeditiously achieved and maintained.

4. Specialized lending institutions -- savings and loan associations, mutual savings banks, credit unions and finance companies -- must be allowed to expand their lending activities and the financial services they provide so that they can adequately compete for funds and borrowers.

5. The nation's major types of financial institutions must be required to meet our priority credit needs in a way in which all will share this burden equitably and without economic disruptions.

This constitutes a broad outline of what I am convinced is the only feasible and economically honest path open to us. The changes advocated will not be made easily but unless they are made we will be producing little more than empty promises.

Frankly, I do not think we can reasonably expect these kinds of proposals to be forthcoming from the major special interest groups in the nation, the large financial institutions, large industries and businesses, and others who receive enormous benefits from the system as it is presently structured.

Trade associations and their representatives can be expected to protect their own interests, but it is foolhardy for public officials to assume that these interests necessarily coincide with the public interest or the needs of the nation.

The degree of success of these summit meetings will depend on the willingness of the Congress and the Ford Administration to go beyond these narrow interests and seek the answers that truly represent the public's needs and desires.

Since the 1930s we have avoided the catastrophic financial collapse which was the keystone of the Great Depression. But, for the past decade, we have suffered through ever graver recurring financial crises: disintermediation, liquidity problems, and cruel drops in credit flows into housing and for small businesses and low-income consumers. It isn't right and it isn't necessary.

THE FIRST ORDER OF BUSINESS

One approach to the problem is to insulate financial institutions from the disruptions and aberrations of crisis periods. Another approach is to adopt policies that prevent the emergence of financial crises. The two are not mutually exclusive, of course. But assuring that preventive policies are pursued is the first order of business. Reforms that seek to attack specific symptoms before dealing with the basic causes are doomed to failure; for so long as the causes remain operative, symptoms will appear; if some are suppressed, new ones will come to the fore.

Financial crises do not occur in a vacuum. They are part of general economic disruptions, periods marked by inflation and recession in tandem and sometimes overlapping. Thus, even if it were possible to protect financial institutions in crisis periods, interest rates would still rise to punishing heights, equity values would still fall, housing and other priority activities would still be hard hit, pensioners and low-skilled workers would still suffer unbearable deprivations. Above all, therefore, policies must be developed and implemented that get to the root of our periodic bouts with inflation, recession, and financial crises.

NECESSITY FOR BRINGING THE FEDERAL RESERVE INTO THE DEMOCRATIC PROCESS

Inflation, recession and associated financial crises are rooted in perverse monetary and fiscal policies. While recognizing the economywide harm that results from inappropriate fiscal policies, nonetheless, as Chairman of the House Committee on Banking and Currency, permit me to stress the harm done by perverse monetary policies.

Monetary policy is good or bad depending on whether the Federal Reserve uses its powers with moderation, soundly, sensibly and in the public interest. Under the Nation's present monetary system, the Federal Reserve is completely responsible for the conduct of monetary policy. When money is mismanaged, it is the Federal Reserve's fault. No other Government agency, bureau or department should be blamed. Moderation in the conduct of monetary policy is possible always, even when fiscal policy is far from optimal. The argument, which some make, that monetary mismanagement is the inevitable outcome of fiscal excesses (or deficiencies) serves only to confuse the issues concerning the conduct of and responsibility for monetary policy, and misleads the unwary. It is without foundation. It cannot be accepted in order to let the Federal Reserve off the hook for its mistakes.

Financial flows are sure to be disrupted and distorted, and interest rates are sure to rise skyhigh in the wake of money supply fluctuations of the frequency and order of magnitude which the Federal Reserve has imposed upon the U. S. economy in recent years. The financial repercussions of money supply fluctuations -- disintermediation and high interest rates -- are a compound of (1) feedback from the effects on prices and price expectations of rapid money supply growth, and (2) the liquidity effects of slowing money supply growth to check inflation.

When the economy overheats and prices and price expectations rise following prolonged rapid money supply growth, supplies of saving and credit are sure to fall, pushing up interest rates; and at the same time, investment and the demand for credit are sure to rise, pulling up interest rates. When, on top of these disruptions, the Federal Reserve moves to check inflation by sharply cutting back money supply, liquidity problems become acute. In the past decade, we have had alternating cycles of too rapid and too slow monetary growth resulting in financial disintermediation, sharp increases in interest rates, especially at the short end of the term structure, and the drying-up of long-term credit.

From May 1965 to April 1966, again from January 1967 to December 1968, and most recently beginning in January 1972 and continuing until this spring, the Federal Reserve increased money supply faster than the Joint Economic Committee's 6 percent per year upper limit guideline. From April 1966 to January 1967 and again from July 1969 to February 1970, money supply growth was kept slower than the 2 percent per year lower guideline. Each money cycle was accompanied by overheating, high interest rates, financial crisis and finally recession.

If we are to prevent recurring bouts with inflation and recession and financial crises, if we are to create the environment which is required for the smooth functioning of our financial system, we must step on the toes which have to be stepped on and adopt measures which have to be adopted. The toes that have to be stepped on are the toes of the Federal Reserve, and the measures that have to be adopted are measures which would require the Federal Reserve to act with moderation, soundly, sensibly and in the public interest. Such measures are necessary because the Federal Reserve now operates without constraints or guidance, doing what it wishes when it wishes without fear of being reversed or penalized if things go wrong; and, based on recent history, we cannot be confident that it will not continue to misuse its vast powers over the Nation's money and credit so as to cause future inflations, recessions and financial crises.

I am acutely aware of the arguments that have been made for years concerning the necessity of maintaining the so-called independence of the Federal Reserve System. I have frankly never understood the validity of these arguments. One must ask, "Independence from what?" From those chosen by the people as their representatives to make and execute policy? From all other government economic economic policy? From influence by special interests? From accountability for errors and mistakes?

Most often, Federal Reserve independence is supported on the grounds that it is necessary to insulate monetary decision-making from the untrustworthy political whims of the people and their elected representatives. This view might conceivably have some validity -- though I doubt it -- if monetary policy were an exact science, and it was administered exclusively by so-called experts. As we all know, neither of these premises is true. Monetary policy is no different than any other issue of public policy -- tax, fiscal, transportation, defense, etc. -- and should be subject to the same degree of public accountability. And it is not run exclusively by experts, as past experience has painfully demonstrated.

If we really believe in democracy -- that the people, given an open

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opportunity to obtain all the facts on the issues will make, through their representatives, the right decisions over time -- then we must abandon the elitist notion embodied in the present structure and operation of the mechanism by which we conduct monetary policy. This vital part of our economic policy-making must finally and permanently be made a part of the democratic process of our Nation.

WHAT MUST BE DONE

The question is how to assure that stable money supply policies are followed and reasonable interest rates achieved. The answer lies in correcting the defects and deficiencies of the policy system which has produced the destabilizing policies of the past.

The keystones of past monetary mismanagement are the Federal Reserve's so-called independence, the lack of accountability of its policymakers, and the institutional regulatory and supervisory burdens its policymakers now are assigned.

First, the Federal Reserve operates independently of and sometimes even at variance with the President and the Congress. This is just plain wrong. It is wrong because what the Federal Reserve does is the people's business. The Federal Reserve determines the money supply, and in turn, price and interest rate trends depend on money supply trends; and price trends and interest rates are of vital importance to every business and household in the land. Article I, Section 8 of the Constitution gives Congress the "power to...coin money [and] regulate the value thereof..." and charges the President with responsibility for executing all laws.

To assure that we carry out our Constitutional duties and give the people a chance to vote for those who manage our monetary affairs well and against those who mismanage these policies, the President must assume active responsibility for formation of the Federal Reserve's policies, and these policies must be explained to and approved by the Congress, just as the Nation's expenditures and tax policies are.

Second, because of its peculiar tenure system, the governing officers of the Federal Reserve have nothing to fear from the elected representatives of the people no matter how mistaken and costly their policies are. To assure that Federal Reserve policymakers are accountable for their monetary policy decisions and learn from their mistakes, the term of the Chairman of the Board of Governors of the Federal Reserve must be made co-terminous with that of the President, and the terms of the other six governors reduced to 5 years, with two appointed each year that the Chairman's term does not expire. Reappointment would be allowed. The present tenure system is unjustifiable and completely at odds with fundamental democratic principles. Fourteen-year terms, equal in length to three and a half Presidential terms, are not needed to assure the integrity of policymakers. In fact, today, Reserve Bank presidents, who share with the Governors' policymaking power on the Federal Open Market Committee, are appointed for only 5 years. No one claims that their decisions are compromised by their tenure. Why do the Governors themselves need longer tenures?

In addition, to make the Federal Reserve accountable for its expenditures as well as its policies, all Government securities acquired by the Federal Reserve as a byproduct of its creating new money must be regarded as retired, and all interest accruing on any securities and loans acquired must be automatically remitted to the Treasury. Expenditures of the Federal Reserve would be funded through the normal appropriations process and audited by the General Accounting Office. The present funding method is unconscionable in a democracy. No other agency or instrumentality of our Government spends taxpayers' funds without going through the Congressional appropriations process or being audited by GAO.

Lastly, at present the Federal Reserve is burdened with diverse regulatory and supervisory tasks. These prevent concentration on monetary policy, and, moreover, can distort monetary policy decisions by exaggerating the importance to the economy of the behavior of variables that are of special interest to bankers, like the Federal funds rate. To assure concentration of Federal Reserve policymakers on monetary policy, keeping open market, discount and reserve requirement powers in the Federal Reserve, the regulatory and supervisory duties now assigned the Federal Reserve must be assigned elsewhere. Relocation of these tasks is taken up next.

REFORM OF FEDERAL BANK SUPERVISION

Rather than being the product of a cohesive, public and private sector planning effort, the development of the Nation's system of financial regulation and the means by which it has been promulgated and implemented stemmed from sporadic and largely uncoordinated responses to economic disruptions or urgent financial needs. The result is a patchwork structure of regulation consisting of a battery of contradictory agencies which have often reduced supervision of financial institutions to the lowest common denominator among their conflicting positions.

The Federal Government entered the bank regulation field in 1863 when the National Bank Act was adopted. Under this legislation, the Office of the Comptroller of the Currency was established and given authority to issue and redeem currency, and to charter and supervise all national banks which would serve as the major financial intermediaries for the use of such currency.

Passage of the Federal Reserve Act came 50 years later, in 1913. All national banks are required to be members of the Federal Reserve System. Since 1913, national banks have been supervised and regulated both by the Federal Reserve Board and the Comptroller of the Currency. State banks could voluntarily join the Federal Reserve System. In doing so, they place themselves under regulation by the Federal Reserve Board, as well as State regulatory agencies.

The Federal Deposit Insurance Corporation (FDIC) was established in 1933 to provide deposit insurance, thereafter required of all Federal Reserve System member banks. State chartered non-member banks can participate in this insurance program in return for complying with the requirements of the Federal Deposit Insurance Act and FDIC regulations. Virtually all of the Nation's 14,000 commercial banks are FDIC program participants.

With the establishment of the FDIC, the present basic system of commercial bank regulation -- the present hodge-podge of overlapping regulatory jurisdictions -- was completed. Corresponding to the bank regulatory system was the creation and establishment of a system to regulate Federally chartered and insured savings and loan associations, centered on the Home Loan Banks and Federal Saving Insurance Corporation (FSIC).

The following indicates the inherently contradictory nature of this regulatory system:

-- The Federal Reserve Board, the Comptroller of the Currency and the FDIC all share regulatory responsibility over Federally chartered banks -- almost all of the Nation's large commercial banks.

-- The Federal Reserve, the FDIC and State regulatory agencies share regulatory responsibility over State banks which are members of the Federal Reserve System and participate in the FDIC insurance program.

-- The FDIC and State regulatory agencies share responsibility over regulation of state non-member banks which are FDIC program participants.

The Federal Home Loan Bank Board and FSIC have Federal regulatory, supervisory and insurance responsibility over Federally chartered and insured savings and loan associations.

This confused and confusing situation is further complicated by the Bank Holding Company Act of 1956 as amended in 1966 and 1970, which among other things, gave the Federal Reserve Board jurisdiction over regulation of bank holding companies and their subsidiaries. Under this legislation, the jurisdiction of the Federal Reserve Board is extended to some extent to holding company controlled state chartered banks which are not members of the Federal Reserve System. Moreover, the jurisdiction, so far as the subsidiary banks of holding companies are concerned, is shared with State regulatory agencies.

In addition, the Bank Merger Act of 1960, and the 1966 amendments to that Act, divided responsibility regarding commercial bank mergers among the Federal Reserve, the Comptroller of the Currency and the FDIC, and ultimately the Antitrust Division of the Department of Justice.

In the last few years, various pieces of consumer legislation, such as the Truth-in-Lending Act and the Fair Credit Reporting Act, have distributed the responsibility for regulation and enforcement of consumer protection laws to a wide variety of Federal agencies, including the three bank regulatory agencies, and the FHLBB.

And, finally, as banking institutions have become more and more involved in various aspects of the securities business, the Securities and Exchange Commission has become involved in certain aspects of bank regulation.

All of this adds up to a bewildering maze of overlapping jurisdictional lines between, over, and under Federal and State regulatory agencies. It is not inaccurate to say that these agencies have overlaps on their overlaps. Correction of this situation is essential. To eliminate duplication, overlap and waste in bank supervision, there should be created and established a single agency, to be known as the Federal Banking Commission, to supervise and regulate all Federally chartered or insured depository institutions other than credit unions, with the functions of the FDIC and FSIC placed under the administrative authority of the Commission. The Commission would be composed of five members. Four would be appointed by the President with the advice and consent of the Senate for five-year terms. The fifth member would be a governor of the Federal Reserve Board.

All the regulatory functions of the Federal Reserve Board, the

Comptroller of the Currency and Federal Deposit Insurance Corporation would be transferred to the Commission.

In this way, regulation and supervision of virtually all depository institutions will be placed under a single regulatory agency. Inconsistency, overlap and waste in regulation also resulting in the most lenient control and supervision possible will be eliminated. Finally, the prospects of resolving differences between Federal and State banking regulatory agencies will be greatly improved because only one Federal regulatory voice will be heard rather than a chorus of contradictions which is now the case.

BROADENING THE POWERS OF THRIFT INSTITUTIONS

Of all the major types of financial institutions in the nation, those which are most severely affected by inflation and disinflation both, are depository mortgage-lending thrift institutions -- savings and loan associations (S&Ls) and mutual savings banks (MSBs). Deposit flows of residential mortgage lending thrift institutions have been insulated from bank competition by legislation. Regulation "Q" allows S&Ls and MSBs to set their rates for deposits of less than $100,000 slightly above that which can be offered by commercial banks. This is intended to prevent banks from bidding away from thrift institutions funds that now are devoted to meeting the Nation's housing needs. But S&Ls and MSBs (and banks as well) are not insulated from the competition of financial markets in general.

When the economy begins to rapidly expand into a boom period, demand for credit in practically every sector swiftly increases, and the competition among borrowers bids up interest rates to levels which exceed the yields on deposits in S&Ls and MSBs. Under these conditions, depositors withdraw their funds from mortgage-lending thrift institutions for investment in higher yielding financial market instruments. The loss of deposit funds eventually hamstrings the ability of S&Ls and MSBs to meet residential mortgage loan demands. Residential mortgage transactions and new housing starts decline, often at an alarming rate, as in 1974.

Furthermore, the vulnerability of mortgage-lending thrift institutions to inflationary, heavy credit demand conditions is magnified by the fact that they operate on a narrow service base. So long as S&Ls and MSBs are largely confined to offering savings and time deposit accounts and making residential mortgage loans, they will be victimized by sharp, upward fluctuations in interest rates -- far more so than commercial banks, which offer a wider variety of deposits and loans and, thus, are in a far better position to maintain and even increase deposit levels during periods of heavy credit demands.

S&Ls and MSBs should be permitted to broaden the scope of their activities and move into or toward the area of full service commercial banking. In specific, we must permit on a voluntary basis S&Ls and MSBs to offer similar services as commercial banks: offer checking accounts and make business and industrial, consumer and education, and commercial, as well as residential mortgage loans. The 1933 prohibition on paying interest on demand deposits must be eliminated. There is no reason to continue it. The protection provided by Regulation "Q" would no longer be needed.

Those S&Ls and MSBs which choose not to offer services similar to commercial banks would be permitted to make all manner of secured and unsecured consumer installment and educational loans to improve their liquidity position and to increase competition with commercial banks and finance companies in those lending fields. They would also be permitted to offer checking accounts and pay interest on these deposits. There is no reason why depository thrift lending institutions should continue to be barred from offering an important and needed service in order to attract loan funds and provide greater banking convenience for their customers.

The Federal Home Loan Bank Board and the Federal Savings and Loan Insurance Corporation would continue to exist and function for those savings and loan associations which choose to remain primarily in the field of residential mortgage lending. However, those savings and loan associations which elect to offer services similar to those of commercial banking -- those savings and loan associations which provide checking account services and extend credit to business and industry -- would come under the jurisdiction of the proposed Federal Banking Commission. Deposit insurance for these institutions would be furnished by the Federal Deposit Insurance Corporation, which would be under the auspices of the Commission.

The opportunity to move toward offering some services similar to those offered by commercial banks could also be extended to federally chartered credit unions (CUs), without disturbing the cooperative status of CUs. By increasing the range of services which CUs can provide, the institutions will be given a way to become stronger by being able to expand what is now a limited deposit flow and by providing a variety of financial services. They should be able to provide checking account service, and residential mortgage loans, as well as consumer credit.

By allowing depository thrift institutions to provide a wider range of financial services, a much greater degree of competition can be instilled among the entitites which comprise the structure of the Nation's depository and lending institutions. At present, commercial banks are the only financial institutions that can provide full financial services. Consequently, commercial banks have a virtual monopoly on checking account deposits and the extension of relatively risk free, highly profitable short- and intermediate-term business and industrial loans, the lending field in which they concentrate the bulk of their resources. My proposals would break this monopoly.

By the same token, since they would no longer hold their present dominant position in the commercial and industrial loan field, commercial banks would be inclined to compensate by moving more forcefully into other credit areas, such as residential mortgage lending, a sector they have virtually ignored.

In short, the structure and function of the Nation's financial institutions should be securely based on the widest possible field of competition. My recommendations are directly aimed at this achievement. With these changes, there may be shortfalls of mortgage flows. Such deficiencies as may develop can be dealt with by a system of prescribed investment which is recommended in a later section.

COMPETITION

Competition and concentration in banking has long been a special concern of Congress. And, as a number of economists and antitrust experts have recently pointed out, competition or lack thereof has a direct bearing on the level of inflation. For example, Hendrick S. Houthakker, a Professor of Economics at Harvard and a former member of the President's Council of Economic Advisers, recently pointed out that "Barriers to competition...make an economy more susceptible to inflation, in addition to creating inefficiencies of various kinds." This holds true in the field of banking as in any other part of our free enterprise system.

The 1966 Bank Merger Act amendments effectively halted all mergers between major banking institutions. But consolidation of banks has continued through other organizational forms. Since passage of the Bank Holding Company amendments of 1970, there has been a new wave of bank consolidations through acquisitions of large numbers of independent banking corporations by bank holding company organizations. This often takes the form of a few dominant large city banks in a state acquiring control of most of the strong banks in smaller communities, thus eliminating potential competition both locally and statewide. Chain banking is another organizational form affecting competition in banking. Through various legal devices, those who control a major bank are able also to acquire substantial financial interest in other banks, often in the same geographic market.

Competition also is affected by interlocking directorships. A 1967 House Banking and Currency Committee Staff Report revealed that 43 banks in 10 population centers had 572 director interlocks with other, often competing, financial institutions, including other commercial banks, insurance companies, MSBs and S&Ls -- almost 12 per bank. This is only the tip of the iceberg. There are, in addition to director interlocks among financial institutions, interlocks between financial and nonfinancial corporations. Interlocking directorships raise serious questions about the vigor of competition among interlocked institutions.

In addition, serious questions involving the movement of large bank holding companies into nonbanking fields now characterized by a large number of small vigorous competitors have been raised. The market power of these banking institutions is such as to threaten ultimate destruction of competition in many of these fields.

Recently, banking institutions have also attempted to expand into several activities which are closely akin to the securities business. Since the adoption of the Glass-Steagall Act in 1933, it has been a consistent principle of public policy to keep commercial banking divorced from the investment banking and securities business. To allow the combination of these two functions would vastly increase the concentration of economic power already evident in commercial banking, as well as raise the same kinds of conflict-of-interest questions so prevalent in the 1920's.

Strong, precise measures are necessary to assure that competition is not undermined by bank mergers and bank holding companies' acquisitions.

chain banking, interlocking directorships and breaches of Glass-Steagall. To this end, we must take the following steps.

Amend the Bank Merger and Bank Holding Company Acts to emphasize the necessity for preserving potential competition on a statewide basis.

Amend the Bank Merger and Bank Holding Company Acts to make clear that the existence of chain banking systems does not constitute a reason for approving the acquisition of all or any number of the members of the chain by one of its members if such acquisitions are in violation of the anticompetitive criteria established under these acts. Further, empower the regulatory authorities to order divestiture of stockholdings if necessary to significantly reduce concentration and increase competition in a banking market or state.

Amend the Bank Holding Company Act to prohibit bank holding companies from engaging in specific nonbanking activities which are not closely related to banking, and from providing bank related services in market areas where they make loans.

Strengthen the Glass-Steagall principle prohibiting banking institutions from engaging in any aspect of the securities business.

Prohibit any officer, director or employee with management responsibility of any insured bank, bank holding company or subsidiary thereof, savings and loan association, mutual savings bank, life insurance company, credit union, or finance company from serving at the same time as a director, officer or employee with management responsibility with any other such institution or competitor of such institution whose headquarters office or any branch is located within the same state or within a 100-mile radius of each such office or branch. Where institutions are involved in such interlocks and have assets of more than $100,000,000 in each case, such interlocks shall be prohibited nationwide.

Prohibit director interlocks between financial institutions and corporations who borrow from them.

Restrict the size of banking organizations, including holding companies, to a prescribed percentage of total deposits in any banking market or state.

Additionally, competition can be increased by more liberal chartering of all depository institutions, banks, thrifts and finance companies. To this end, legislation providing for Federal chartering of finance companies is essential. I am convinced that the cost and availability of credit, including especially installment and other consumer credit will be greatly improved by chartering new competitors.

TRUST DEPARTMENTS

The coexistence of commercial and trust departments within the same banking institution creates an enormous potential conflict of interest situation. Trust department portfolios can be coordinated to benefit trust accounts at the expense of the bank's shareholders and customers, or vice versa. Trust department officials can take unfair advantage of loan activity information available in the commercial department in managing their portfolios. Unwarranted loans can be made to badly managed ailing companies in which the trust department has invested heavily. Loans can be withheld from competitors of corporations which are heavily represented in the investment portfolios of trust accounts, thereby diminishing the ability to compete.

In addition, the concentration of economic power embodied in the combination of trust assets and lendable funds in a relative handful of the largest commercial banks in the United States is alarming. The 50 largest commercial banks control about half the deposits in all commercial banks in this country, and the 25 largest banks by trust asset size control about half the trust assets of all commercial banks. Many of these top banks in these two categories are the same institutions, thus putting a vast amount of economic power over who obtains access to large amounts of capital in a very few hands. These totals run into the hundreds of billions of dollars, with several individual banking institutions alone controlling in the range of \$40 - \$50 billion apiece. This situation severely limits access to debt and equity capital, and, no doubt, affects business competition throughout the economy.

These reasons strongly argue for separation of commercial and trust departments of commercial banks. It has been asserted that such problems can be avoided by preventing trust department personnel from having access to information held in the loan files of the commercial department and vice versa. However, there is no effective way of preventing the exchange of such information when the will and temptation to do so is present. Therefore, <u>except in a few specific instances, trust departments must be completely separated from commercial banking</u>.

Trust companies resulting from this separation could serve as special investment advisory corporations devoted solely to the management of pension, foundation, charitable and private trusts. Alternatively, they could serve as the nucleus of a revitalized securities industry. In order to avoid conflicts of interest, officers of these corporations would be barred from having business relationships with any other corporate entity. Finally, in order to avoid imposing an unfair burden on small trust departments which rely for their existence on the commercial division within the same banking institution, the required separation of trust departments need not apply to banks where less than $250 million in trust assets is being managed. This will permit small towns to be served by local trust officers.

ALLEVIATING LIQUIDITY PROBLEMS WHILE UNWINDING FROM INFLATION

Unwinding from inflation is going to take time. Until short-term market interest rates decline, thrifts are likely to experience increasingly difficult liquidity problems. Already thrift deposit flows are negative and the liquidity problems are exacerbated because thrifts are tied to long-term investments. Though the measures which were earlier proposed would alleviate the situation if they were adopted immediately, it still would be necessary to tide at least some thrifts over the long period ahead while we are winding down from inflation. To do so would not be a bail-out of badly managed institutions. Thrifts have liquidity problems today only because they have functioned as the body politic urged and encouraged them to do. They are long-term lenders using short-term deposit input. This is a prescription for failure in a period of inflation.

To alleviate the liquidity problems of thrifts as we unwind from inflation, we must require the Federal Reserve to open its discount window to all depository institutions on the same terms, offsetting increased discounts by open market sales. The Federal Reserve should, however, take care that discounting is not used to bail out problem institutions but only to alleviate general market-wide liquidity problems.

ALLOCATION OF CREDIT FOR HOUSING AND OTHER PRIORITY AREAS

Regardless of how competitively structured our financial system is and how stable the economic environment in which it operates, there is likely to be a shortfall of funds for housing and other priority investments. The shortfall is, moreover, almost certain to be increased by broadening the loan powers of housing-oriented thrift institutions as I have proposed.

The core of the housing problem centers on the point that the burden of providing most of the Nation's long-term housing credit has been placed on S&Ls and MSBs. If the Nation's housing needs, especially for low-income households, are to be met by private sector financial institutions, it would seem evident that the structural base providing credit for this purpose must be broadened to include all major financial institutions. In effect, commercial banks, life insurance companies, private pension funds and foundations, along with savings and loan associations and mutual savings banks, could be required to share equitably the task of providing residential mortgage investment funds for all sectors of the housing market, including low- and moderate-income family housing.

In specific, financial institutions could be required to make prescribed investments in residential mortgage loans at levels adequate to meet the need for low-income and other housing as these needs are defined by the Congress.

Regarding these financial institutions which now do not hold significant mortgage portfolios, minimum initial investment levels (percent of assets) would be required. Beyond this, to avoid severe disruption in the financial markets, no financial institution could be required to increase its annual investment in housing by a percentage which is greater than its overall asset growth rate. For example, if a commercial bank had an overall asset growth rate of 10 percent during a given year, it could not be required to increase its residential mortgage loans by more than 10 percent in the succeeding year. Failure to comply with prescribed housing investment levels would result in the mandatory deposit of funds, equalling the shortfall, in a non-interest bearing account in the Federal Reserve Bank of that district. The funds would in turn be invested in residential mortgages or mortgage-backed securities by the Federal Reserve Bank.

Other priority projects as the Congress may establish in the future could be funded by extending the prescribed incremental investment program to cover them as they are identified and defined. An alternative (or supplementary) approach would be to create and establish a National Development Bank, modeled on the World Bank.

Funds for the Development Bank would be obtained through Congressional appropriations, and the sale of obligations to the Treasury and in the open market. In the immediate future, the overriding responsibility of the bank could be the provision of credit on reasonable terms to revitalize the economy and increase job opportunities in depressed urban and rural areas or areas threatened by the loss of industry jobs, and to fund innovative energy projects.

Adoption of these two proposals -- requiring prescribed levels of residential mortgage investments by major types of financial institutions, and the creation of a National Development Bank for priority purposes -- could provide effective means by which credit can be allocated to those areas of the economy and to those people most in need, as need is identified and defined by law.

POSITION PAPER
THE U.S. LEAGUE OF SAVINGS ASSOCIATIONS
GEORGE PRESTON, PRESIDENT

On behalf of the membership of the U.S. League of Savings Associations, we commend President Ford for identifying inflation as the number one domestic problem facing this country and the Ford Administration for embarking on a broad and coordinated program to bring inflation under control.

Specifically, we would suggest the following Federal anti-inflation programs and policies:

(1) Every effort should be made by the Administration to achieve a Federal budgetary surplus at the earliest possible date. Even a modest surplus would have a salutary effect. It would reduce the enormous credit demands now being made by the U.S. Treasury on the already tight capital markets. A budget surplus should be achieved without an increase in taxes, if at all possible; but a budget surplus should be achieved even if an increase in taxes would be required.

(2) Despite the fact that thrift institutions are particularly hard hit by tight money policies, we believe that the Board of Governors of the Federal Reserve System should be encouraged in its efforts to restrain the growth of the money supply. The Board of Governors should be encouraged not to relax its restrictive monetary policy too quickly, or pursue policies which will result in a rather substantial increase in money and credit until it is certain that the "back" of the inflationary boom has been broken. The Federal Reserve should be careful not to repeat the apparent mistake of earlier periods by permitting too rapid an expansion of the money supply once the economy improves.

(3) Special attention should be given to stimulating savings, including particularly the use of tax incentives. The economy of the United States is a capital-short economy. This situation is likely to persist for many years. The world at

large is capital-short.

Capital can only be created by saving--real saving on the part of individuals, business firms, farmers, and governmental units. Budgetary surpluses on the part of the Federal Government will help this process, and will set an example for state and local governments. But, of special importance, will be higher savings levels on the part of private citizens throughout the country. To encourage higher savings levels we recommend approval of a tax exclusion for the first $1,000 of interest earned on savings accounts at supervised financial institutions. These would include savings and loan associations, mutual savings banks, commercial banks and credit unions.

Exempting the first $1,000 of income earned by savings depositors in financial institutions would increase the total amount saved on the part of the American people. In addition, it would substantially improve the availability of funds for housing and state and local governments--the two areas which have borne the brunt of the current restrictive monetary policy. Such a tax incentive would encourage savers to keep their funds with financial institutions and reduce "disintermediation". Savings and loan associations and savings banks invest savings deposits overwhelmingly in the residential real estate sector of the economy. Commercial banks invest savings deposits primarily in the securities of state and local governments and cover a broad range of lending purposes. This proposal would also extend to the small individual saver the same types of tax planning opportunities now available only to wealthy individuals who invest in state and municipal bonds. And, since it would improve the effective yield on savings deposits at supervised institutions, it would discourage the loss of depositors to such unsupervised, uninsured investments as the "floating rate" notes promoted recently.

Tax incentives for savers--particularly those who put their funds in housing-specialized lenders --are common in countries throughout the western world. The United States is an exception. There are many ways that a tax incentive program for savings could be structured, but we believe the simplest would be the $1,000 exclusion described above.

(4) We support the basic concept of public service employment as recently advocated by Chairman Burns. Somehow the connection between unemployment and inflation should be broken. If

Federal anti-inflationary policies could be developed independently of concern for unemployment, we would have a greater chance of breaking the inflation cycle. If people could be assured of some type of employment or job training, the social and economic pressures for increased Federal spending and easy monetary policy could be substantially reduced. We would, therefore, urge legislation which would signify the intention of the Federal Government to be an "employer of last resort" and urge that special training programs be developed for those who are unable to find employment in the private sector.

(5) Business should be encouraged to increase productivity. We recommend investment tax credits and other incentives which would stimulate the achievement of higher productivity levels. Special tax incentives would appear to be particularly appropriate for those areas of the American economy where an increase in productive capacity is clearly called for, i.e., energy resources and production, various raw materials, and farm commodities. Such tax incentives do not directly affect our business; however, the tax incentive for investment to encourage additional investments in residential mortgages proposed by the Treasury as part of the Financial Institutions Act (stemming from the Hunt Commission recommendations) could well be considered in this context. However, it should not be presented to Congress or viewed by Congress as a substitute or alternative for the bad debt deduction permitted savings and loan associations and savings banks under Section 593 of the Internal Revenue program. The loss in tax revenue to the Treasury Department could well be offset by the added taxes produced from increased productivity in the housing sector.

The above constitute our specific recommendations directed toward the inflation problem. In addition, we have a number of other suggestions that would improve the flow of funds into the residential mortgage market.

The great problem of today's residential mortgage market is the fact that savings and loan associations are virtually out of the market--lending very few funds except for prior commitments. This is particularly true with respect to big institutions in the larger cities. A great need of the mortgage market is for positive net savings flows to savings and loan associations at a cost that these institutions can afford to pay.

The housing economy cannot prosper or even make a reasonable comeback unless there is a source of funds for home buyers at rates and terms more reasonable than those which prevail today. The only realistic source for substantial flows of funds into housing at reasonable interest rates is the savings and loan business. Savings and loan associations are locked into residential mortgage investments by the tax and banking laws and are the only certain source of credit for housing. Commercial banks and other lenders cannot "take up the slack" in the foreseeable future. Typically in tight money periods banks put their funds in higher yielding loans and investments rather than residential mortgages.

Governmental policies designed to assure flows of funds to savings and loan associations at rates no higher than those permitted by today's savings rate ceilings will most certainly open up savings and loan lending windows for all types of residential loans--new houses, existing houses, small apartments, and others. (Even so, mortgage lending in a number of states is subject to archaic usury law restrictions.)

What is needed is a flow of savings dollars into thrift institutions, passbook and certificate accounts. Home Loan Bank credit, even at subsidized rates, would be helpful, but special programs such as the $10.3 billion program announced by the Administration in April are far less productive than governmental policies to discourage disintermediation or actually promote flows of funds into our institutions.

Federal financing programs through the FNMA, the FHLMC, GNMA, and the Federal Home Loan Bank System, financed either directly by these agencies or through the Treasury, tend to be partially counter-productive. Additional pressure on the money and credit markets aggravates disintermediation and bids up yields. Unfortunately, a substantial portion of funds obtained by the Treasury and the Federal agencies come directly from the thrift institutions which, in effect, trade deposit money obtained at rates from 5-1/4% to 7-1/2% for money used or borrowed at substantially higher market rates.

A healthy housing industry, and healthy savings and loan associations, are essential to the American economy and the American way of life. With this background, we offer the following further suggestions:

(1) Swift Congressional action on H.R. 11221, the Depository Institutions Amendments Act of 1974. Of particular importance is the increase in deposit insurance coverage by the FSLIC and the FDIC. This bill is in conference. We hope that the Administration will use its influence with the Congressional leadership to speed the work of the conferees.

There is no question but that there exists some crisis of public confidence in financial institutions. An increase in FSLIC/FDIC coverage at this point would have a salutory effect on public attitudes relative to the safety of financial institutions of all types. The decision of the Administration to support an increase in deposit insurance from $20,000 to $25,000 made on August 7 was most welcome. In view of the credit problems in the housing industry, we would hope that the Administration could see its way clear to supporting a still higher figure--preferably the $50,000 approved by the House.

The Administration's opposition to the concept of 100% insurance of public funds in H.R. 11221 is well known. We would hope, however, that the Administration would review its position and support legislation whereby some modest deposits of public funds could be placed in savings and loan associations and mutual savings banks, possible with an insurance limit of a particular dollar amount per deposit. This would permit savings Institutions to attract the smaller public deposits and avoid the concerns that have been raised with respect to a full 100% insurance program on the markets for state and local government securities.

(2) Financial institutions should be permitted to issue a tax-deferred savings or certificate account. As stated above, the real solution to the credit problems in the housing industry is to assure a stronger flow of funds into thrift institutions without raising their costs of money. In this connection, the savings and loan business could make great use of a tax-deferred savings account and we believe that this could be authorized by the Treasury without legislation. The savings bonds issued by the Treasury Department provide a tax-deferred feature, but this is prohibited to financial institutions by the Treasury's so-called Original Issue Discount Bond regulation.

There are many, many people who would place funds in a tax-deferred account in a thrift institution. Such an account would provide a flow of longer-term funds into our institutions. This would lengthen the maturities of our liabilities and provide a source of funds of the type needed for investment in home mortgages. The revenue effect should not be too great, and financial institutions would have a valuable "product" to offer. We believe this could be done administratively, rather than by legislation, with immediate, specific help to the housing economy.

(3) The Federal Home Loan Bank Board should be encouraged to proceed with regulations to regulate and encourage the use of the variable interest rate mortgage. The variable interest rate mortgage has been discussed for many years as a vital part of necessary improvements to the mortgage market and to strengthen savings and loan associations. The "time" of the variable rate mortgage appears to be here, but its use awaits Federal encouragement.

The Federal Home Loan Bank Board is ready to publish proposed regulations (for which it has authority), but is awaiting hearings on the subject before the House Banking and Currency Committee. We would hope that Administration would strongly support the idea of a variable rate mortgage in these hearings and subsequently encourage the Home Loan Bank Board to authorize variable rate mortgages in as liberal a form as possible.

The early authorization of a variable rate mortgage would provide borrowers and lenders with an important new form of mortgage contract. In times like these, when few lenders are willing to commit funds for long-term investment, the variable rate mortgage offers a fair arrangement for both lenders and borrowers, without many of the disagreeable aspects of long-term, fixed-rate commitments found in current mortgage contracts. Thus, the offering of variable rate mortgages could be expected to lead to a quicker freeing-up of funds for residential construction and home ownership.

(4) We believe that parts of the Administration's proposed Financial Institutions Act should be passed by the Congress to improve the functioning of thrift institutions and to make them more competitive with commercial banks. A major stumbling block with respect to

favorable Congressional action on the Financial Institutions Act is Title I of the bill relative to rate control ceilings and the proposal for eliminating the bad debt reserve allocations authorized for savings and loan associations and mutual savings banks under Section 593 of the Internal Revenue Code. If the Administration were willing to separate the rate control subject from the Financial Institutions Act and drop its efforts to repeal Section 593 of the Internal Revenue Code, we believe that a consensus of support for this type of legislation could rapidly be developed.

STATEMENT BY
MR. FRANCIS H. SCHOTT
CHAIRMAN
FINANCE AND CURRENCY COMMITTEE
NEW YORK CHAMBER OF COMMERCE
AND INDUSTRY

1. The New York financial community considers inflation the #1 problem. -

This view reflects not only a general economic appraisal, but also our recently acquired knowledge of the direct impact of major inflation upon New York as the nation's financial capital.

2. The intermediary function of New York City is in jeopardy. -

New York matches institutional and private savings with the capital requirements of domestic and international nonfinancial businesses. Confidence in financial values is a prime requirement of satisfactory performance of this role, which is in turn indispensable for capital formation.

The bond market is functioning under severe strain. The equities market has faded. Previous arguments about the worth of inflation as a stimulant can be safely set aside. The proof of its destructiveness is at hand.

3. The challenge of dealing with inflation must be accepted. -

Several immediate causes of the recent intensification of inflation escape our direct policy control (oil, agricultural production). But the underlying causes include excessively expansionary fiscal and monetary policy since the mid-1960s. A gradual, orderly correction of these excesses is required.

4. The basic ingredient of success is fiscal and monetary restraint. -

Current Federal Reserve policy has been helpful in preventing runaway inflation. Monetary policy has been about right and should stay on a restraint course. But because of continuing stimulus from fiscal policy, monetary policy has had to carry an excessive burden. There is a likelihood that the Federal Reserve will have to give specific assistance in problem situations, as has already occurred.

The Fed's dilemma could be substantially alleviated with more assistance from fiscal policy. The planned rise of 14% in Federal spending to $305 billion in fiscal '75, and the associated deficit of $11 billion or more, are excessive. The Administration deserves encouragement in bringing about a spending cut of $5 billion - $10 billion, especially because it may be necessary to finance an enlarged public employment scheme for some time in 1975.

5. The economic readjustment now underway is essential to take some pressure off price increases. -

The readjustment is especially painful, because not only rising unemployment but also a halt in the rise of real income for most of the population is involved. Poor productivity performance in recent years, and enlarged transfers to foreign oil producers and to relatively few farmers, make this widespread real income effect inevitable. A blunt statement of the facts may be more palatable than essentially futile attempts to evade the facts.

6. Liquidity assistance in the financial sector may be required, but not new long-term public expenditure programs to substitute for private activity.

One serious danger is that Federal housing programs will become the sole source of housing finance, for which the Federal government obviously does not have adequate noninflationary sources. State usury laws are especially counter-productive at this time; and they damage the ability of savings institutions to cope with possible Regulation Q adjustments which are probably needed.

7. A basic policy choice is at hand -- traditional or regimented capital markets. -

The price mechanism works well only in a relatively stable environment, in spite of the proved considerable adaptability of financial markets to inflation. If the inflation were to get worse, the demand for additional controls, allocations, and subsidies would become overwhelming, even though these mechanisms are unlikely to achieve the desired results. We support the short-term pain of readjustment vs. the long-term damage of inflation and controls.

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36	C. P. WILSON	R.W. Baird & Co., Inc., Milwaukee
37	A. M. WOJNILOWER	The 1st Boston Corp.
37	J. W. WRIGHT, Pres.	Wright Investors' Svc., Bridgeport
38	W. WRISTON	1st Nat'l City Bank
38	C. J. ZWICK	Southeast Banking Corp., Miami

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Agenda for September 20
Financial Conference on Inflation

8:15 a.m. Introduction - The Honorable William E. Simon, Secretary of the Treasury

8:25 a.m. Economic Situation and Policy Briefing - The Honorable Alan Greenspan, Chairman, Council of Economic Advisors

8:40 a.m. Briefing on the Budget - Walter Scott, Associate Director, Office of Management and Budget

8:55 a.m. Federal Reserve Board Briefing - The Honorable Arthur Burns, Chairman, Board of Governors of the Federal Reserve System

9:10 a.m. Round Table Discussion (3 minutes for each conferee)

10:30 a.m. Coffee Break

10:40 a.m. Round Table Discussion (Continued)

12:30 p.m. Lunch

1:30 p.m. Fiscal Policy to Deal with Inflation

Major Fiscal Objectives and Options for Fiscal Years 1975, 1976, and Beyond

Possible Cuts in Federal Spending

Possible Changes in Federal Taxation: Current Levels, Incentives, Deterrents, Equity

2:10 p.m. Monetary Policy to Deal with Inflation

Current State of Domestic Financial Markets

Current Monetary Policy: Given the Circumstances, is it too Tight, about Right, or too Easy? What Should the Future Course of Monetary Policy be?

2:40 p.m. Capital Markets and Capital Formation

Discussion of the Dimensions of Future Capital Requirements in an Inflationary Economy

--Policies to Increase the Total Volume of Saving and Investment

--Policies to Insure Adequate Financiang through the Equity and Long-Term Debt Market

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3:30 p.m. International Economic Policy and Inflation

Discussion of the Appropriate U.S. Role in International Economic Policy

International Financial Aspects of World Inflation

4:00 p.m. Financial Institutions and Inflation

Possible Changes that should be made in Laws and Regulations Affecting Financial Institutions to Assist in the Fight Against Inflation

4:30 p.m. Wage-Price Policy to Deal with Inflation

How Should the Wage-Price Monitoring System be Operated?

5:00 p.m. Other Suggestions to Combat Inflation

5:30 p.m. Concluding Remarks

6:00 p.m. Adjournment of Formal Session

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MEMORANDUM TO THE PRESS September 18, 1974

Financial Conference on Inflation

The starting time of the Financial Conference on Inflation has been changed to 8:15 a.m., September 20, 1974. Close-up photography of participants while they are at the Conference table will be limited to a brief period at the opening of the meeting.

Also changed is the site of the meeting. It will now be held in the Presidential Room of the Statler-Hilton Hotel, Washington, D.C. Since this is a much larger room, there is no longer a limit on the number of seats available to the press.

The press room in the hotel will be the Ohio Room. At intervals throughout the day--approximately two hours after the close of each segment of the Conference--transcripts of the proceedings will be available in the Ohio Room. At the conclusion of the meeting--approximately 6:00 to 6:30 p.m.--there will be a summation of the day's activities. Transcripts of this summation and all preceding discussions will be available at both the Ohio Room and the 15th Street entrance of Main Treasury at approximately 9:30 p.m.

A final list of participants is attached.

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MEMBERS OF BANKING AND
FINANCE COMMUNITY
WHO WILL ATTEND
THE FINANCIAL CONFERENCE ON INFLATION
WASHINGTON, D.C.
SEPTEMBER 20, 1974

HELD AT THE REQUEST OF
PRESIDENT GERALD R. FORD
AND THE CONGRESS OF THE UNITED STATES

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The Honorable William E. Simon
Secretary of the Treasury
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. Edwin G. Alexander
President
First S&L Shares, Inc.
Denver, Colorado 80211

Dr. George Leland Bach
Professor of Economics and Public Policy
Stanford University
Stanford, California 94305

Mr. Robert H.B. Baldwin
President
Morgan Stanley & Company, Inc.
1251 Avenue of the Americas
New York, New York 10020

The Honorable Jack F. Bennett
Under Secretary for Monetary Affairs
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. Robert H. Bethke
President
Discount Corporation of New York
58 Pine Street
New York, New York 10005

Mr. Archie R. Boe
Chairman of the Board
Allstate Insurance Company
Allstate Plaza
Northbrook, Illinois 60062

Mr. Thomas R. Bomar
Chairman, Federal Home Loan Bank Board
320 First Street, N.W.
Washington, D.C. 20552

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The Honorable Arthur F. Burns
Chairman
Board of Governors of the Federal
 Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Dr. Gwen Bymers
Professor and Chairman of the
 Department of Consumer Economics
Cornell University
Ithaca, New York 14850

Mr. Richard P. Cooley
President and Chief Executive Officer
Wells Fargo Bank, National Association
San Francisco, California 94120

Mr. Howard Coughlin
President
Office and Professional Employees
 International Union
265 West 14th Street
New York, New York 10011

Mr. Morris D. Crawford, Jr.
Chairman of the Board
Bowery Savings Bank
110 East 42nd Street
New York, New York 10017

Dr. Robert G. Dederick
Senior Vice President and Economist
Northern Trust Company
50 South LaSalle Street
Chicago, Illinois 60690

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Dr. Robert Ray Dockson
President
California Federal Savings and
  Loan Association
5670 Wilshire Boulevard
Los Angeles, California 90036

Dr. Otto Eckstein
President, Data Resources, Inc.
Professor of Economics
Harvard University
231 Littaner Center
Cambridge, Massachusetts 02138

Mr. Gilbert R. Ellis
President
Household Finance Corporation
3200 Prudential Plaza
Chicago, Illinois 60601

Dr. Grover W. Ensley
Executive Vice President
National Association of Mutual
  Savings Banks
200 Park Avenue
New York, New York 10017

The Honorable Edgar R. Fiedler
Assistant Secretary for Economic Policy
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. William H. Franklin
Chairman
Caterpillar Tractor Company
100 N.E. Adams Street
Peoria, Illinois 61629

Mr. Gaylord Freeman
Chairman of the Board
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Dr. Tilford C. Gaines
Senior Vice President and Economist
Manufacturers Hanover Trust Co.
350 Park Avenue
New York, New York 10022

The Honorable Stephen S. Gardner
Deputy Secretary
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

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Mr. Ray Garrett, Jr.
Chairman
Securities and Exchange Commission
500 North Capitol Street, Room 812
Washington, D.C. 20549

Mr. Richard G. Gilbert
President of Citizens Savings
Association
100 South Central Plaza
Canton, Ohio 44702

Mr. Alan Greenspan
Chairman
Council of Economic Advisors
Old Executive Office Building
Washington, D.C. 20506

Mr. David B. Harper
President
First Independence National Bank
234 State Street
Detroit, Michigan 48226

Dr. Gabriel Hauge
Chairman
Manufacturers Hanover Trust Co.
350 Park Avenue
New York, New York 10022

Mr. Milton J. Hayes
Chairman
Government Fiscal Policy Committee
Independent Bankers Association of America
Consultant, American National Bank of Chicago
33 N. LaSalle Street, Room 1619
Chicago, Illinois 60602

Mr. M.R. Hellie
President
Credit Union National Association, Inc.
1730 Rhode Island Avenue, N.W., Suite 810
Washington, D.C. 20036

Mr. Richard D. Hill
Chairman of the Board
First National Bank of Boston
Boston, Massachusetts 02110

199

Mr. J. Henning Hilliard
Chairman
J.J.B. Hilliard, W.L. Lyons, Inc.
545 South Third Street
Louisville, Kentucky 40202

Mr. Frank J. Hoenemeyer
Executive Vice President
Prudential Insurance Company
of America
Prudential Plaza
Newark, New Jersey 07101

The Honorable Ernest F. Hollings
United States Senate
Old Senate Office Building
Room 432
Washington, D.C. 20510

The Honorable Jacob Javits
United States Senate
Old Senate Office Building
Room 326
Washington, D.C. 20510

Mr. Paul R. Judy
Chairman and President
A.G. Becker & Company, Inc.
2 First National Plaza
Chicago, Illinois 60670

Mr. Harvey E. Kapnick, Jr.
Chairman and Chief Executive Officer
Arthur Andersen & Co.
69 West Washington Street
Chicago, Illinois 60602

Mr. Louis O. Kelso
General Counsel
Bangert & Co., Inc.
111 Pine Street
San Francisco, California 94111

Mr. W. J. Kennedy, III
President
North Carolina Mutual Life Insurance Co.
P. O. Box 201
Durham, North Carolina 27702

Mr. Ralph F. Leach
Chairman of the Executive Committee
Morgan Guaranty Trust Company
23 Wall Street
New York, New York 10015

Mr. Gustave L. Levy
Partner
Goldman, Sachs and Company
55 Broad Street
New York, New York 10015

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The Honorable Russell B. Long
United States Senate
Old Senate Office Building
Room 217
Washington, D.C. 20510

Mr. Bruce K. MacLaury
President
Federal Reserve Bank of Minneapolis
250 Marquette Avenue
Minneapolis, Minnesota 55480

Dr. Paul W. McCracken
Senior Consultant
Department of the Treasury
15th and Pennsylvania Avenue, N.W.
Washington, D.C. 20220

Mr. Rex J. Morthland
President
American Bankers Association
Chairman, The Peoples Bank and Trust Company
Post Office Box 799
Selma, Alabama 36701

Mr. James J. Needham
Chairman of the Board
New York Stock Exchange
11 Wall Street
New York, New York 10005

Mr. Herman Nickerson, Jr.
Administrator
National Credit Union Administration
2025 M Street, N.W.
Washington, D.C. 20456

Dr. Arthur M. Okun
Senior Fellow
The Brookings Institute
1775 Massachusetts Avenue, N.W.
Washington, D.C. 20036

Dr. James O'Leary
Vice Chairman
U.S. Trust Company
45 Wall Street
New York, New York 10005

Mr. J. Charles Partee
Managing Director
Office of Research and Economic Policy
Board of Governors of the Federal
  Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

201

The Honorable Wright Patman
U.S. House of Representatives
Rayburn House Office Building
Room 2328
Washington, D.C. 20515

Ms. Sylvia Porter
Syndicated Financial Columnist
30 East 42nd Street
New York, New York 10017

Mr. George Preston
President
U.S. League of Savings Associations
1709 New York Avenue, N.W.
Washington, D.C. 20006

Mr. Donald T. Regan
Chairman of the Board
Merrill, Lynch, Pierce, Fenner
  and Smith, Inc.
One Liberty Plaza
165 Broadway
New York, New York 10006

The Honorable Henry S. Reuss
U. S. House of Representatives
Rayburn House Office Building
Room 2186
Washington, D.C. 20515

The Honorable John J. Rhodes
U.S. House of Representatives
Rayburn House Office Building
Room 2310
Washington, D.C. 20515

Mr. David Rockefeller
Chase Manhattan Bank, National Association
One Chase Manhattan Plaza
New York, New York 10015

Mr. Robert V. Roosa
Partner
Brown Brothers Harriman and Company
59 Wall Street
New York, New York 10005

The Honorable William V. Roth
United States Senate
New Senate Office Building, Room 4327
Washington, D.C. 20510

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Mr. Ralph S. Saul
Vice Chairman
Insurance Company of North America
1600 Arch Street
Philadelphia, Pennsylvania 19101

Dr. Raymond J. Saulnier
Professor Emeritus of Economics
Barnard College
Columbia University
5-A Lehman Hall
New York, New York 10027

Mr. Walter Scott
Associate Director
Office of Management and Budget
Old Executive Office Building
17th and Pennsylvania Avenue, N.W.
Washington, D.C. 20500

The Honorable George P. Shultz
Executive Vice President
Bechtel Corporation
50 Beale Street
San Francisco, California 94119

The Honorable J. William Stanton
U.S. House of Representatives
Rayburn House Office Building
Room 2448
Washington, D.C. 20515

Mr. Robert H. Stewart III
Chairman of the Board
First International Bancshares, Inc.
Post Office Box 6031
Dallas, Texas 75283

Mr. Thomas I. Storrs
Chairman of the Executive Committee
North Carolina National Bank
Post Office Box 120
Charlotte, North Carolina 28255

Mr. John Tomayko
Director, Insurance, Pension and
Unemployment Benefits
United Steelworkers of America
5 Gateway Center
Pittsburgh, Pennsylvania 15222

The Honorable Charls E. Walker
President
Charls E. Walker Associates
1730 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

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The Honorable Frank Wille
Chairman
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, D.C. 20429

Mr. Carlton Wilson
Chairman of the Board and Director
Robert W. Baird and Company, Inc.
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53201

Dr. Albert M. Wojnilower
Vice President, Economist
The First Boston Corporation
20 Exchange Place
New York, New York 10005

Mr. John W. Wright
President
Wright Investors' Service
Wright Building
Bridgeport, Connecticut 06604

Mr. Walter Wriston
Chairman
First National City Bank
55 Wall Street
New York, New York 10015

Dr. Charles J. Zwick
President
Southeast Banking Corporation
100 South Biscayne Boulevard
Miami, Florida 33131

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COMPENDIUM OF PAPERS

FOR THE

FINANCIAL CONFERENCE ON INFLATION

SEPTEMBER 20, 1974

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SUBSTITUTION (to correct Treasury typing error)

For the meeting of September 20, 1974

INTERNATIONAL FINANCIAL ASPECTS OF WORLD INFLATION

Robert V. Roosa, Partner
Brown Brothers Harriman & Co.

The efficiency and scale of financial relations among countries have been increased so extensively in recent years that inflationary momentum once started within the leading countries, spread rapidly to all. The flexibility in this financial machinery that has induced and supported record real growth through most of the postwar period became over-extended -- spreading active demand across the globe at a pace that outran the global supply of goods and services that were available at yesterday's capacity, and costs, and prices. The dilemma today is how to check the temporary excesses of monetary demand being transmitted throughout the world without causing a breakdown of the financial mechanism, while at the same time promoting the sustained expansion of capacity and production which the world needs as the real offset to inflationary forces.

Moreover, in today's setting, any source of supply that can be deliberately controlled or limited -- whether of raw materials, or finished goods, or labor -- has an opportunity to extract a monopoly surcharge. For this and other reasons, great imbalances develop within the cost structures of each country and across their balance of payments frontiers, with oil presently the prime example of the spreading of distortion.

Clearly no one country can stop the excess demand and promote production on a scale sufficient to solve its own problems alone -- not without inconceivably retrogressive economic isolation. But the United States' position is crucial, both through the example we set and through the weight of our own impact on the total results. Moreover, it is through our own currency, the dollar, and through the vast network of American financial facilities erected to service world requirements, that so much of the finance that is needed, as well as that which is excessive, is now passing around the world.

The urgent problems are: 1) to avert a disruptive breakdown of the financial mechanism, both through preventive action and through prompt shoring up of the repercussions of any individual failures that may occur; 2) to minimize the disruptive impact of oil payments; 3) to so use the generalized restraint of monetary and fiscal action as to neutralize financial support for further cumulative inflation; 4) to induce the additional real saving and investment required for expanded capacity and output, and eventually a lowering of real costs; and 5) to cushion the more extreme inequities created during the transition from inflation to normality.

Toward this end the United States should promote: 1) the closest possible harmonization in diagnosis and policy among the largest countries and the principal raw material producing countries, both for the short run and the longer run; 2) procedures for managing exchange rates to assure orderly flows of trade and payments among countries; 3) the stimulation of productive investment in extractive, manufacturing and service industries; 4) the assurance of adequate longer run demand to provide suitable returns from new investment and production as these emerge; 5) the closest approximation to free competitive conditions in all markets by combatting, or offsetting, monopolistic restraints; and 6) the introduction of selective measures temporarily to employ people and support industries that are displaced during the process of achieving the other objectives.

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September 14, 1974

In preparation for the Financial Conference on Inflation, participants were invited to submit one page summaries of their views concerning the major subjects to be discussed. Included in this compendium are the papers received to date.

Submissions have been organized according to the sequence of the major agenda items for the September 20th conference.

- Fiscal Policy to Deal with Inflation
- Monetary Policy to Deal with Inflation
- Capital Markets and Capital Formation
- International Economic Policy and Inflation
- Financial Institutions and Inflation
- Wage Price Policy to Deal with Inflation
- Other Ideas and Suggestions to Combat Inflation

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FISCAL POLICY TO

DEAL WITH INFLATION

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FISCAL POLICY

There is no doubt that our fiscal policy during the years of the Vietnam War was principally responsible for the present inflationary problems of our nation. President Johnson's refusal to propose increases in taxes during that War and his policy of bullets and butter was a mistake. President Truman did not make this mistake during the Korean War and increased taxes for purposes of paying for that War during the duration of the conflict.

I personally would favor a more prudent fiscal policy. I think cuts in non-essential federal spending should be adopted.

The elimination of major loopholes in the federal tax structure should be legislated at the earliest possible date. The Congress should adopt an excess profits tax during this period of spiralling inflation.

At the same time, however, we should not stifle the economy through interest rates which are far too high and through a sharp curtailment of money supply. The Federal Reserve System should be directed by the Congress to allocate bank credit at reasonable rates for such purposes as low, moderate and middle income housing and other community facilities. Reasonable interest rates should also be made available for the construction of essential public utility plants.

Government controls should also be placed on the export of agricultural and other products in short supply until such shortages are ended and inflationary pressures on prices of these products subside.

Respectfully submitted,

Howard Coughlin

Howard Coughlin, President
Office & Professional Employees International Union

SUMMARY VIEWS ON FISCAL POLICY

CREDIT UNION NATIONAL ASSOCIATION, INC.

FINANCIAL CONFERENCE ON INFLATION

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September 20, 1974

Persistent and substantial growth in Federal government spending without corresponding tax increases has been a notable aspect of fiscal policy during the past ten years. The resulting monetization of the federal debt has been one of the major causes of present inflation and high interest rates. Therefore, any anti-inflation fiscal policy must set government and agency spending at a level which will have minimal impact on financial markets. Failure to achieve such a revenue-expenditur balance will, in large part, offset any gains which could be made from the easing of monetary policy.

A positive factor for the long run is the development of the new Congressional budget process. The use of this process, developing a closer relationship between Congress and the Executive on budget matters, will allow for greater discussion and better understanding of the impact of federal spending on the level of economic activity.

At this time it would be unwise to commit the 1976 budget to any particular level of spending or surplus/deficit position. In light of the many economic problems facing the nation, it would be well to maintain maximum flexibility and adjust spending in response to the changing economic circumstances of the intervening months. Excessive focus on the Federal budget carries the danger of oversimplifying the problem.

HOUSEHOLD FINANCE
Corporation
AND SUBSIDIARY COMPANIES

Prudential Plaza · Chicago, Illinois 60601

G. R. ELLIS
CHAIRMAN OF THE BOARD
AND
PRESIDENT

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September 13, 1974

The Honorable William E. Simon
Secretary of the Treasury
Washington, D.C.

Dear Mr. Secretary:

I am pleased to have been invited to attend the President's Conference on Inflation on September 27 and 28 and the Financial Conference on Inflation on September 20.

I will come prepared on September 20 to discuss the items on the agenda and would now like to take advantage of your invitation to submit a one-page summary of my views.

Confidence in the future of this economy and its monetary system is absolutely essential to the successful implementation of a program to control inflation. This confidence can only come about as a result of a total priority commitment on the part of <u>both</u> the Executive and Legislative branches of the Federal Government to a balanced budget and continued, although less severe, monetary restraint. In order to demonstrate earnestness of commitment, there should be an across-the-board cut in all expenditures, followed by selective cuts of greater amounts. Cuts in federal spending must include so-called entitlement programs and in view of the critical nature of our situation, there should be a moratorium on new spending programs.

Control over the expenditures and borrowings of federally sponsored credit agencies is necessary. These agency borrowings along with government guaranteed debt have an inflationary impact on the economy and seriously affect the availability and cost of funds for the private sector.

Sincerely,

G R Ellis

FINANCIAL CONFERENCE ON INFLATION
September 20, 1974

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Fiscal Policy

Summary of views of
Dr. Grover W. Ensley, Executive Vice President
National Association of Mutual Savings Banks

The underlying and most pervasive inflationary force in the United States in the past decade has been federal budget deficits and expansive federal credit programs outside the budget. Unless the rate of inflation abates more rapidly than anticipated or serious unemployment develops, a budget surplus -- or at least a balance -- should be the objective of public policy. Ideally it would be desirable to create a federal budget surplus to offset, at least in part, the stimulative effect of heavy borrowings by the federal agencies that operate outside the budget. This would reduce the intolerable burden currently placed on monetary policy which has resulted in inadequate private credit and excessively high interest rates. Major victims have been thrift institutions and their depositors, home mortgage borrowers, and the housing industry.

To achieve a more neutral federal fiscal policy, expenditures should be reduced to less than $300 billion in fiscal 1975. With respect to specific programs, we do not have the expertise to weigh the relative merits of the wide range of existing federal national security, social welfare and other programs, which may all be desirable in their own right. We believe, however, that inflation is of emergency proportions, and that no federal program should be immune to the strictest scrutiny.

The need for stringent expenditure control is all the more necessary since, in at least one area, increased spending may be necessary to alleviate inequities resulting from a vigorous anti-inflation effort. In this regard, consideration must be given to a lengthened period of unemployment compensation, manpower retraining, and public service employment which would enable government at all levels to act as "employer of last resort" in areas where unemployment is intolerably high.

Reductions in expenditures should have top priority in achieving fiscal restraint. If expenditures are not reduced sufficiently, however, then a tax increase may be necessary if inflation is to be controlled and if continued over-reliance on monetary restraint is to be avoided. Any tax change should be structured so as: (1) to encourage private saving and productive investment; and (2) to restrain consumption of items which are in particularly short supply, as, for example, selective excise taxes designed to encourage production of low-power, fuel-saving automobiles.

The most effective action that could be taken quickly would be to provide tax exemption or a tax credit for interest earned on savings accounts. While it is important not to impair federal revenues at this time, this kind of tax relief provides several overriding advantages. It would

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stimulate saving, essential in the projected period of capital shortage. In particular, it would alleviate disintermediation at mortgage-oriented thrift institutions, and provide funds for credit-starved housing markets. And finally, the estimated revenue loss -- about $2 billion in the case of a $1,000 exemption -- is probably less than the cost of direct subsidy programs to housing, through an expanded GNMA/FNMA tandem plan, subsidized FHLB advances to savings institutions and/or other direct subsidy programs which may be adopted if the housing crisis worsens.

It is the responsibility of the federal government to serve as the economic balance wheel in our private enterprise system, offsetting excesses in the private sector and cushioning the impact of external inflationary forces. This essential function should be restored through a determined policy of fiscal restraint, shaped in a manner to promote equity among income groups and to promote private saving, the basic source of funds for noninflationary capital formation and increases in productive capacity.

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FISCAL POLICY OBJECTIVES

BY

GAYLORD FREEMAN
Chairman of the Board
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois

In the face of inflation, stagnation and an inadequate savings stream to meet our overwhelming capital needs, if fiscal policy is to adequately finance the government in a non-inflationary way, it should be designed to --

1. Stimulate Productivity;
2. Moderate Consumption; and
3. Equalize the Burdens of the Anti-Inflationary Program.

1. American labor needs more and better tools if it is to produce more and enjoy more. One of the major causes of our inflation has been inadequate productivity due to insufficient investment in more productive equipment. Inflation further discourages needed investment. Significant tax incentives should be employed to increase investment, perhaps by relating depreciation of new plant, equipment and energy sources to future replacement cost or a governmentally-determined equivalent formula rather than to historical cost.

2. Fiscal policy should moderate both private consumption and government expenditures. While it may not be necessary to limit the rise in consumption at this time, the program should seek to avoid any too-rapid expansion in the future. Savings should be encouraged perhaps by an interest credit similar to the dividend credit (but applied only to increases in savings). Incidentally, this should be helpful to the thrift institutions.

Balancing the overall budget (including the federal agencies) would be most helpful. Although the manner of financing determines the extent thereof, any budget deficit tends to expand the money supply. While monetary expansion from this cause may have no economic result different from other elements increasing the money supply, a balanced budget would be understood by the citizenry as an acceptance by the government of disciplines comparable to those to which they are to be subjected. Hence, it would have desirable political significance. It would have added economic significance if the budget were balanced by reduced governmental expenditures rather than higher taxes as this would permit increased savings and investment.

3. To be effective, an anti-inflationary program must be sustained for several years. To make this possible the program must have the support of the people. That support requiries both (a) more accurate profit reporting and (b) an equitable distribution of the burdens resulting from the anti-inflationary program.

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A. For 1973 and again this year many billions of dollars of spurious inventory profits are being reported, misleading investors, workers and the government. Despite "record earnings" according to the latest figures of the Department of Commerce, after-tax profits of non-financial corporations in 1973 (after correction for under-depreciation and inventory profits) were 10 to 30 percent below those for 1965. This compares with more than a 76 percent increase in per capita disposable personal income during the same period. This unrealistic reporting is sufficiently serious, and the need for more accurate appraisal of the size and economic function of corporate profits is of such importance that the Treasury should work with the accounting profession to develop more accurate concepts of corporate profits both for tax purposes and public reporting.

B. If business gets more realistic depreciation for new equipment, then the corporate sector as a whole ought to make up that revenue loss through a somewhat higher tax rate on corporate profits. If the anti-inflationary program results in additional unemployment, the government should supply those so laid off with reasonable income and meaningful activity, for they should not suffer a loss in order to preserve the purchasing power of the incomes of those still employed. If necessary, this increased expense should be offset by increased personal income tax rates on those who remain employed, but this increase should terminate automatically when the unemployment rate drops back below a specified minimum. As many of the unemployed will be young, perhaps the government should greatly augment its apprentice training programs.

For the first time in years such a composite program, including both a balanced budget and tax reform, is politically possible. The Congress and the Administration can work together in mutual respect and the people can be led to accept some unwelcome but equitably-distributed disciplines in the knowledge that this is in theri own long-range interest.

RESPONSE TO AGENDA ITEMS FOR SEPTEMBER 20
FINANCIAL CONFERENCE ON INFLATION

Major Fiscal Objectives and Options for
Fiscal Years 1975, 1976, and Beyond

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The major objective of fiscal policy for the current fiscal year 1975 and for as far ahead as there is any visibility should be control of price inflation. Within that major objective, there are a great many options open to minimize the inequitable effect of restrictive policy upon different groups in the society.

The anti-inflation objective would call for bringing the unified budget into surplus as early as possible. Also, thought should be given to bringing some or all of the sponsored agencies back into the budget, in order that the unified budget documents might give a more accurate picture of Federal finance. An overriding need for many years ahead will be to provide the long-term capital funds needed to support the capital demands of industry, residential construction, and of state and local governments. The Federal government could make an important contribution by becoming a net saver itself, by running consistent budget surpluses.

Meanwhile, as a growing number of people have pointed out, the hardships created by such a policy for certain groups in the economy could be dealt with by specific and not too expensive programs aimed directly at the problems. There is almost unanimous consensus now that a much expanded public employment program should be adopted to provide job opportunities for those young people and others who lack the essential skills needed in a modern industrial economy. In addition, and without significant budgetary expense, the eligibility period for Social Security benefits could be open-ended, so that a temporarily unemployed worker would not arbitrarily lose his source of income at the end of some specified period of weeks. Also, it might be possible to structure unemployment benefits so that those who had been in the labor force a brief period of time would be entitled to minimum benefits while long-term members of the labor force would be entitled to benefit levels representing the major part of the income that they lost when they became unemployed.

The object should be to maintain a restrictive fiscal policy while taking all necessary action to avoid inequitable consequences of that policy among groups in the population.

TILFORD C. GAINES
Senior Vice President
Manufacturers Hanover Trust Co.

RESPONSE TO AGENDA ITEMS FOR SEPTEMBER 20
FINANCIAL CONFERENCE ON INFLATION

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Possible Cuts in Federal Spending

If fiscal policy is to be appropriately restrictive to deal with the inflationary atmosphere that we have created in the past many years, it is essential that the tightest possible rein be kept on Federal spending. It is not possible in a brief statement to indicate precisely where substantial cuts might be realized, but one thing is transparently obvious to anyone familiar with the budget. The possibility for reducing expenditures is unquestionably greatest in the single biggest component of the budget, namely defense spending. One cannot be familiar with budget allocation and supply contracting arrangements in the Defense Department without being appalled at the degree of waste. If the Defense Department is considered a sacrosanct portion of the budget, progress toward a restrictive policy stance might well be impossible.

In addition, greater recognition has to be given to the fact that the simple process of taking a governmental function out of the budget and declaring that it is a "private corporation" in no way lessens the inflationary consequences of that operation nor its impact unon capital markets. Restructuring of the budget along the lines of the original unified budget that was adopted in 1968 based upon the Kennedy Committee Report should be encouraged.

Finally, if progress is to be made in economizing in the whole range of government expenditures, thought should be given to re-establishing a committee similar to the Hoover Committee under President Truman to take an intensive look at the myriad of details within the spending practices of all departments of government.

--Tilford C. Gaines
Senior Vice President
and Economist
Manufacturers Hanover Trust Co.

COMMENT ON AGENDA ITEM II - 5
Tax incentives or deterrents

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Wilford C. Gaines
Senior Vice President — Manufacturers Hanover Trust Co.

While the economy presently is in a recession, no thought should be given to a general tax reduction to help stimulate economic activity. In view of the bottlenecks created by shortages of certain strategic materials, there is serious doubt that fiscal policy efforts to accelerate economic growth could accomplish anything except add further to our inflation problems. In fact, a tax increase--perhaps the excise tax on gasoline--would be helpful.

There is not the space to detail the many ways in which the present tax structure might be made more equitable as it bears upon various groups in the economy. In terms of equity, however, perhaps the most important is recommendation that the Congress avoid further reliance upon payroll taxes, the most regressive of all taxes, as a source of revenue for general budget expenditures.

One of the most pressing challenges the U.S. economy confronts in the years immediately ahead is encouragement of business capital spending in industries where capacity is inadequate and simultaneously encouragement of the rate of savings that will be necessary to finance this investment. Tax policy could and should be instrumental in achieving this joint objective.

The most important capacity shortages are in the basic materials industries--oil, steel, non-ferrous metals, etc. Side-by-side with these shortages, there is excess capacity in a number of fabricated goods industries. In this setting, the investment tax credit should be used as a selective instrument to encourage investment where most needed and to avoid encouraging investment where it is less needed. Flexibility could be achieved by providing for variable tax credit rates for different industries.

A number of forecasts suggest that there will continue to be a shortfall between the demands for long-term capital by industry, housing and government and the supply of savings. Savings could and should be encouraged through tax policy. First, some amount of interest income might be made tax-exempt for personal tax-payers. This exemption might apply to all types of interest income or might be restricted to interest from certain types of institutions, e.g., the thrift institutions. Similarly, the amount of dividend income exempt from Federal income taxes could also be increased substantially above the present exemption.

In short, the object of tax policy should be to move the unified budget as promptly as possible to balance or surplus, while simultaneously introducing greater flexibility toward achieving important objectives.

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FISCAL POLICY

I find almost universal agreement that one of the most important elements in the effort to slow the growth of inflation must be control of federal spending. This control must start with a balanced budget. The philosophical question to be answered in cutting federal spending is whether to have preferential cuts or across the board cuts. Because of the necessity for prompt action, across the board cuts seem to be preferable at this time. Such action would negate the multiplicity of arguments that would arise over the defense of pet projects and programs. However, across the board cuts should not be left to the Executive alone. There should be a Congressional mandate that across the board cuts take place immediately at a given level. Only if both Congress and the Executive work together on this can the effort be successful.

In the event that spending cuts are insufficient to bring our spending in line with our revenues, then new taxes should be imposed. These should be in the form of a national sales tax. Such a tax would act as a brake on consumer spending without removing incentives for saving and capital spending that are at this time necessary in order to build new jobs and create greater productivity in our economy.

Henning Hilliard
Chairman
J. J. B. HILLIARD, W. L. LYONS, INC.

RESTORING "BALANCED TAXATION"

(Summary Statement by Harvey Kapnick, Chairman, Arthur Andersen & Co., Prepared for Conference on Inflation, September 20, 1974, Washington, D.C.)

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BASIC PHILOSOPHY:

Government services must be paid for currently. Our elected representatives established programs and once established we have a responsibility to fund. We cannot spend more than we receive over any long period. Therefore, except in time of national emergency, a balanced budget is desirable. We accept the philosophy that our ability to continue social progress is dependent upon maintaining a sound economy. We also accept the philosophy that a graduated tax system or the ability to pay will achieve the best equity among taxpayers—but the rates for any segment cannot be confiscatory or it will create deterrents to produce to capacity by either individual or business.

SOME CONCERNS WITH THE PRESENT SYSTEM:

Piecemeal reform requiring further reform has created significant confusion and dissension with allegations of "loophole," "give-away," "special interest benefits," etc. An inflationary economy highlights inequities causing further dissension rather than unison against a common enemy. Confiscatory rates occur in an inflationary economy because of increases which only maintain equal purchasing power for individuals, especially low income groups, and corporations with fictitious inflationary profits. Thus, taxes can consume needed capital and destroy an individual's ability to cover basic human needs in an inflationary period.

AN EMERGING CAPITAL CRISIS:

Because of (1) capital required to pay taxes on fictitious inventory profits, (2) transfer of additional capital resulting from increases in the Arab oil cost, (3) amounts required to fund pension plans as required by recent legislation, (4) allocation of funds to risky "tax shelter" investments, and (5) the need to refinance debt of corporations which has grown significantly in recent years, a capital crisis of major proportions can be emerging unless action is taken immediately to alleviate some of the basic problems.

TO RESTORE "BALANCED TAXATION" WE NEED:

Ultimately, major revision is needed in our income tax system to achieve "balanced taxation," and simplification is required if our system is to remain effective. In summary, we need (1) savings incentives to save *vs.* consume, (2) productivity and capital recovery incentives to increase productivity and, thus, standard of living for all, (3) incentives to efficiently move capital to our highest social priority, (4) to provide a "brake" on total spending by government and (5) a program to maintain equity during transition to a higher price level resulting from inflation. We should recognize that a great deal of the eroding confidence can be restored by announcing an effective program now.

SPECIFIC RECOMMENDATIONS NOW BECAUSE OF SERIOUS INFLATION AND CAPITAL CRISIS:

1. To encourage savings—thus savings incentives:
   - A. To encourage savings with investments in stock—eliminate tax on stock dividends when paid in lieu of cash with tax paid upon sale of stock.
   - B. To encourage savings for retirement—increase individual taxpayers' deduction for self-initiated pension plans with tax payable after retirement.
   - C. To encourage savings and investment in bonds, by individuals, Arabs, and pension funds. Authorize "inflation proof" debenture with regular savings rate of interest, plus capital adjustment of face value annually, based on change in index such as GNP deflator, with payment of such adjustment at maturity of bond and with such capital adjustment a current deduction by issuer.
2. To encourage productivity—thus productivity or capital incentives:
   - A. In lieu of multitude of all various options, provide for alternative 50% write-off of plant and equipment as incurred, with tax benefit used to reduce cost of property and straight-line depreciation over economic life used for both tax and book purposes.
   - B. To retain capital in corporations for improving productivity, provide for deduction of increase in value of inventory based on change in price level with amount of such price change going directly to capital and, thus, not inflating reported earnings. This would be similar to LIFO but would retain value of inventory on balance sheet at current value and, thus, not distort various financial ratios.
3. To maintain equity during transitional period to higher price levels:
   - A. Increase annually graduated tax brackets based on change in GNP deflator.
   - B. Allow "transitional inflation credit" for low income groups to maintain purchasing power and offset with "transitional inflation surcharge" of like amount for all income in excess of $25,000 for individuals and corporations.
4. To maintain "brake" on government spending:
   - A. Provide for mandatory surcharge on all incomes in excess of $10,000 for individuals and corporations to cover deficit for past fiscal year.
   - B. Allow Congress by specific vote to suspend such surcharge in any year.
5. To move capital to highest social priority:
   - A. Reduce capital gains tax after appropriate holding period so that movement of capital is not artificially restricted.

Once a new approach is adopted to try to develop the concept of balanced taxation within broad categories of objectives as illustrated above, the general public can better understand the incentives being allowed and the social purpose for such incentives. The concept could be applied even further to individuals where such deductions as interest on mortgages and taxes on homes encourage home ownership, medical deductions offset basic needs, etc. Social programs can and will be better understood and conflict between various segments of our country eliminated if such an approach is pursued. Appropriately communicating the purpose of incentives or deductions is as important as the deduction itself!

[For more complete discussion, see Arthur Andersen & Co. *Executive News Briefs,* Vol. 2, No. 13, September 1974.]

Bruce K. MacLaury
September 12, 1974

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FISCAL POLICY

In the past year, monetary policy has shouldered too large a part of the task of resisting inflation. As a result, interest rates have been pushed to extraordinary heights and capital formation depressed, particularly in the housing sector. Fiscal policy must now take a more active role in slowing the rise in prices.

The announced goal of cutting expenditures to no more than $300 billion in fiscal year 1975 seems highly desirable, both as a symbol of administration determination to attack inflation and as a means of getting Congress to reconsider its many programs and formulate standards for evaluating them. (Similar expenditure restraint must be extended in Fiscal Year 1976 budget.) Within the $300 billion total, an amount of perhaps $3 to $4 billion should be allocated to an expanded public employment program that goes into effect when the unemployment rate goes above 6 1/4 percent. Such a program seems absolutely essential for an equitable sharing of the burdens, while reducing the risk of an early abandonment of the entire anti-inflation effort.

Tax rates should be changed to provide relief for those who have suffered most from inflation and to improve the market for equity capital.

A. Relief could be given by granting every taxpayer a $100 tax credit. Relief plus reform could be achieved by reducing payroll taxes and gradually shifting social security financing to general revenues, mainly the income tax.

B. A step should be taken now to eliminate the double taxation of corporate income by permitting corporations to deduct a specified amount, say 20 percent, of dividends in computing their tax. The effect would be to increase cash flow, earnings, and the market value of equities. Households and pension funds would gain an immediate increase in their net asset value. Further, this change would begin to remove the present disincentive to equity financing and thus help to put business firms on a sounder capital base.

C. Tax revenue lost through the changes suggested in A and B should be recouped to the greatest extent possible by enacting the Administration's windfall profits tax, increasing the tax on preference income, ending the percentage depletion allowance, etc.

FISCAL POLICY ACTIONS

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Statement of Rex J. Morthland
President, the American Bankers Association
and Chairman of the Board, The Peoples Bank & Trust Co.,
Selma, Alabama

* Major Fiscal Objectives for FY 1975, 1976, and Beyond.

Deficit spending under present economic conditions fuels inflation and curtails anti-inflationary policy options in the monetary field. For the immediate future, we recommend that spending be held to $300 billion during this fiscal year, and to $310 billion during FY 1975/76. In addition, more attention must be paid to the impact of burgeoning off-budget agency financing and government guarantees in the capital markets. Congressional action to limit the annual total of such financing should be considered immediately.

* Changes in the Mix of Federal Spending.

We recommend that discretionary expenditures be cut wherever feasible to achieve the above targets. Programs promising the most favorable impacts on productivity, employment, saving and capital formation should not be cut. Some increased spending on a pilot public employment program may be appropriate.

* Proposed Changes in Federal Taxation.

The basic structure of the Federal income tax system should be changed to eliminate the "inflation-bonus" accruing the government via inflation. The recent revision of the Canadian Federal Income Tax system provides a useful model. Incentive features of the tax system should be changed to encourage savings and investments and to reduce incentives to consumption spending. The proposed $1,000 interest exemption on personal savings and time accounts deserves careful consideration; as does the proposed tax credit for housing and other priority investments as noted in the Financial Institutions Act (S.2591). Spending reductions must be achieved to offset the revenue losses of these measures. Finally, full Congressional implementation of the Budget and Impoundment Control Act of 1974 is critical, and the "full employment-balanced budget" concept should not be used to gloss over the inflationary effects of governmental deficits.

September 11, 1974

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One View of Fiscal Targets for 1975-76

A. M. Okun

1. The assignment of federal expenditure policy in FY 1975 should be to demonstrate clearly that the budget can be controlled at reasonable and realistic levels. Federal outlays have been a source of uncertainty and instability in both private and public planning, and that destabilizing role should be terminated once and for all. The new spirit of executive-legislative cooperation and the new Budget Committees of the Congress should facilitate the task.

2. For FY 1975, $300 billion and $305 billion are both defensible targets for federal outlays. Indeed, the differences between them are negligible in terms of economic impact. The smaller figure might mean a lowering of a few <u>tenths</u> of a point in interest rates and the inflation rate, at the expense of lowering real GNP growth a few tenths of a point, and raising the unemployment rate perhaps a tenth of a point. Both the benefits and the costs represent trivial changes in the overall economic picture. That picture points to a weak economy in late 1974 and 1975. With some help from recent monetary-fiscal restraint, the boom is now dead and buried.

3. The assignment requires setting realistic targets and implementing them with broad support, and with efficient, cool, and deliberate management. Calling the shot and making it is vital; the precise shot that is called is far less important. The principle has several corollaries: a) Fiscal discipline should be properly described as <u>one</u> part of the cure for inflation. Only a small part of the recent 8 percent step-up in the inflation rate (from 3 percent at the end of 1972 to 11 percent today) can reasonably be attributed to fiscal excesses. That contrasts with 1966-68, when the inflation was propelled mainly by the budget. b) Anti-inflationary

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determination should be displayed on all fronts. For example, press rumors on imminent decontrol of the price of "old" oil (an extra $9 billion dose of inflation for 1975) weaken the credibility of the whole economic program. c) Proposed budget cuts should be made with a scalpel, not an ax. As George Shultz remarked, when a proposal to cut weekly unemployment insurance benefits was included on one list of cuts, he felt that the list had discredited itself. d) Targets should be set at levels that will not require either accounting gimmickry or inefficient interruptions of federal activities.

4. For fiscal 1976, a growth of expenditures of $30 billion, or roughly 10 percent, holding taxes constant, would be in the ball park. That would add a little further to the restraint in the federal budget and make room for additional relaxation of monetary conditions. There is no case for a net tax increase on present prospects (unless one is required for a health insurance program). Indeed, if the priorities point that way, the growth of federal spending could readily be held below $30 billion, thus permitting a tax cut.

Whether such a FY 1976 budget turns out to be balanced or in deficit or in surplus will depend, as it should, on the strength of the economy, which will be reflected in federal receipts. It would probably take a stronger recovery of income and output than is now expected in order to bring federal revenues into the range of $330 to $335 billion needed to balance that budget. But, only if the economy is stronger than the prolonged weakness now envisioned by most forecasters, would a balance or surplus be appropriate. Budget balancing in a very weak economy would be doomed to failure and would be as destabilizing as deficits are in a strong economy.

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rrill Lynch & Co.Inc.

Donald T. Regan
Chairman of the Board

FISCAL POLICY

Leadership in the war against inflation must come from the Federal Government. It must come now. Every weapon, fiscal, monetary or otherwise, must be employed. Sound fiscal policies at all levels of government are the most potent weapon in our arsenal to combat inflation.

As a first step, there should be an immediate reduction in the level of expenditures budgeted for fiscal 1975. An effective way to accomplish this and to avoid prolonged debate about particular programs would be to insist upon moderate reductions across-the-board. I recommend a two-to-three percent reduction for every branch, department, agency. Such an action would avoid serious damage to any single program. But it would have the effect of reducing fiscal 1975 spending to around $300 billion. State and local governments should be urged to follow the leadership of the Federal Government.

As we look ahead to fiscal 1976 and beyond, every effort should be made to balance the budgets at all levels of government. Such near and longer-term restraints by all governments would relieve the demand pressures that are fueling inflation and are straining our economy beyond its capacity.

Fiscal policy should be aimed at expanding the nation's industrial capacity to meet future needs, particularly in areas where shortages exist. And investors, who are the source of funds for this expansion, must be attracted back into the capital markets.

Investment must be encouraged by changes in our tax and other laws. The investment tax credit should be increased, particularly for energy development. Capital gains taxation should be reformed to encourage equity investment. Withholding taxes on dividends and interest to foreign investors should be eliminated. These fiscal policies combined with similar vigorous actions in monetary and other policies should enable our nation to get a handle on inflation.

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(Statement submitted by Representative Henry S. Reuss of Wisconsin for inclusion in the compendium of papers for the Financial Conference on Inflation, September 20, 1974)

Recommendations from the Financial Conference on Inflation, September 20, to the Economic Summit meeting on September 27-28 should include the following proposals:

Fiscal Policy--Federal Taxation: Any policy to fight inflation must defuse the wage explosion already beginning to occur, as workers attempt to catch up with last year's inflation and protect themselves against this year's. A social contract, in which the government pledges social security tax and/or income tax relief for low- and middle-income people and in which workers pledge to restrain their wage increase demands, would reduce cost-push inflationary pressures while protecting the average worker against rising prices. Such tax relief must be balanced, to avoid unwanted fiscal stimulus, by tax reform to end outmoded and inequitable tax subsidies and by other revenue-raising measures.

Monetary Policy--Credit Allocation: The Federal Reserve should pursue responsible monetary restraint, keeping money supply (M1) growth to around six percent for the immediate future.

At the same time, we must establish a system with clear ground rules for channeling the limited supply of credit away from inflationary uses, such as real estate speculation, conglomerate mergers, and commodity buildups, and toward interest-sensitive essential needs such as productive capital investment, low- and middle-income housing, small businesses and farms, public utilities, and state and local governments.

International Economic Policy: To bolster international confidence, let the U. S. lead in putting together a consortium of the leading industrial nations (a) to guarantee that the world's major banks will not be allowed to fail for lack of liquidity (as opposed to mismanagement, for which salvage operations ought not to be attempted); (b) to adopt coordinated programs to conserve fuel, thus reducing short-run dependence on the oil-exporting countries, and food, thus easing the prospect of mass starvation in Asia and Africa.

Wage-Price Policy: To forestall future price rises, we must increase supplies of scarce materials, through a broad range of policies including advance planning, monitoring of potential shortages, sensible import and export policies, and elimination of artificial barriers to competition.

New York City
September 12 ,974

POSSIBLE CUTS IN FEDERAL SPENDING 226

by

RAYMOND J. SAULNIER

The following recommendations are offered with respect to Federal spending policy:

1. The target total of Unified Budget outlays for Fiscal 1975 should be set at $295 billion. This would allow a spending increase of $26.7 billion (10%) over Fiscal 1974 -- a cut in spending plan, but not a cut in actual outlays.

   Actually, a more appropriate target would be a percentage increase in outlays less than the expected inflation rate -- say 8% -- but this would allow outlays of only $290 billion in Fiscal 1975 and would seem impossible of achievement, the more especially because Congressional actions taken to date suggest spending (if not restrained) well above the $304.4 billion total but forward in the January 1974 budget. The $295 billion target will itself be difficult to achieve: the 1974 budget message points out that only $84.4 billion of the projected $304.4 billion outlays are in the "relatively controllable" category, and that 90% of the nearly 30 billion increase in outlays originally projected between Fiscal 1974 and Fiscal 1975 are "mandatory increases..... unavoidable under present law."

2. The extent to which outlay increases are mandated under present law makes it obvious that a significant restraint on spending cannot be achieved without new legislation. This could be passed early in the 1975 Congressional session, provided the urgency is recognized,but if Congress chooses to reconvene after the November election recess it should be urged to make expenditure control be first if not the only item of business in its calendar.

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3. It is imperative to exercise restraint also on expenditures by "off-budget" agencies and government -- sponsored enterprises. These have increased from $4.2 billion on Fiscal 1972 to an estimated $15.6 billion in Fiscal 1974 -- it is impossible to believe they will drop to $4 billion in Fiscal 1975, as the January 1974 budget message estimates they will. More likely, expenditure will increase immensely over the already swollen Fiscal 1974 total unless restraints are imposed.

   In the present circumstances, the rule should be a lessor percentage increase in these of budget outlays than in the expected inflation rate, which suggests holding them to an increase of say 8%.

4. Off-Budget outlays, which consist largely of loan disbursements are now so large, so difficult for an outsider to follow, so little understood by the public, and make such prodigious demands on capital markets that there is an urgent need to reexamine the way they are reported in budget accounts. As it stands, the so called "unified budget" is no longer even remotely "unifying" of Federal outlays. An Executive Branch task force should be appointed at once, under a mandate to reconstruct budget accounting to correct this deficiency and it should be required to complete its restructuring of accounts in time to make the results at least a tentative basis of budget presentations for Fiscal 1976.

5. The "full employment budget surplus" concept should be dropped unceremoniously from budget presentations. It has given nothing but wrong guidance on Fiscal policy.

6. It is impossible for anyone outside government -- indeed for anyone outside the Budget Bureau -- to write a full and operationally-adequate bill of particulars on where to make specific adjustments in spending plans. This can only be done in the Budget Bureau. What is needed is a list of adjustments that would hold the total to $295 billion in Fiscal 1975, accompany by a statement of actions -- legislative or discretionary--necessary to put them into effect.

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Obviously, one has to look to areas of propose spending in which increases are largest, but categories of spending must be rated also according to their priority in an economy that is destructively inflationary. This points clearly to defense, where an outlay increase of \$6.2 billion (7.8%) is projected, and to HEW, for which (according to the January 1974 Budget) spending increases of \$14.2 billion (14.7%) are planned. But there are doubtless many other areas (International Affairs and Finance; Space Research and Technology; Agricultural and Rural Development; Natural Resources and Environment) where adjustments could appropriately be made.

If necessary, a Presidential Commission should be enpaneled at once to report a spending priority list within 60 days.

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Robert H. Stewart, III
Chairman of the Board
First international
Bancshares, Inc.
Dallas, Texas

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FISCAL POLICY

At least two fundamental conceptual changes in the federal budget system would seem to be in order.

First, use of the so-called full employment budget --- with all of its built-in expansionary biases --- should be left solely to those professionals who appreciate some of its weaknesses and its strengths. Perhaps its official use as an analytical device should be limited to the Council of Economic Advisors and its staff, who would utilize it along with other tools in periodic evaluations of the economy's performance. Surely we have now learned about the large fiscal policy mistakes that this approach can camouflage.

Second, adoption a few years ago of the unified budget concept was a large step towards improving the process. But, it should have better been called the "partially unified budget" concept. Fiscal activities of the off-budget agencies have grown rapidly and, at particular times, have been a very large marginal presence on the demand side of the money and capital markets. If their budget figures are not unified into the unified federal budget, perhaps they could appear in a special reference section of the budget document for policy guidance.

Given current and prospective economic conditions, it is highly unlikely that the budget for Fiscal 1975 can be brought into near-balance in the nine months that remain. But, a large start must be made this year by minimizing the deficit (some say it is to be $9.5 billion; some say it is to be $15 to $20 billion unless serious restraints are adopted quickly). In future high employment (95%) years, it is imperative that projected increases in budget expenditures be at least in line with the expected performance of the overall economy and thus with projected increases in revenues (given a stable tax structure). And in future 95% employment years, balanced budgets or budgets in surplus are mandatory.

Given current and prospective <u>political</u> conditions, it would appear that a uniform, across-the-board percentage cutback in federal spending in program areas that are <u>reachable</u> would result in less oratory and controversy. Reachable program areas should include both some so-called controllable and some so-called noncontrollable areas. Specific legislative actions by the Congress would be required in the latter.

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POSSIBLE CUTS IN FEDERAL SPENDING

by

CHARLES J. ZWICK
President
Southern Banking Corporation

A thorough analysis of "cutting the Federal budget" is clearly beyond the scope of this meeting. In the brief time available, only a simple answer can be given, and therefore this must be related to a simple question. I will try.

The appropriate size of the budget can be considered from two points of view -- one as a technical exercise to balance aggregate demand within the total economy so that there is a correct amount of slack to dampen inflationary expectations. This would, of course, include specific recommendations for program reductions. Such a technical evaluation can be carried our more appropriately in an environment other than this conference.

The second view of "cutting the budget" is to consider it a matter of equity, a moral issue, if you will. The American people believe that the Federal Government is to a large degree responsible for the current inflation. They therefore believe as a matter of equity the Federal Government should do something about its spending plans before asking individuals and businesses to tighten their belts. Viewed in this manner the issue is not whether the budget should be held to $300 billion or reduced further, but will the Government make a real effort to help contribute to the solution of a problem it had a large part in creating.

What we need, of course, is a procedure which allows the Government to provide the needed moral leadership. I will propose a simple procedure which could be implemented quickly and which would avoid many of the technical issues -- these, of course, will have to be handled at a later date.

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MONETARY POLICY

TO

DEAL WITH INFLATION

INFLATION AND HIGH INTEREST RATES
ON THE REAL ESTATE MARKET

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by

RICHARD P. COOLEY
President and Chief Executive Officer
Wells Fargo Bank
San Francisco

With disintermediation, thrift institutions which are the principal source of housing financing are unable to compete for funds. This unavailability of funds, together with increasing prices due to inflation higher interest rates, more restrictive terms and conflicts with usury laws in some areas is resulting in a severe decline in housing starts. Most builders are highly leveraged and the reduction in volume and increased cost of carrying inventories is creating serious credit problems. Housing has a great multiplier effect on our economy both on the way up and the way down and as the larger number of starts of the past reach completion and new housing starts decline, the reverse multiplier is effecting the construction industry and businesses supplying goods for new homes. Unemployment in the construction industry is already too high and will increase.

High interest rates are considerably increasing the costs of other real estate projects underway many of which are funded on a variable rate basis. This is a major concern and affects not only the project owner but also all financial intermediaries participating in the real estate market. This situation along with cost overruns resulting from increased material costs exists in many major real estate projects in the United States and in addition to creating credit problems increases the need for additional financing. Higher interest and construction costs also make planned projects economically unfeasible thus effecting economic growth.

The subject of incentives to thrift institutions needs priority rating including the suggested tax free status of up to $1000 to $2000 of interest. Variable mortgage rates are needed to encourage lenders and to protect borrowers in periods of declining rates.

The real estate industry is the hardest hit sector of our economy in the current inflationary/high interest period and will add further to our economic slowdown if not given immediate relief.

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SUMMARY VIEWS ON MONETARY POLICY

CREDIT UNION NATIONAL ASSOCIATION, INC.

FINANCIAL CONFERENCE ON INFLATION

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September 20, 1974

While there is reliable evidence that the Federal Reserve has expanded the money supply excessively in recent years, monetary policy in the immediate past period seems to have been appropriate, given the economic conditions of the period. However, the policy was becoming unduly restrictive as a result of the failure to use other appropriate anti-inflation tools, including fiscal measures. Recent signs indicate that the Fed has, in fact, loosened the policy somewhat, and it would be hoped that the money supply would be allowed to grow at a rate approximating the long term rate of growth of the U. S. economy.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

OFFICE OF
THE CHAIRMAN

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STATEMENT OF CHAIRMAN RAY GARRETT, JR.
REGARDING "MONETARY POLICY"

It is well known that stock prices generally have been declining over the past 18 months and are now very low relative to prices during the prior decade. Investors have a widespread disinclination to purchase equity securities, and, as a result, companies of every sort are finding it difficult or impossible to raise new equity capital on any terms. They are likewise finding it difficult to raise long term debt capital.

Cash offerings of all new corporate securities, which grew from $22 billion in 1968 to $45 billion in 1971, fell to less than $33 billion in 1973. Common stock offerings, which more than doubled from 1968 to 1972 to reach $10 billion, declined to $7.8 billion last year and are at a rate well below that currently.

In addition to other factors causing these declines, I wish to emphasize two factors relative to government impact on the debt and equity markets.

(1) Increased offerings of government securities have probably contributed to private industry's difficulty in raising investment capital during the last two years. From 1971 to 1973, corporate offerings declined by $12 billion, while U. S. government and government agency offerings increased by $9 billion.

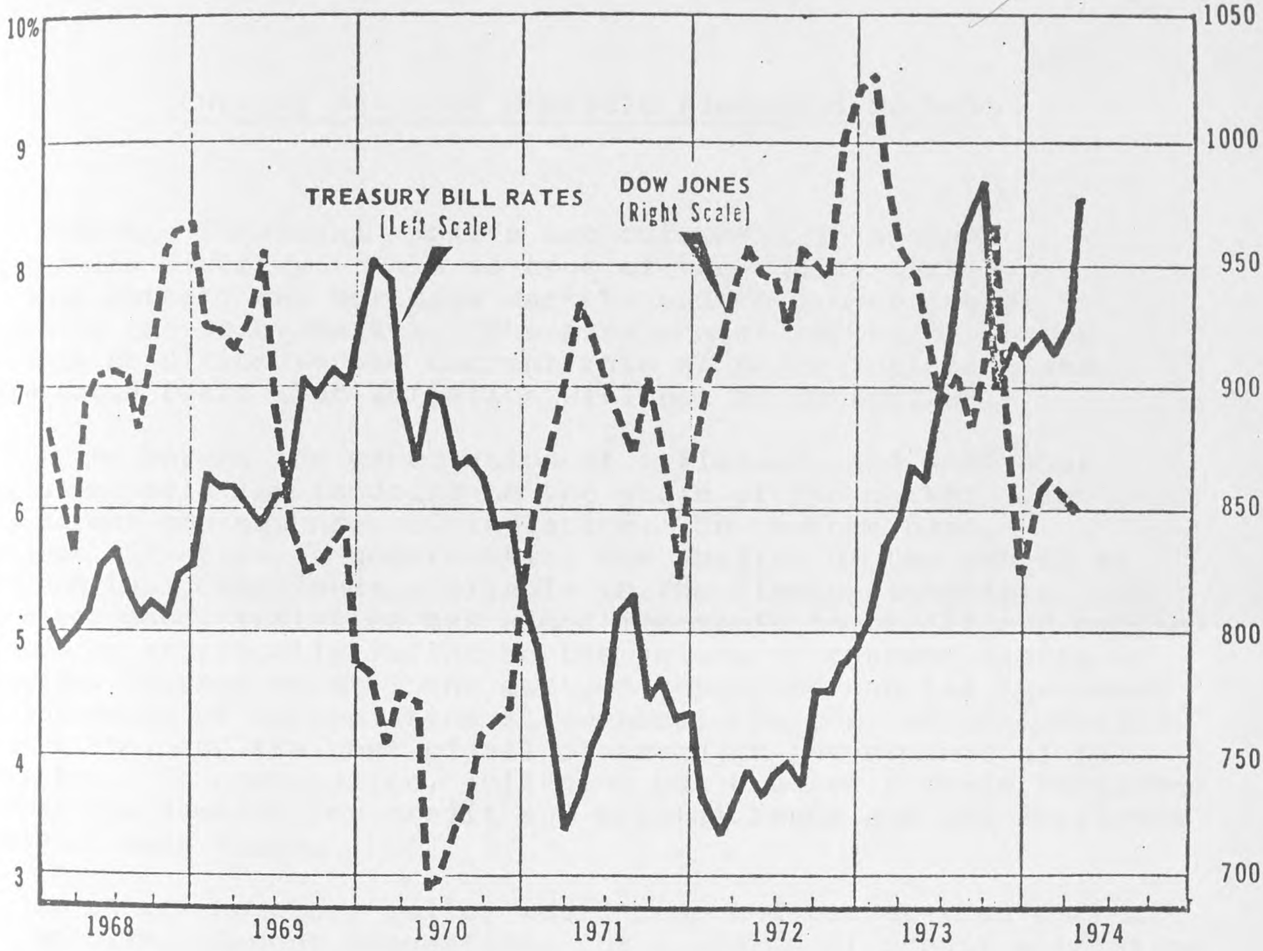
(2) There is a close inverse relationship between interest rates on Treasury bills and stock prices. See the attached graph.

We think that deliberations on the economy and inflation should take these factors into consideration.

September 13, 1974

The Dow Jones Average and Treasury Bill Rate show a strong tendency to move in opposite directions . . .

2 3 6



This has been true in most recent periods of major DJI change . . .

	Percentage	*Change*
TIME PERIOD	DJI	TREASURY BILL RATE
May 69 - Aug 69	− 13.5%	+ 20.3%
Nov 69 - Feb 70	− 10.0%	+ 11.1%
May 70 - Mar 71	+ 35.0%	− 50.0%
Mar 71 - Aug 71	− 6.9%	+ 54.3%
Nov 71 - Apr 72	+ 15.0%	− 22.2%
Jul 72 - Jan 73	+ 11.0%	+ 22.5%
Jan 73 - Aug 73	− 14.2%	+ 74.0%
Oct 73 - Dec 73	− 14.0%	+ 5.7%

RESPONSE TO AGENDA ITEMS FOR SEPTEMBER 20
FINANCIAL CONFERENCE ON INFLATION

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Current State of Domestic Financial Markets

Domestic financial markets are currently in a state approaching disarray. This is true of the equity market, the bond market, the mortgage market, and to a much lesser degree of the money market. The single most important reason for this condition is the current rate of price inflation and deep-seated fears that inflation will not be controlled.

Going beyond the expectation of inflation, and what that fearful expectation is doing to the state of the market, lie more direct consequences of inflation. On the one hand, virulent inflation is undercutting the ability of the public to save and thus make funds available to the financial markets. On the other hand, inflation has added immensely to credit and capital demands by artifically inflating the values of current assets on corporate balance sheets, the cost of replacing capital equipment far in excess of depreciation allowances, the cost of residential real estate, and the cost of all other major investments of this character. In combination, inflation has created a basic imbalance between the demands for credit and capital funds and the available supply of such funds.

An easier monetary policy would compound rather than correct this problem. Recent suggestions for a system of credit allocation imply a degree of wisdom that no one in the financial community would pretend to have and that the Government should not profess to have. The net result of a formal allocation system probably would be far more harmful than helpful. Present unstable market conditions will not be corrected until there is evidence that price inflation is being brought under control, along with evidence that the flow of savings is more adequately meeting the demands for funds. In this regard, a Federal budget surplus would be most useful.

There is one additional element in current market conditions that is of great importance but difficult to measure. That is the weak capital position of the principal broker, dealer and underwriting operations in our financial markets. Losses of recent years have so reduced the capital base of these companies as to raise questions about their ability to provide the underwriting and trading capability that will be needed in the years of heavy demands on the financial markets that lie ahead of us. Careful attention should be given to possible methods for attracting new capital into U.S. financial markets.

--Tilford C. Gaines
Senior Vice President
and Economist
Manufacturers Hanover Trust Co.

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RESPONSE TO AGENDA ITEMS FOR SEPTEMBER 20 FINANCIAL CONFERENCE ON INFLATION

Current Monetary Policy: Given the Circumstances, has it been too Tight or about Right? What Should the Future Course of Monetary Policy be?

The recent clamor for an easier monetary policy is hard to understand. The U.S. economy is in a recession, but it has been a mild recession and there is no evidence to support fear that it will become more severe, although there is evidence to suggest that it might be relatively prolonged. Federal Reserve policy can scarcely be described as overly tight when one looks at what has happened to the monetary and credit aggregates over the past six months to one year. What is of overriding importance is that were the Federal Reserve System to back away from its anti-inflationary efforts to restrain money and credit growth at this point, the damage to public and international confidence could be incalculable.

It is difficult to know what is exactly the right monetary policy for the sort of situation that we now are going through, but it is reasonable to think that what the Federal Reserve System is attempting to do through its money and credit targets is about right to avoid serious recession and at the same time exert a continuing drag upon price inflation. My recommendation, therefore, would be for a continuation of present policy. At the same time, I would hope that the recent effort of the Federal Reserve System to nudge short-term interest rates lower without compromising the basic objectives of policy will be successful. There has been a more than usual number of business failures in recent months, and there might be a significantly larger number in the months just ahead, solely because of the cost of money. If the Federal Reserve is able to get short-term interest rates down without speeding up money or credit growth, it could make a very important difference for many individual companies and for the health of the economy as a whole.

Looking to the future, the object of monetary policy should be to continue its growth targets in the money and credit aggregates at levels sufficiently below the ongoing rate of price inflation so as to continue to exert a drag on inflation. Hopefully, within the next two or three years monetary policy might be able to settle into a fixed set of growth targets, consistent with reasonable price stability, that could then be maintained for a number of years ahead.

--Tilford C. Gaines
Senior Vice President
and Economist
Manufacturers Hanover Trust Co.

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STATEMENT OF
RICHARD D. HILL
CHAIRMAN OF THE BOARD
THE FIRST NATIONAL BANK OF BOSTON
for the
FINANCIAL CONFERENCE ON INFLATION

September 20, 1974 Washington, D. C.

Current monetary policy is one of vigorous restraint. The Federal Reserve has doggedly attempted to slow the growth of money and credit since late 1972. Unprecendedted inflation and the accompanying deterioration in the debt and equity markets have swelled credit needs of bank customers and resulted in record growth in bank lending. Rather than excessively strain bank liquidity, the Federal Reserve completed the removal of Regulation Q ceilings on large negotiable certificates of deposit in May of 1973. This has enabled banks to acquire funds to better meet their lending commitments. Inasmuch as inflationary pressures are expected to be strong well into 1975, the demand for credit will continue to grow despite a sluggish economy. In addition to these short-term borrowings, liquidity is being progressively reduced by rapidly rising factor costs. If the momentum of current forces is allowed to continue we anticipate an unacceptable level of bankruptcies.

Thus we conclude that the Federal Reserve has assumed the difficult task of controlling inflation by cutting the growth rate of money and credit and yet not draining liquidity to the point that financial crisis results. The policy tentatively may be judged a success, and the perserverance of the Fed is encouraging. At the same time, however, we caution the Fed not to overdo the degree of restraint. In addition to a sharp rise in factor costs, many businesses are now suffering greatly from high interest charges and bankers are justifiably concerned that they cannot continue to pay such high and still survive. We urge the Fed to strive for a degree of restraint which continues to limit inflation, but which achieves a lower level of interest rates than is presently in effect. Perhaps a rate structure consistent with a prime rate of 9-10 percent would be appropriate for the near term. Finally, it is important to keep in mind that there is more than just the monetary dimension to economic policy, and the key to rational strategy rests heavily on obtaining a balance between monetary and fiscal measures. Thus, while we argue for some easing in Fed policy to avoid unnecessary financial strains, we also would like to see clear signs of a more prudent stand on federal spending. In our opinion, holding the budget to $300 billion, or preferably less, is essential. A clear statement of purpose to this effect would make it for easier for the Fed to alter its stand. Some call fiscal prudence a "tired old remedy which won't work." We suggest that there is no evidence of this for the remedy has not been tried.

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THE CURRENT STATE OF DOMESTIC FINANCIAL MARKETS 240

by

RALPH F. LEACH
Chairman of the Executive Committee
Morgan Guaranty Trust Company of New York

The state of disarray in financial markets is too well known to require either detailed narrative or statistical description. The decline in the market value of outstanding equities and the attendant difficulty in raising many significant amount of new equity through stock issues has been widely discussed. The high cost and limited availability of long term money for either public issues or private placements is well documented. The huge demand for bank credit that is at least partially a result of the drying up of other sources of short-term and long financing, has been noted by both official and private observers. Business loans at all large banks are up at about a 25% annual rate since the first of the year and the rate at New York City banks is over 30%.

As short rates have spiraled upward, savers have shifted funds from institutions to direct market investment -- with obvious adverse implications for the availability of mortgage credit. So-called tiered markets have been developed, both in the U.S. and the euro-dollar market, and lesser known credits have either been compelled to pay a premium to renew borrowings or have literally been unable to roll them over. This problem may be accentuated by the concentration of large liquid balances in the hands of oil producing countries. It is a tribute to the strength and flexibility of our financial markets that these huge shifts in fund flows have been achieved without even greater disturbance than we have seen thus far.

Basically these market conditions are the product of inflation. But in the case of financial markets the related concern arising from the expectation of continuing inflation and of the impact on those markets of further efforts to check inflation is also important.

Obviously, progress in the effort to slow the upward spiral of prices would do more than anything else to help restore normality in financial markets. It would reduce both inflationary expectations and the anticipatory fear of further general and selective credit restraints. Hopefully the rate of inflation will be reduced as a result of policy actions previously taken and others that will be taken., partially as a result of these conferences. Meanwhile, progress toward normality in financial markets could be hastened by:

1. Overt action to lessen inflationary expectations.
2. Reassurance to the business and financial community that the peak of financial stringency is behind us and that, while financial restraint may be required for sometime to come, the kind of cumulative crunch that appeared to be developing around mid-year is not likely to be repeated.

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3. Laying to rest recurring rumors that selective ceilings or penalties may be imposed on specific credit transactions.

The latter two actions can be accomplished by the Federal Reserve and the Administration. To be credible, the former should involve specific action by the Congress, since rightly or wrongly, financial market participants and a large segment of the public feel that ultimate authority in many critical areas -- especially fiscal policy -- rests with the Congress. One way this might be accomplished would be for Congress to act decisively to amend the Employment Act of 1946 to include price stability as an explicit objective.

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rrill Lynch & Co.Inc.

Donald T. Regan
Chairman of the Board

MONETARY POLICY

Our financial markets today are in disarray and thoroughly demoralized. Not only is the cost of money at historic highs, but, in the hot competition for available funds, many would-be borrowers are locked out completely. And many businesses which would turn to equity capital find that alternative even less feasible. Not only do the different seekers of cash compete for funds; the competition is also among the different types of markets. The short-term, long-term and equity markets interact. The high cost of raising funds in one brings about unpalatable conditions in the others.

Clearly, as long as the sum of our necessities plus our desires substantially exceeds the available amounts of goods and services, liberal augmentation of the money supply would simply worsen inflation. It is essential that we discipline our spending, both individually and as a society, until a reasonable supply-demand balance can be struck.

At the same time we know that turning off the money spigot is no answer either, but is apt to lead to serious economic disruption. Under the present circumstances, high money costs themselves tend to turn into a significant contributor to price inflation.

We feel the Federal Reserve's presumed target rate of about 6% money growth is appropriate. Since growth in recent months was somewhat below this target, the Federal Reserve now has some room to maneuver on the side of moderate ease. This is welcome. We agree that the Federal Reserve's primary concern should continue to be with monetary aggregates, rather than attempting to directly influence interest rates. We also recognize that the Federal Reserve has been forced to accept the role of lender of last resort not only in our domestic banking system but to the Eurodollar market as well.

But too much relaxation could be extremely dangerous. While it could temporarily lower short-term rates, it also would foreshadow a long period of accelerated inflation and thus induce a new rise in long-term rates. And before long, short-term interest would again be up to perhaps even more disturbing highs.

There is traditionally quite a time lag between monetary policy changes and the response of the economy. But this time a turn toward an improved economic environment seems to be waiting mainly for greater availability of credit. Thus, the response to monetary changes should be quicker than usual, and the Federal Reserve can factor this into its decisions.

Meantime, having the patience and fortitude to steer toward a 6% monetary growth target could be a major factor in producing a lower inflation rate by a year from now.

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CONFERENCE ON INFLATION

Current State of Domestic Financial Markets

September 20, 1974

Inflation is changing the character of all our financial institutions. The securities markets, particularly, have borne the brunt of our current economic problems.

During the past year, many corporations have been foreclosed from using the securities markets to raise long-term capital. Equity issues -- with few exceptions -- cannot be financially justified. Stocks of sound companies with good records of earnings growth sell at below book value or at low price/earnings ratios because of lack of demand for equities -- not because of the underlying fundamentals. In the bond market, it has been difficult, if not impossible, to distribute most industrial bond issues except for the highest quality borrowers. Many corporations have had to turn to the short-term markets or to banks to supply their immediate credit needs.

The malfunctioning of our debt and equity markets has seriously eroded securities values. We are only beginning to see the consequences of this erosion, e.g., in unfunded pension liabilities to corporate pension funds and in the premium-writing capacity of the insurance industry.

Present trends, if continued, will seriously damage both the securities markets and the securities industry and lead to fundamental changes in the way we create and allocate capital. As I see it, we urgently need a public agency or authority similar to the Federal Reserve System, with the primary mission of developing and implementing policies that will strengthen our securities markets as financial institutions. The existing regulatory structure, built around the SEC with a narrow statutory mandate and numerous and frequently competing self-regulatory organizations, is not adequate to the task. A legislative priority in Washington should be the overhaul of that structure.

Ralph S. Saul
Vice Chairman
INA Corporation

Robert H. Stewart, III
Chairman of the Board
First International
Bancshares, Inc.
Dallas, Texas

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MONETARY POLICY

Although conditions in the money market have improved slightly in recent weeks as a result of a very slight shift in the Federal Reserve's policy stance, they still can best be characterized as tight and jittery. Conditions in the bond and equity markets continue to be chaotic.

The record seems to show that monetary policy was too loose in 1972 and part of 1973. Perhaps it was about right in late 1973 and early 1974. Given the performance of monetary aggregates during the last three months, however, one is tempted to judge current policy as too tight. Maintaining the growth rate of the money supply below a 2% annual rate for long under current market conditions could be risky for the markets and for the real economy.

Without turning over the rocks of whether one thinks monetary policy can deal effectively with controls - repressed inflation, or with supply-side-shortfall inflation, or with cost-push inflation, it seems clear that a shift upward to a money-supply target rate of growth in the 5 to 6% range will soon be in order. If such a shift is "misinterpreted" by market participants as a shift to ease, so much the better. The psychology of the money, bond, and equity markets should improve almost overnight. Given current and prospective economic conditions, a 5 to 6% target range cannot be labeled as inflationary.

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Monetary policy in 1974 must be viewed against the background of

(1) significant prior mistakes of national economic policy
(2) substantial increases in world commodity prices
(3) the winter energy crisis
(4) the lagged impact of two devaluations of the dollar
(5) the removal of price and wage controls during the first half of 1974.

It would be simplistic to assume that in the face of such pressures for expanded credit and an increased money supply, the Federal Reserve could have maintained the growth of monetary aggregates within some predetermined limits of small magnitude. In fact, the money supply, narrowly defined, grew until recent months at a rate which would clearly have been unacceptable under other conditions; more recently the rate of increase has fallen appreciably.

Except for the first two months of 1974, monetary policy this year has been appropriate in that it has been as restrictive as was feasible in the circumstances. It has resulted in extremely high interest rates and severe tensions in credit markets. In recent months it has brought about a very restrictive lending policy in commercial banks, the full effects of which are still to be felt.

These and other economic forces have raised serious questions as to the liquidity and solvency of many business firms, and these doubts in turn have led to more critical and sometimes superficial evaluation of the liquidity of financial institutions. The resulting stratification within financial markets has impeded the flow of funds to a wide range of firms, including some banks which normally acquire loanable funds in these markets.

It would be appropriate at this time for monetary policy to be relaxed to a degree which is modest but which would be clearly perceptible in financial markets. The emergence of other anti-inflation programs will make this modification of policy possible. The increasing strains in credit markets and the foreseeable results of credit restrictions make it highly desirable.

Thomas I. Storrs

September 12, 1974

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Summary of Views
Financial Conference on Inflation
Washington, D. C., September 20, 1974

John F. Tomayko
United Steelworkers of America
Pittsburgh, Pennsylvania

MONETARY POLICY

Our nation's economy is presently suffering from rampant price inflation and a concurrent unacceptably high rate of unemployment.

While traditional economic theory dictates that the rate of inflation should be responsive to monetary restraint, that relationship must assume that the initial cause of the inflationary spiral is excessive demand for a limited supply of goods and services. Today's inflation, however, is not of the demand-pull type, but rather it has been strongly influenced by a combination of independent forces, including (1) the contrived and artificial shortages of raw materials such as petroleum and food stuffs; (2) excessive capital expenditures at the expense of consumer goods production; and (3) unwise exportation of vital raw materials and farm products.

Because the government has failed to recognize these real causes of inflation, the unimaginative and relentless tight money policy promulgated by the Federal Reserve Board will aggravate the inflationary spiral rather than alleviate it. In fact, it is already the major contributor to inflation.

The labor movement is particularly concerned that the oppressively tight monetary policy has had a disproportionately harsh effect on the sector of our economy which can least afford to suffer--the nation's poor, the unemployed, and the lower middle class worker.

Corporations have outbid the consumer for the limited supply of available money, knowing well that their unstrained pricing policies will absorb the cost of their expenditures in the capital goods market. As a result, our traditional sources of funds for mortgages, small business and consumer loans have dried up. As a result, residential construction and retail sales, two important indicators of economy's health, are depressed and getting worse.

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MONETARY POLICY (Continued)

I propose, therefore, that the present course of monetary policy be changed through (1) a moderate expansion of money and credit; and (2) extension of credit on a selective basis to encourage growth in construction of housing, public facilities and selective industries where faced with excessive or chronic unemployment.

In conclusion, if the labor movement is expected to pursue a policy of moderation of wage demands (in the face of declining real income), the financial sector of the economy, and particularly the Federal Reserve Board, must make an equal effort to see that the quality of life of our nation's working class is not unfairly endangered.

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SUMMARY OF PROPOSALS
For
REFORM OF AMERICAN ECONOMIC AND MONETARY MANAGEMENT
By

John Winthrop Wright, President, Wright Investors' Service, Bridgeport, Connecticut

I U.S. International Negotiation of An Agreement to Regulate the Creation of "Eurodollar" and Other Foreign Currency Deposits in Non-domiciled Banks

II Enact Legislation to Insulate Domestic U.S. Monetary and Credit Policies from the Influence of Excessive Foreign Interest Rates and Capital Requirements

III Limit by Legislation, Interest Rates on all Deposits Including Negotiable Certificates of Deposit to a Maximum of 1% Less than the Prime Bank Lending Rate or 5%, whichever is Higher

IV Expand and Revise by Legislation, the Requirements for and Terms of Office of Membership of the Federal Reserve Board so as to Provide for Broader Representation of Public and National Interests

V Expand by Legislation, the Federal Reserve Board's Regulatory Powers to Include Variable Reserve Requirements Depending on the Proportion of Each Bank's Loan Portfolio Allocated to National Economic Purposes and Priorities

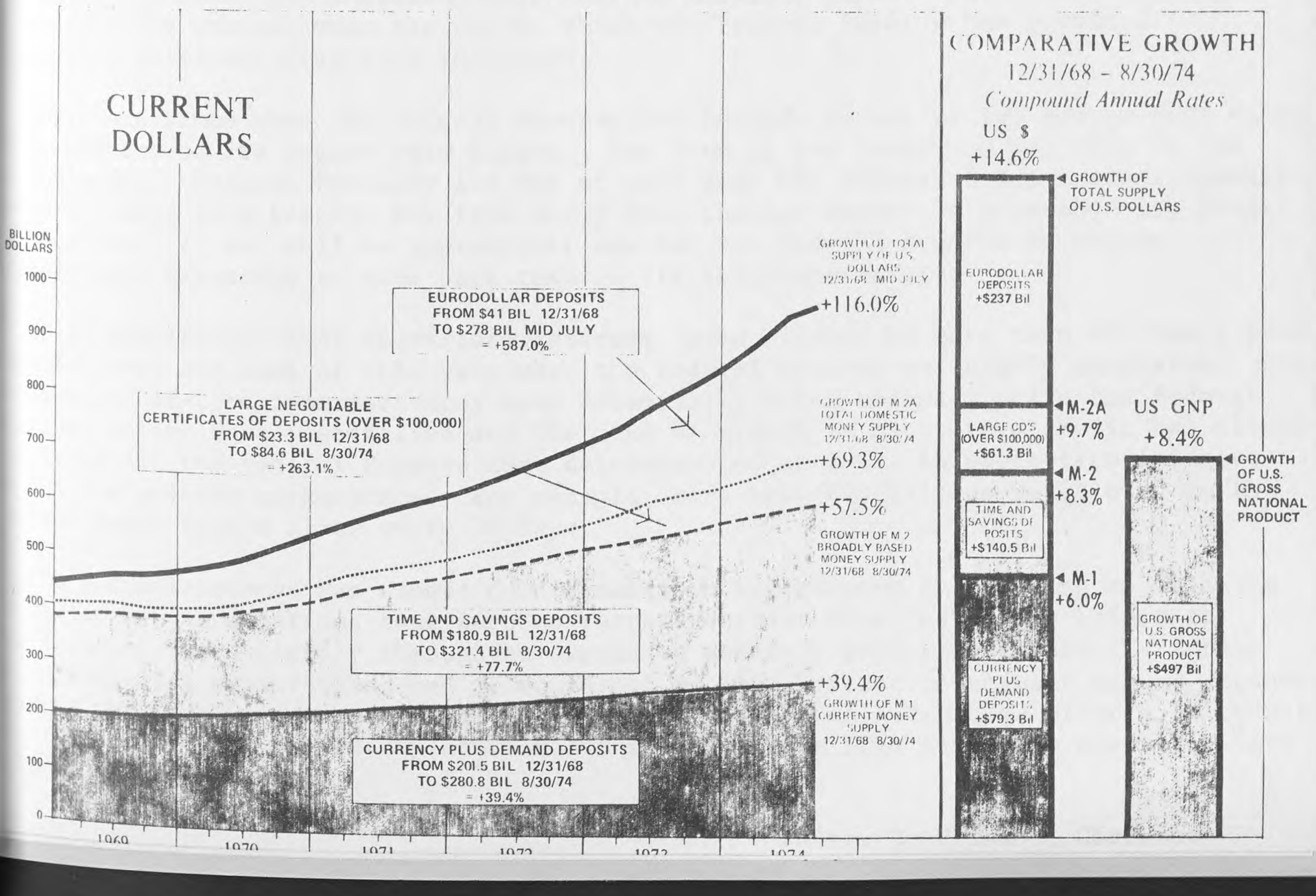
VI Establish by Legislation, More Precise Requirements and Procedures for National Economic and Financial Policies and the Responsibility and Accountability of the Federal Reserve Board for Implementing These Policies

VII U.S. International Negotiation to Create an Inflation-Proof Standard of Value in the International Monetary System

VIII Repeal the One-Bank Holding Company Legislation and Limit Banks and Banking Corporations Strictly to Banking Functions with No Involvement in Investments, Insurance or Other Non-Banking Activities

IX Establish by Legislation, a "Citizen's Capital Investment Tax Credit" to Encourage Savings and Capital Formation by Individual Citizens and thus Reduce Inflationary Spending Demand while Increasing the Supply of Productive Capital

U.S. GNP VS THE MONEY SUPPLY



If our goal is to reduce the rate of inflation and reduce both short- and long-term interest rates, then the Federal Reserve should not deviate substantially from its policy objectives pursued this year.

The money in our paycheck or in our pockets has no value in and of itself. It has only a scarcity value. If each one of us had all the money that we wanted, the value of that money to purchase goods and services would approach zero. This is the reason that the amount of money which is printed by the Federal Reserve System is crucial to the control of inflation. It is a truism that the depreciation in the value of our money is another way of saying that our prices are going up. Whether you belong to one school of economists or to another, the foregoing logic is relevant to a consideration of the problem of inflation. If the Federal Reserve prints more money than the goods which are available to be purchased, the price of those goods will obviously go up; on the other hand, if it does not print enough money to keep up with the increase in the productive capacity of the United States, the rate of price inflation will diminish.

The annual rate of change in the narrowly defined money supply has been about 6% since the beginning of this year. This does not represent a materially smaller increase than that for all of 1973. The Federal Reserve has appeared to be more restrictive than it has actually been in nominal terms because the rate of inflation has accelerated rapidly this year and with it very strong credit demands. If the Federal Reserve were to deviate significantly from its target of a moderate rate of growth in money stock in an attempt to alleviate the inflationary demands for credit, it would be feeding the very virus we are attempting to eliminate.

Interest rates have increased sharply this year not because the Federal Reserve has been significantly more restrictive than it was in 1973 but because inflation, including the higher price for oil, has driven the demand for credit substantially higher. Those who see the need for credit or the opportunity to employ borrowed money profitably at a time of rapidly rising prices have bid aggressively for the available supply of credit which, in fact, has increased this year in absolute terms. But that bidding has been considerably greater than the amount which the Federal Reserve has provided. Consequently, interest rates have increased.

There are times when the Federal Reserve for periods of one or two months must expand money growth beyond its longer term target. But then it has corrected for this in the month following. Between February and May of this year the Federal Reserve significantly exceeded its long-term target, but from early June through August it undershot its longer run objectives. It may well be appropriate now for the Federal Reserve to become moderately more expansive to move back towards its long-term target.

It is significant that short-term interest rates climbed by more than 400 basis points between February and June of this year when the Federal Reserve was highly expansive. But since June, short-term interest rates have essentially moved sideways while the Federal Reserve has become more restrictive and the rate of growth in short-term credit has slowed down. It is not the Federal Reserve that determines major moves in short-term interest rates but the private marketplace. For example, more than $40 billion rolls over in the commercial paper market alone every 30 days.

The Federal Reserve has slowed down demands in the economy by refusing to validate the inflationary expectations that were so rampant earlier this year. Any effort to reduce interest rates rapidly through an expansive monetary policy would shortly ignite those inflationary expectations and it would not be long before the private market demands for credit would drive interest rates even higher. At a time like this, efforts to reduce interest rates through a more expansive monetary policy are like trying to smother a fire with gasoline.

Walter B. Wriston, Chairman

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CAPITAL MARKETS

AND

CAPITAL FORMATION

September 13, 1974 251

STATEMENT OF ROBERT H. B. BALDWIN, PRESIDENT OF MORGAN STANLEY & CO. INCORPORATED

POLICIES TO INSURE ADEQUATE FINANCING THROUGH THE EQUITY AND LONG-TERM DEBT MARKETS

Clients of Morgan Stanley & Co. have indicated a need for large sums of money in e form of equity or debt in the period 1975-84. Consequently, the Firm has made extensive dies aimed at advising these clients, with particular emphasis on whether the future total pply of funds will meet the potential total demand. Our conclusion is that the capital uirements of governments (Federal, State and local) and industry, which are necessary not ly to provide a rising standard of living and a growing number of jobs but also to meet ironmental standards and to help solve the energy requirements, can be met provided certain damental steps are taken fairly promptly.

I. It is our opinion that the rate of inflation must be lowered from the present ble digit figures to a significantly lower rate and that stringent fiscal and monetary icies must be followed even though temporarily the economy may remain in a recessionary se for a longer period than most would desire. "Inflationary expectations" must be broken. are happy to see recognition of this problem by the Administration and we welcome the steps ng taken in an effort to find practical solutions. These attempts are being undertaken too early as we are already witnessing a breakdown in the capital raising ability of our urities industry which, in coping with its problems, needs a sympathetic attitude on the rt of government, particularly the SEC. Electric utility companies, unless their credit is the highest, find that they can no longer finance in the normal way with long-term bonds thout sinking funds and that, if they are fortunate enough to be able to sell common stocks all, they can only do so at prices well below book values per share. In our opinion, in- stry as a whole in recent years has relied too heavily on borrowing, and it will be necessary r industry to raise substantial sums of equity capital; it cannot do so on a reasonable basis ring a period of rapidly rising prices and high interest rates.

II. It is our opinion that total savings must be increased, not only absolutely but o as a percentage of gross national product. An increase in savings of individuals and of porations is imperative. This can only be accomplished in a society which encourages profits her than looks upon them as something evil and in a period when the rewards of saving are not troyed by inflation. This is one place where Government can play a prominent role. Another in the field of taxation. Space restrictions prevent any detailed recommendations, but ically Government policies must be geared to encouraging investment instead of consumption.

A. - Individual Savers - A number of tax changes could encourage saving. Only a tial list of suggestions would include (1) a reduction in capital gains taxes, especially en capital gains arise because of inflation and (2) increasing the amount of dividend ome not subject to tax.

B. - Corporations - The sources of corporations' capital for investment and working ital are internally generated funds and external funds. Internally generated funds consist funds resulting from the investment tax credit, from depreciation allowances and from re- ned earnings. Increased corporate profits can result in higher retained earnings if dividends e not increased commensurately, but an increase in retained earnings as a result of paying little in dividends could be counterproductive if stocks became less attractive to savers. ter-tax cash flow, as distinct from retained earnings as reflected in accounts, can be in- eased by companies adopting LIFO accounting; those companies not now using LIFO should be couraged to do so. The Government, of course, can play a vital role in the field of taxa- on, and we recommend both a permanent increase in the investment tax credit and adoption of w depreciation allowances which, in an inflationary era, will allow companies to recapture vestments in a shorter period of time.

III. An increase in savings of individuals and corporations, accompanied by an attitude Government (including the State public utility regulatory authorities) that is pro-profits, ll do much to increase the flow of funds into the long-term debt and equity markets. Demands r credit are so great, however, that there will be a need to change the share of total sav- gs directed to various components of the economy. In particular, it is our opinion that the ... must not compete with private industry for savings. We strongly recommend

SUMMARY VIEWS ON CAPITAL MARKETS AND CAPITAL FORMATION

CREDIT UNION NATIONAL ASSOCIATION, INC.

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FINANCIAL CONFERENCE ON INFLATION

September 20, 1974

Persistent inflation has caused severe problems for the capital markets of the U. S. To the extent that individuals view inflation as permanent, long term commitments to the debt or equity markets become less attractive.

In order to support the capital requirements necessary to expand our productive capacity and thereby lessen supply-induced inflation, it may be necessary to increase incentives to those willing to commit their funds to the long term markets. It is important, however, that any incentives created apply equitably to all forms of capital commitments, be they equities, debt or deposit and share accounts at financial institutions.

To encourage savings and investment, all financial institutions shoul be granted the power to establish term savings, deposit or share accounts. Those individuals who prefer to make capital commitments through financial institutions should be given equivalent incentive to those that wish to invest directly in stocks or bonds. This incentive approach should increa the proportion of disposable personal income going to savings and lessen the demand-induced price pressures in the consumer sector. It would make more capital available to housing, and because of the time commitments, lessen the disintermediation impact on financial institutions during tight money periods.

September 11, 1974 253

Policies to Insure Adequate Financiang Through
the Equity and Long-Term Debt Markets

by

ROBERT G. DEDERICK
Senior Vice President and Economist
Northern Trust Company

In view of the enormous needs for new investment over the next decade, it is essential that the nations's long-term capital markets - equity, bond, and mortgage - be capable of absorbing large volumes of financing at moderate cost. As current experience indicates, there is no automaticity involved in matching potential demands with available supplies. Thus, if our investment requirements are to be satisfied, public policy must be closely concerned with the effective operation of these markets. Action will be required on several levels.

1. Achieving Noninflationary Growth

A healthy economic climate is an absolute necessity for healthy long-term capital markets. Above all, therefore, policy must be geared to breaking the current inflationary spiral and restoring the economy to a noninflationary growth path - one closely in line with underlying productive potential. Without substantial growth, the additional real income with which to make new savings and investment will prove inadequate; without reasonable price stability, savers will be unwilling to commit funds to the long-term financing of investment at prices satisfactory to potential real investors.

2. Boosting the Share of National Income Available for Savings and Investment

While a necessary condition for healthy long-term capital markets, noninflationary growth may not be sufficient in itself to assure that an adequate volume of external financing occurs. In such an event, direct steps will be required to bring about a larger investable funds total - involving increases both in the public's ability to save and its incentive to save, as well as actions to encourage greater capital inflows from abroad.

A variety of approaches are available, some of which would remove existing constraints on the private market mechanism and some of which would offset remaining inadequacies in this mechanism.

One key step would be to hold down the growth of government spending on public consumption and other nonproductive activities, thereby reducing the aggregate tax burden. The benefit would be even greater if spending were to be constrained sufficiently to shift the Federal budget into surplus, thus providing funds for debt redemption. Reducing the progressivity of the tax system would tend to raise the private savings share as well.

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Also beneficial would be moves designed to boost after-tax corporate profits - both in toto and for particular industries, e.g., the energy sector and public utilities. (The increased profitability would not only reduce the need for external financing by the affected businesses, but would also raise their attractiveness to potential providers of such financing.) Included here would be such measures as increases in the investment tax credit, a further acceleration of depreciation allowances, removal of burdensome price restraints, and provision for the expensing of business firms' environmental and anti-pollution expenditures.

As regards individuals, their saving could be stimulated by eliminating various interest rate ceilings now in effect and by granting favored tax treatment either to the share of income going into savings or to the dividends and interest earned on savings.

3. Boosting the Share of Investment Financed Via Long-Term Securities

Even if the total pool of investable funds is sufficient to match potential investment demands, the share devoted to equities and to long-term debt instruments may be insufficient. Policy measures can be taken which relieve this problem - again involving either the removal of market constraints or the provision of special incentives.

It is essential, of course, that the distribution network for new and outstanding stocks, bonds, and mortgages be operating at a high degree of efficiency. This viability, in turn, requires that the institutions which make up the network be enabled to make a reasonable return on their own capital and that barriers to new entry be limited.

Special measures may be necessary to bolster investment via each of the three broad areas - equities, bonds, and mortgages. Thus, for example, consideration should be given to granting more favorable tax treatment to capital gains and losses as a means of stimulating equity purchases. Meanwhile, Federal guarantees or interest rate subsidies could be applied to long-term bonds issued by public utilities or other corporations whose expansion is viewed to be in the national interest. As for the mortgage market, numerous special stimuli are available - and applicable to both borrowers and lenders. In the case of borrowers, mortgage interest rate subsidies are an obvious - and already used - approach. The graduated payment mortgage is also worthy of experimentation. As for lenders, steps can be taken to increase both their ability and their incentive to grant mortgage credit - including a relaxation of usury ceilings, active encouragement of the variable rate mortgages in existing portfolios, a broadening of the asset buying and liability creating powers of thrift institutions, favored tax treatment of funds placed in savings accounts, and financial incentives directed at increasing the share of funds allocated to mortgages by lending institutions.

MEETING THE CHALLENGE OF CAPITAL FORMATION

by

Otto Eckstein
President, Data Resources, Inc.
Professor of Economics, Harvard University

Statement summarizing presentation at the September 20 Pre-Summit Meeting on Inflation at the U.S. Treasury

1. OBJECTIVE: Over the next few years, the United States should raise the fraction of its Gross National Product devoted to business fixed capital formation from the traditional 10-1/2% to approximately 12%. This increased capital formation is needed to relieve capacity shortages in primary processing industries, provide for the genera expansion of the economy, introduce technological progress, develop new energy sources and improve the environment.

2. The process of capital formation is now being disrupted by the extreme swings of monetary policy and the worsening credit crunch. So far, most reductions in business investment plans, such as the reduced investments of the automobile and airline industries, have been justified by weakening markets. The reductions in electric utility investment, although hastened by financial difficulties, also reflects a 25% reduction in the projected capacity needs of this industry by 1980 because of the lesser projecte energy growth.

If the current credit crunch continues and the economy stumbles from middling recession to severe recession, even the larger corporations will substantially reduce their investment plans as they did in 1970. This would worsen the inflation outlook during the next business cycle upswing. Capacity shortages would develop too early, and the relief that could be achieved from our current problems would be deferred.

3. In the longer run, a healthy financial system is necessary to accomplish the effective transfer of savings into investment. The higher investment ratio will require a larger flow of savings from the household sector to industry. Fortunately, the investment needs for housing in the later years of the 1970's will be moderate by historical standards, and the repayment flows on existing mortgages will be rising rapidly. As a result, the household sector will be able to make available many billions of additional savings to help finance industrial investments.

4. A healthy equity market has been a critical element in the performance of the American economy. The equity market makes possible the financing of new companies and promotes the continued growth of rapidly expanding companies. It also provides a necessary supplemental source of capital to utilities and other capital intensive industries where a sound balance sheet requires a growth of equity beyond internally generated funds.

More fundamentally, a healthy equity market promotes the competitiveness of the American economy. If the current stock market situation were to persist, there would be an increased concentration of the economy. The larger companies tend to be the most credit worthy and have the ability to stand at the head of the line at the lending windows of the large commercial banks. The banks would become as powerful as they are in Europe and Japan.

5. Tax incentives to encourage capital formation: While the anti-inflation strategy prevents us from tax reduction on personal incomes, it would be inequitable to provide tax breaks for business. The effective tax rate on the federal corporate income tax has already fallen from 40% in 1971 to 36% in 1973 under the impact of the investment tax credit, increasing foreign tax credits, and the DISC tax preference. Selective tax or credit aid may be required for very specific sectoral problems in the economy such as the primary [illegible]

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

OFFICE OF THE CHAIRMAN

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STATEMENT OF CHAIRMAN RAY GARRETT, JR.
REGARDING "CAPITAL MARKETS AND CAPITAL FORMATION"

Ensuring the availability of adequate long term capital over the next decade is clearly one of the most necessary requirements for this country's future economic growth. However, in addition to measures designed to make capital available for investment and to make investment attractive, we must be certain that the mechanism for raising equity and long-term debt is not destroyed by the disappearance of a high capacity, diversified, securities industry.

The securities industry is in an alarming downward trend. New York Stock Exchange member firms, which account for approximately 75 percent of the revenues of the industry, lost $66 million before tax in 1973 and have reported a $49 million loss for this first half of 1974. The profit problem is widespread: in eleven of the last twenty-four months, 50 percent or more of the New York Stock Exchange firms have reported losses. And between 1971 and 1973 the number of New York Stock Exchange carrying public customer accounts declined 16 percent. Further, it does not appear that the industry is simply suffering through the low point in this profitability cycle, offsetting the high point in the late1960's. Our preliminary data indicate that the return on equity in the industry currently is well below that experienced at the bottom of the previous cycle and about one-tenth of the median rate of the past seven years.

An upward trend in prices and volume will benefit the securities industry, but there are other adverse trends that need examination. I recommend that interested government agencies conduct a coordinated review of the respective role of, and government policies toward, our many different financial institutions considering both existing statutes and future requirements with respect to the process of capital formation for American industry. As one example, securities industry has expressed deep concern that the aggressive expansion of banks and bank holding companies into new services in recent years while the securities industry has been declining, has created an unequal competitor for the securities industry, both because of the size of the banks and because they appear to be regulated by agencies whose primary concern is the health of the banking system. If we are to preserve a healthy securities industry independent of domination by commercial banks, protective measures may be indicated.

September 13, 1974

Goldman, Sachs & Co. | 55 Broad Street | New York, New York 10004
Tel. 212-676-8120

Gustave L. Levy

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Goldman Sachs

CAPITAL MARKETS AND CAPITAL FORMATION

1. Two areas of government regulation seem to be having a particularly negative effect on the efficiency and functioning of the financial markets. The first is the regulatory policies of the various public utility commissions. With inflation pushing up the cost of long-term money, adequate rates of return on investment are necessary for utilities if we are to have sufficient electric generating capacity. Second, the regulations limiting the interest rates paid by the major mortgage lending institutions are at the heart of the sharp declines of housing activity during periods of tight money. I would endorse measures over the long run to eliminate the ceilings on the rates that savings institutions can pay and at the same time give these institutions greater flexibility in their investment policies rates of return on their investments can be increased to pay the higher savings rates. In the short run, a tax credit or exemption for some portion of interest earned on savings accounts would help.

2. Inflation is the basic cause of the current problems in the availability of capital funds. Inflation increases the risks faced by long-term investors in bonds and stocks. As a result, the cost of long-term money rises sharply and the flow of investment funds moves in the direction of shorter term securities. This threatens the supply of adequate long-term investment funds which is critical to the long-term growth of the U. S. economy. A reduction in inflation is the major key to alleviating these problems.

3. In recent months, many corporations have been urging managers of their pension funds to invest their cash flows in debt instruments, particularly, of a short-term nature. This is completely self-defeating because these same corporations are complaining that prices of their stocks do not reflect their inherent values. It is essential in the long run for our markets to more truly reflect inherent values so that corporations may finance, through the sale of common stock as well as the sale of debt. Therefore, in my opinion, corporations should be urged not to instruct their money managers to avoid purchases of equities.

Bruce K. MacLaury
September 12, 1974

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CAPITAL MARKETS AND CAPITAL FORMATION

Recent data on capital appropriations and on plans for plant and equipment spending indicate that capital formation is now moving ahead at a substantial pace in those industries where bottlenecks and shortages were recently acute, including steel, nonferrous metals, chemicals, petroleum, and paper. The obvious exception to this generalization is in the public utility sector where the greatest impediment to financing and construction appears to be the reluctance of public service commissions to review and pass favorably on requests for rate increases. The federal government has already begun to use its influence to overcome this reluctance, and it should continue to do so.

Home construction, an area of special concern, has been greatly depressed since the turn of the year. Raising Regulation Q ceilings would provide some relief. Other actions will also be needed. In choosing them, emphasis should be placed on those measures that reduce or eliminate barriers to competition in the construction industry and to those that promise improvements in productivity.

A mandatory credit allocation program to channel funds to "essential" areas should be avoided. Such a program would prove difficult if not impossible to administer fairly, and lead to a worse rather than better allocation of credit and resources.

Demands on credit markets by federally sponsored agencies should be given much greater publicity, and subjected to Congressional scrutiny as a totality, in the same way that is now proposed for federal expenditures.

POLICIES TO INCREASE THE TOTAL VOLUME OF SAVING AND INVESTMENT

(Statement by James J. Needham, Chairman, The New York Stock Exchange, Inc.)

The NYSE is deeply concerned with the problem of continuing inflation, the consequent severe disruptions in the nation's financial markets, and longer-run prospects of a tremendous shortage in the supply of sorely needed savings for investment purposes. This shortage threatens our national priorities not only in housing, energy, mass transportation and a host of other critical areas, but in combating inflation itself.

The Exchange's research economists have prepared the attached detailed projection of the capital needs and savings potential of the U.S. economy through 1985. Their conclusion is that a huge gap is in prospect, with savings falling short by as much as $650 billion over the next dozen years. Such a financial deficiency would, of course, be only a mirror image of a shortage in real resources -- of physical capacity, essential materials and supplies, power and energy, and production and productivity. In an increasingly service-oriented economy, the achievement of productivity gains becomes more difficult but no less urgent. As wage rates continue to climb, productivity improvements are an essential offset if inflation is to be curbed.

Therefore, the immediate challenge of dampening inflation requires a strong upsurge in saving and investment to increase productive capacity, together with a determined effort to restrain cost-push pressures generated by the continuing round of wage settlements.

A decisive, comprehensive program is essential to achieving these objectives. I believe the following recommendations can play a significant role in meeting the nation's immediate and longer-run economic needs:

1. A reduction in Federal expenditures would go a long way toward reassuring the American people of the government's determination to curb inflation. Moreover, a reduction in Federal outlays would reduce Federal borrowing and ease monetary conditions even in the absence of any change in Federal Reserve policy. Essentially, I believe that monetary policy should be eased somewhat with a shift in the mix toward more stringent fiscal measures. As an adjunct, the borrowing requirements of the Federal credit agencies should be included in the total Federal budget.

2. A mandatory savings program should be developed to stimulate personal saving, immobilize purchasing power without a tax increase, and restrict the inflationary impact of current wage settlements. My suggestion is that wage gains in excess of some base pay and in excess of a specified percentage, say, 5% per annum, be channeled into savings

by means of payroll deduction, with the proceeds invested in government or private securities, or other appropriate outlets. Not all pay increases would be affected. Families whose income is at or below a minimum essential level -- using a cutoff point of, say $10,000 or $15,000 per year -- would be excluded. Others would have to accept some belt tightening but only as far as income increases are concerned. Assume, for example, that a wage earner is granted an 8% increase over his current $20,000 annual salary -- an increase of $1,600. He would receive in his paycheck an 8% increase on the exempt portion of his income, say $15,000, plus 5% of the increase on the $5,000 portion of his income which exceeds $15,000. Thus, his gross income would rise by $1,450 (8% x $15,000 + 5% x $5,000). The remainder of the increase, namely 3% on the $5,000 portion of his salary over $15,000 -- or $150 -- would be placed on behalf of the wage earner in a trusteed segregated account. In the example, therefore, $1,450 would be the increase in gross salary paid out while $150 would be deferred. These deferred savings would be redeemable by the beneficiary or his heirs upon retirement or death, in the event of a family emergency, or at such time as the consumer price index has stabilized below a predetermined rate -- say, 6% per annum -- for a one-year period. Many aspects of such a national savings program would obviously have to be worked out very carefully. For example, it might be necessary to handle professional and other self-employment income via tax returns. In any case, the details can be worked out to implement this concept and stimulate increased saving and investment, while helping to reduce inflation.

3. Structural rigidities should be eliminated in labor laws, agriculture, foreign trade, communication, transportation and other industries. We are preparing a list of these institutional impediments to production and efficiency. A rise in productivity must be high on the agenda of counter-inflationary policies.

4. Tax revisions are urgently needed, particularly in the treatment of investment credits, capital gains, and corporate savings. The NYSE has already proposed a detailed package of concrete tax changes which is attached. Additional tax incentives to increase output and capacity in our productive industries, including tax credits and more liberal depreciation allowances, are clearly needed.

5. Commission to Study Capital Flows. I also urge, as a high priority item, creation of a national, non-partisan Commission to focus on prospects of a major capital shortage and to present to the President and the Congress within six months a constructive program for dealing with this critical problem. This Committee should be responsible for a full and comprehensive review of all options, including means to stimulate savings, appropriate tax and other policies, and methods of strengthening our capital markets. The Commission should operate under the aegis

of the Executive Office, with members drawn from the Treasury, Federal Reserve Board, Council of Economic Advisers, the Senate and House, and knowledgeable representatives of the private sector.

Should the momentum of inflation fail to yield within the foreseeable future, and should financial market conditions remain in disarray, consideration might be given, as a last resort, to the possibility of temporary credit and capital investment incentives and guidelines, particularly bank lending guidelines, as a means of permitting an easing in the Federal Reserve's tight monetary policies. I strongly oppose, however, any long-run government allocation of credit.

Definitive policies are needed to strengthen the securities industry. In this area, the Exchange has already made specific legislative and regulatory recommendations aimed at preserving the vitality of the capital raising process in this country. It would be clearly unwise to force a hasty, basic restructuring of the securities markets at a time when continued effective operation of those markets is more essential than ever to the economic health of the nation. I have prepared a separate report on this subject under the topic of "Financial Institutions and Inflation."

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rill Lynch & Co.Inc.

Donald T. Regan
Chairman of the Board

CAPITAL MARKETS AND CAPITAL FORMATION

We stand on the brink of an historic crisis for American capitalism, and the brink is crumbling. Inflation plays havoc with the availability and cost of money and capital. Savers are discouraged from making long-term capital commitments, and penalized by a rate of inflation that cruelly exceeds the rate of return. Borrowers are forced to pay bloated costs. A liquidity crisis widens and deepens with every day that inflation goes unchecked.

The need for massive increases in productive capacity is imperative. Major materials producing and processing industries are operating at unsustainable rates of over 90 percent of capacity. Utilities, energy related industries, and others will need enormous sums of capital over the coming years.

Part of the needed expansion capital must come from internal sources, and help is needed to enable companies to channel more funds into expansion. Investment tax credits should be increased, especially for energy-related and other priority projects.

At the same time a large amount of the needed funds must be raised through the capital markets. The investment environment will be helped by progress in dampening inflation since investors can be offered attractive rates of return at a cost that the issuing company can afford.

However, inflation progress alone will not fully restore health to the capital markets. Savings by individuals should be encouraged by government action. With the worst financial markets in 40 years, investors have become discouraged. They must be afforded incentives to return and provide the much needed capital. The most positive step would be to relax the capital gains tax, which has been an inhibiting factor for the nation's 30 million investors.

Elimination of the withholding tax on interest and dividends paid to foreigners is also essential. These withholdings inhibit portfolio investments from abroad, precisely at the moment when we seek such investments to relieve inflationary pressure on our capital markets, aid our balance of payments, and when we are struggling to provide opportunities for recycling the petro-dollars.

Providing the needed capital also requires a healthy securities industry. This industry must be strong enough to finance the capital raising operations and to provide the large distribution network needed to place the new securities with investors throughout the nation and, increasingly, throughout the world. Furthermore, the securities industry must be in position to operate an active secondary market because investors will buy new securities only if they have reasonable assurance that they can be re-sold whenever desired. Reforms which are in the best interests of the nation's investors should be encouraged by all branches of government.

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INTERNATIONAL ECONOMIC

POLICY AND INFLATION

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The Appropriate Role of the U.S. in International Economic Policy

The appropriate role of the U.S. in international economic policy as it pertains to the problem of worldwide inflation is one of leadership in the following areas:

1. Foreign trade. The reduction of tariffs and nontariff barriers to trade makes more goods available at lower prices and hence helps to reduce inflation. The current trade bill should be acted on immediately and bargaining with other countries should begin at once.

2. Export controls. Export controls make less goods available to the countries that would have purchased the goods had they been available and hence help to increase inflation. The U.S. should press on with a round of discussions aimed at eliminating as many export controls as possible on a multilateral basis.

3. Exchange rates. The U.S. should continue to press for a permanent flexible exchange rate system to facilitate increased trade. With a flexible system each country's inflation can be confined to that country by making suitable changes in the exchange rate for its currency.

4. Balance of payments. The U.S. should continue to urge seeking a solution to the world's balance of payments problem created by the new price of oil. If the balances of trade deficits are not offset so as to reach reasonable balances of payments, the world may well see the proliferation of trade barriers, bilateral agreements, competitive devaluations, etc., all of which would be highly inflationary. The deficits can best be overcome by attracting foreign investment. To this end, foreign ownership of assets in the U.S. and other countries must not only be accepted, but welcomed. In addition, the U.S. should assume leadership in developing and adopting a code of conduct by governments which would assume the protection of foreign owned assets.

WHFranklin
9/10/74

RESPONSE TO AGENDA ITEMS FOR SEPTEMBER 20
FINANCIAL CONFERENCE ON INFLATION

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International Financial Aspects of World Inflation

Until about two years ago the principal international influence upon world inflation was the proliferation of dollars in the international money market. Since late last year, the increase in oil and other raw material prices has introduced a new dimension that will have the effect of turning the U.S. balance of payments around and that has already made the dollar a desirable rather than unwanted currency in world markets.

Overall, the influence of the surpluses in the oil exporting countries has been anti-inflationary. The huge increase in energy costs has imposed a form of forced saving upon people in developed and developing countries around the world. To the extent that any country has offset this external discipline through its own internal monetary and fiscal policies, the result has been spiralling inflation and balance of payments weakness. Most developed countries, however, have adapted their policies to the constraints imposed by the higher price of petroleum products and, as a result, are in recession or, at best, a stagnant economic situation.

For the time-being, in other words, the increase in oil prices, as well as other basic materials prices, has had an immediate inflationary effect but a longer-term deflationary effect. It is to be hoped that within a reasonable period of time the bulk of the oil surplus money will begin flowing into long-term investments, which will have the dual result of lessening international balance of payments problems and of improving the supply-demand balance in world capital markets, making lower levels of interest rates possible.

Meanwhile, the situation in the Middle East is scarcely conducive to optimism that it will be possible to work our way through this difficult period in history without either political, military, or further inflationary flareups.

--Tilford C. Gaines
Senior Vice President
and Economist
Manufacturers Hanover Trust Co.

Bruce K. MacLaury
September 12, 1974

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INTERNATIONAL ECONOMIC POLICY AND INFLATION

1. It has been suggested that to facilitate recycling of oil revenues, the U.S. government should issue special debt obligations to members of OPEC and lend the proceeds to "needy" oil importing countries. It has also been suggested that U.S. government should extend guarantees to commercial banks to transform short-term OPEC deposits into long-term loans to oil importing countries. There is no good reason why U.S. taxpayers should assume default risks for members of OPEC.

   Instead, the U.S. should promote the establishment of a major recycling facility in the IBRD. With such a facility in existence (which could lend to all governments including those of the LDC's) members of OPEC would automatically be able to achieve a certain diversification of risk. The U.S. might also stand ready to guarantee its proportionate share of such a fund against losses.

2. Joint efforts among major countries to monitor - and limit exposure on - foreign currency and Euro-dollar positions of banks should be pursued with urgency. Similarly, clear responsibility for aiding international banks in difficulty should be established.

STATEMENT BY PAUL W. McCRACKEN

Even the large and diversified U.S. economy has learned that it can be profoundly affected by external economic influences. While the present inflation and instability of the U.S. economy is "home grown" to a substantial extent, these do not explain over half the double digit inflation that we have been experiencing. From the end of 1972 to the third quarter of 1973 (before the oil embargo dominated developments), the rise in our exports of merchandise was equal to almost one-third of the rise in our output of goods. Demands from abroad were competing vigorously with overly rapid increases in domestic demands, and these made a significant contribution to inflation.

Again this year international financial strains have cast their shadows over the American financial scene. The concerns about regaining stability are understandable, and policies must respond to these concerns. We must, however, be clear about where we want to go. Two guidelines are particularly urgent.

First, our problems heavily reflect overly expansive domestic monetary policies, and there will be no solution until more prudent and disciplined policies are followed. No "gimmicks" and arrangements can release government from facing this requirement.

Second, the new structures and arrangements which are needed must meet the test that they move us toward and not away from a liberal international financial and economic order—toward freedom from controls, not a growing array of controls. If we *ad hoc* our way with one control after another the world will (as has been true historically in these cases) look back and conclude that we are far down a road that we never really intended to travel.

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(Statement submitted by Representative Henry S. Reuss of Wisconsin for inclusion in the compendium of papers for the Financial Conference on Inflation, September 20, 1974)

Recommendations from the Financial Conference on Inflation, September 20, to the Economic Summit meeting on September 27-28 should include the following proposals:

Fiscal Policy--Federal Taxation: Any policy to fight inflation must defuse the wage explosion already beginning to occur, as workers attempt to catch up with last year's inflation and protect themselves against this year's. A social contract, in which the government pledges social security tax and/or income tax relief for low- and middle-income people and in which workers pledge to restrain their wage increase demands, would reduce cost-push inflationary pressures while protecting the average worker against rising prices. Such tax relief must be balanced, to avoid unwanted fiscal stimulus, by tax reform to end outmoded and inequitable tax subsidies and by other revenue-raising measures.

Monetary Policy--Credit Allocation: The Federal Reserve should pursue responsible monetary restraint, keeping money supply (M1) growth to around six percent for the immediate future.

At the same time, we must establish a system with clear ground rules for channeling the limited supply of credit away from inflationary uses, such as real estate speculation, conglomerate mergers, and commodity buildups, and toward interest-sensitive essential needs such as productive capital investment, low- and middle-income housing, small businesses and farms, public utilities, and state and local governments.

International Economic Policy: To bolster international confidence, let the U. S. lead in putting together a consortium of the leading industrial nations (a) to guarantee that the world's major banks will not be allowed to fail for lack of liquidity (as opposed to mismanagement, for which salvage operations ought not to be attempted); (b) to adopt coordinated programs to conserve fuel, thus reducing short-run dependence on the oil-exporting countries, and food, thus easing the prospect of mass starvation in Asia and Africa.

Wage-Price Policy: To forestall future price rises, we must increase supplies of scarce materials, through a broad range of policies including advance planning, monitoring of potential shortages, sensible import and export policies, and elimination of artificial barriers to competition.

INTERNATIONAL ECONOMIC POLICY AND INFLATION

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Comments by David Rockefeller
Financial Conference on Inflation
Washington, D. C. - September 20, 1974

For obvious reasons, this important conference today is focusing primarily upon our domestic inflation problem. However, it would seem to be critically important that we spend a fair amount of time discussing the international ramifications of this truly global problem. Today, inflation affects all nations of the world and many in a considerably more severe fashion than the United States. Indeed, literally for the first time, we are witnessing peacetime inflation on a worldwide scale. A high rate of inflation in one country cannot help but increase inflation in others -- through its impact both on prices of imports and on prices of world commodities generally.

It would seem to be imperative, then, that there be accelerated joint consultation, of the very closest kind, with our friends in the rest of the world. Policies considered in one country which will obviously have an impact in its relationships with other nations, might be reviewed on a consultative basis, prior to final implementation.

In this regard, I find it encouraging that the Ministers of Finance of five major industrial countries, including the United States, met just recently to discuss their joint problems, as well as possible joint solutions.

It would appear obvious that if one country inflates more than others and is faced with a subsequent loss of markets, it often is tempted to fall back on such protective devices as tariffs, quotas, competitive currency devaluations, and the like.

Beggar-thy-neighbor policies of this character are to be avoided at all costs. Permitting them to develop now would be to sacrifice many of the benefits which already have been derived from international cooperations so painstakingly achieved over the past quarter-century and so essential to the future well-being of all nations. Indeed, in my judgment our policy should be to encourage low-cost imports and to maximize trade between nations. For this reason, passage of the foreign trade bill, now before Congress, would be helpful in combatting inflation over the longer run.

This overriding need for continued cooperation between nations is especially evident when one examines the ramifications of the current energy situation. The four-fold increase in the price of oil by the oil-producing nations not only made a major contribution to recent inflation, but also has left a legacy of financial turbulence, anxiety and disruption. All told, the oil consumers will run a deficit in their current accounts with the oil producers this year of $60 billion or more. By the end of 1976 these accumulated deficits may add up to as much as $200 billion. These are staggering amounts, with serious implications for the stability of international economic order.

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If we are to find solutions to this challenge, I believe we must begin by renewing our efforts to bring together the industrialized nations of Europe, the Far East and North America so as to devise common strategies to deal with the problems arising out of higher energy prices. We might begin by carrying forward the efforts initiated earlier this year by Secretary Kissinger.

Working with our Trilateral partners and the oil-producing nations, launching a massive research and development program to find economically feasible alternative sources of energy would be desirable. This is essential both to help the world at large and to provide a continuing source of revenues to the oil producers after their reserves have been exhausted. At the same time, we and other industrial nations should seek to undertake common programs for conserving on energy, thereby stretching out our available supplies.

We must, I believe, as quickly as possible, develop new mechanisms and strategies to meet the mammoth recycling problems of countries suffering from serious balance of payments deficits because of higher oil prices. To accomplish this, the large surpluses earned by the oil producers must be channeled back to the deficit countries.

This challenge cannot, in my judgment, be handled solely by the banks and the private market mechanism as has been the case, to a large degree, up until now. It will increasingly require the combined efforts of governments and international institutions -- a fact already being recognized through proposals such as the loan by Germany to Italy, the new oil facility of the International Monetary Fund, and other actions now in the planning stage.

Of course, banks and other investment institutions should continue to play a major role. Their expertise and institutional networks are essential to the oil producers and oil consumers alike, and without them a lasting solution to the problem would be much more difficult, if not impossible. Indeed, there is room here for imaginative new approaches -- innovations in the design of new financial instruments to meet the needs of oil producers while channeling scarce capital to industrial nations.

Success in dealing with the recycling problem is also essential if we are to achieve even a semblance of international monetary stability -- a critical element in any program for combatting world inflation. And yet, in dealing with this aspect, as well as with other components of this multifaceted problem, we must be aware of the risks of adopting measures which would lead any nation into a recession, which in turn could quickly spread to other countries.

Only recently we have seen the temptations and dangers that arise for financial institutions when currencies of differnet nations fluctuate widely against each other. Less well recognized, perhaps, is the fact that if the United States dollar is permitted to depreciate greatly against other currencies, the cost of all imported items rises. This certainly has been a contributing factor to United States inflation over the past several years.

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What we are seeking, is a return to a system that provides greater stability in international currency relationships. Hopefully this is a matter which will be given full consideration in meetings of the International Monetary Fund early next month.

Finally, I believe the United States should bend all its efforts to muster support for programs designed to restore greater international monetary stability. Once again, such a goal can only be achieved through cooperation by all key nations. It would seem to me that both recognizing the problem as international in scope, and, at the same time, arriving at solutions that take this interdependence into full account, is a primary requisite for our mutual success.

. . . .

For the Meeting of September 20, 1974

INTERNATIONAL FINANCIAL ASPECTS OF WORLD INFLATION

Robert V. Roosa, Partner
Brown Brothers Harriman & Co.

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The efficiency and scale of financial relations among countries have been increased so extensively in recent years that inflationary momentum, once started within the leading countries, spread rapidly to all. The flexibility in this financial machinery that had induced and supported record real grove through most of the postwar period became over extended -- spreading active demands across the globe at a pace that outran the global supply of goods and services that were available at yesterday's capacity, and costs, and prices. The dilemma today is how to check the temporary excesses of monetary demands being transmitted throughout the world without causing a breakdown of the financial mechanism, while at the same time promoting the sustained expansion of capacity and production which the world needs as the real offset to inflationary forces.

Moreover, in today's setting, any source of supply that can be deliberately controlled or limited -- whether of raw materials, or finished goods, or labor -- has an opportunity to extract a monopoly surcharge. For this and other reasons, great imbalances develop within the cost structures of each country and across their balance of payments frontiers, with oil presently the prime example of the spreading of distortion.

Clearly no one country can stop the excess demand and promote production on a scale sufficient to solve its own problems alone -- not without inconceivably retrogressive to economic isolation. But the United States position is crucial, both through the example we set and through the weight of our own impact on the total results. Moreover, it is through our own currency, the dollar, and through the vast network of American financial facilities erected to service world requirements, that so much of the finance that is needed, as well as that which is excessive, is now passing around the world.

The urgent problems are: (1) to overt a disruptive breakdown of the financial mechanism, both through preventive action and through prompt shoring up of the reprocussions of any individual failures that may occur; (2) to minimize the disruptive impact of oil payments; (3) to so use the generalized restraint of monetary and fiscal action as to neutralize financial support for further cummulative inflation; (4) to induce the additional real saving and investment required for expanded capacity and output, and eventually a lowering of real costs; and (5) to cushion the more extreme inequities created during the transition from inflation to normality.

Toward this end the United States should promote: (1) the closest possible harmonization in diagnosis and policy among the largest countries and the principle raw material producing countries, both for the short run and the longer run; (2) procedures for managing exchange rates to assure orderly flows of trade and payments among countries; (3) the stimulation of productive investment in extractive, manufacturing and service industries; (4) the assurance of adequate longer run demand to provide suitable returns from new investment and production as these emerge; (5) the closest approximation to free competitive conditions in all markets by combating, or offsetting monopolistic restraints; and (6) the introduction of selective measures temporarily to employed people and support industries that are displaced during the process of achieving the other objective.

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AND INFLATION

FINANCIAL CONFERENCE ON INFLATION
September 20, 1974

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Financial Institutions and Inflation

Summary of views of
Morris D. Crawford, Jr., Chairman of the Board
The Bowery Savings Bank, New York, New York
and
Dr. Grover W. Ensley, Executive Vice President
National Association of Mutual Savings Banks

Inflation is indeed "domestic public enemy number one." Among its chief evils is the inequitable impact resulting, in part, from imbalanced federal anti-inflation policies. The absence of fiscal discipline has led to excessive reliance on monetary restraint and skyrocketing interest rates -- with major victims being thrift institutions and their depositors, home mortgage borrowers, and the housing industry.

At savings banks, net deposit outflows, excluding interest, totaled $2.7 billion in the five month period from April through August 1974, over 2-1/2 per cent of total deposits outstanding, with even greater outflows in major metropolitan areas. New home mortgage commitments have virtually dried up. Housing starts have fallen to the lowest levels in over 4 years and further declines are imminent.

Thrift institutions are unable to compete with commercial banks and the open market in periods of rapidly rising interest rates, since by law and orientation, their assets are predominantly in home mortgages and other long-term investments acquired earlier at low fixed interest rates. By contrast, earnings on commercial bank loans are predominantly tied to short-term open-market yields.

Since the July 1973 changes in federal deposit interest rate ceilings, which narrowed differentials in favor of commercial banks, disintermediation at thrift institutions has been seriously aggravated. During the 12-month period following this regulatory action, household savings deposit growth at commercial banks actually increased by 19 per cent over the previous year, contrasting sharply with declines of 43 per cent at savings and loans and 62 per cent at savings banks.

The inflation-caused problems of mortgage-oriented thrift institutions would be largely resolved: (1) if the increase in federal expenditures is curbed and all necessary measures are taken to balance the budget or achieve a surplus, thereby permitting an easing of short-term interest rates; and (2) if the asset and liability structure of thrift institutions is modernized to redress current competitive imbalances. In both instances, decisive federal action is required. In the first, by subjecting each expenditure and revenue item in the budget to microscopic scrutiny; in the second, by enacting the broadened powers and federal savings bank charter

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authority provided in the pending Financial Institutions bill (S. 2591). Efforts to develop a variable-rate mortgage instrument, equitable to both lender and borrower, should also be pressed forward with appropriate legislation and public education programs.

These economic policy and financial restructuring measures should be adopted without delay, but it will take time for their full impact to be felt. Therefore, the following actions should be taken immediately.

1. Provide tax exemption or tax credit for a portion of interest earned on savings accounts. This would stimulate increased saving. In particular, it would expand the supply of housing credit -- probably at less cost to the federal government than emergency subsidy programs.

2. Raise deposit insurance to $50,000 as provided in House-passed H.R. 11221, now pending in conference with the Senate. Depositors have become increasingly insurance conscious in recent months.

3. Raise minimum denominations on Treasury and federal agency obligations. In its recent report, the House Ways and Means Committee cautioned that low denomination offerings should not be at the expense of "serious dislocation" in savings markets. Recent Treasury offerings of $1,000 denominations have resulted in "serious dislocation" at thrift institutions.

4. Strengthen federal deposit interest rate ceilings by preventing circumvention of ceilings through bank holding company deposit-type issues as provided in Senate-passed S. 3838 and House-passed H.R. 15928.

One final observation. These proposed measures and actions will assure the viability of thrift institutions and their continued competitive presence in the financial system. Over the long pull, this will enable the small saver to maximize earnings on his savings and assure the availability of mortgage funds at the lowest possible cost.

SUMMARY VIEWS ON FINANCIAL INSTITUTIONS AND INFLATION

CREDIT UNION NATIONAL ASSOCIATION, INC.

CONFERENCE ON INFLATION

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September 20, 1974

The effort to reform the structure and regulations of financial institutions that began with the appointment of the Commission on Financial Structure and Regulation in 1970 now appears to have a better chance to be accomplished by means of omnibus legislation. But it is more apparent than ever that the specific recommendations contained in FIA '73 fall far short of the desired goal.

The change in economic and political conditions since the submission of the Hunt Commission Report and the legislative package drawn therefrom, dictates a fresh approach to the task of reforming the structure and regulations of financial institutions.

We think each regulatory agency and the regulated industry should conduct a review of their existing regulations for the purpose of eliminatin those that are unnecessary and updating the others. The goal should be to make financial institutions more efficient and competitive.

Then the Treasury should meet with the various financial institutions to revise and reform FIA '73. Suggestions for revision from the various financial institutions should be treated positively, while negative reactions from competing financial institutions should be of lesser influence.

Through full participation and openness, a more credible and equitably balanced package can be formulated to gain wider industry and Congressiona support.

n keeping with this approach, the credit union movement is presently tudying the full range of credit union member needs. Among the matters nder discussion are (1) the cost-price impact of the 12% maximum loan ate; (2) third party payments; (3) shares with varying rates and aturities; (4) a liquidity facility; and (5) greater credit union partiipation in the residential mortgage market. These studies are responsive o credit union members demands for a broader and more flexible range of inancial services.

 is time for a new look at the Financial Institutions Act. The new ok should be made openly and forthrightly.

FINANCIAL INSTITUTIONS AND INFLATION

Statement of Rex J. Morthland
President, the American Bankers Association
and Chairman of the Board, The Peoples Bank & Trust Co.,
Selma, Alabama

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* Inflation and Financial Pressures.

Spiraling inflation is the prime cause of today's high interest rates. Compartmentalization of financial institutions, and regulatory rigidities in pricing structures in combination with these rates, are producing serious stresses in some financial markets, especially the mortgage markets.

* Proposed Changes in Laws and Regulations.

Significant changes are required, as suggested in the Financial Institutions Act (S. 2591), to enhance the responsiveness of financial institutions in serving their fund-moving functions under today's inflationary pressures. ABA supports S. 2591 with minor modifications. In addition, we recommend that serious attention be given to proposed tax incentives to encourage savings and thereby discourage consumption. Exemption from Federal taxation of the first $1,000 of interest on individual savings and time accounts should be considered immediately. A tax credit for investment in housing and other social priority needs also warrants immediate attention. Vigorous action is needed at the state level to repeal or liberalize usury laws which prevent funds from reaching their intended beneficiaries.

Trust departments should also be given greater latitude in offering services that involve gathering investment funds from small savers.

* Credit Allocation.

As inflationary pressures mount in financial markets, pricing regulations and other institutional restraints distort flows of funds to key areas such as housing. Such distortions would not be prevented by compulsory allocation of credit resources of regulated financial institutions. Positive market-oriented incentives -- such as tax exemption of interest on savings, and appropriate tax credits -- are more effective in channeling adequate funds from the total market, both regulated and non-regulated, into savings and toward social priority loan areas. If additional incentives are required, direct subsidies to high priority user groups -- e.g., housing subsidies to poor families -- should be considered. These approaches make the social costs of favoring a given area or group obvious and amenable to adjustment when needed.

FINANCIAL INSTITUTIONS AND INFLATION

(Statement by James J. Needham, Chairman, The New York Stock Exchange, Inc.)

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My comments in this area relate solely to the securities industry as a financial institution since this is the focal point of my expertise. The importance of strengthening the securities industry is not simply a parochial matter. It affects our future ability to raise huge sums of new capital required to stimulate economic growth, to meet the expectations of the American public for a rising standard of living, for full employment, for minimizing inflation, and to satisfy the social objectives of the nation. Without a viable securities industry, there is little hope of generating over $4 1/2 trillion in investment funds required by U.S. industry and government to 1985.

At present, the principal areas of concern to the New York Stock Exchange are the well-publicized problems of the securities industry generally. These involve not only broad economic problems but also the current unprofitability and uncertainty about the future role and structure of the industry. In more specific terms, there is a growing concern about the impact on the industry and public investors from negotiated commission rates and the changes which will be wrought in the industry as the result of the so-called Central Market System.

The overall lack of industry profitability, uncertainty about the future prospects of the securities industry, the bleak economic picture generally, and the potential loss of revenues from the advent of negotiated commission rates -- could lead to a withdrawal of capital which finances securities industry operations and, more clearly, the failure to attract new capital in the industry. These prospects appear more certain when one reviews the investment opportunities for investment capital elsewhere outside the securities industry.

I do not wish to repeat here all of the specific legislative and regulatory recommendations we have made to preserve the vitality of the capital raising process in this country. But I urge again that no hasty steps be taken which threaten to frustrate the continued effective operation of the securities industry.

The industry cannot operate without an adequate base of capital. Since the beginning of this year, the industry's total capital has already declined by $303 million. Profitable operations are the <u>sine qua non</u> for retaining capital. This requires a better economic climate as well as a regulatory framework which recognizes the plight as well as the significance of the securities industry in the country's financial network.

In this connection, we have advanced the attached legislative proposal to permit the securities industry to establish a tax stabilization reserve. This proposal recognizes that the securities industry is an essential financial intermediary and is subject to extremely severe cyclical fluctuations in earnings. The recommendation would merely grant securities firm treatment similar to that now accorded other financial institutions.

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We also urge that steps be taken to relieve and minimize the reporting and regulatory burdens on the securities industry. In that connection, we urge amendment of the Securities Act of 1934 to grant equal authority to all regulatory authorities and exchanges so as to relieve burdensome duplication. We also urge that the SEC be directed to study disclosure requirements to ease the complexities and expenses presently imposed on companies seeking to raise capital.

The securities industry is in crisis. Those who would perform surgery in its present weakened state should pay close heed to the importance of this sector of the financial industry in promoting essential economic growth and in reducing overall inflation through an adequate flow of investment funds.

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WAGE PRICE POLICY

TO DEAL

WITH INFLATION

WE NEED AN INTEGRATED AGGREGATE-DEMAND AND WAGE-PRICE POLICY

By G. L. Bach, Stanford University

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Although special developments like the recent food and energy crises may temporarily dominate price movements, the fundamental cause of inflation in the U.S. (and most other major industrial nations) is "excess income claims," validated by expansionary monetary and fiscal policies. Workers, businessmen, farmers, the elderly, national defense proponents, all of us together, have come to demand, almost as if it were a divine right, a rising total of wages, profits, prices, social security benefits, national defense, education, you name it, that substantially exceeds the output of the economy at stable prices. In the old days, these higher wages, prices, etc. would have priced products and labor out of the market before long, with unemployment and recession halting the inflationary pressures. But no longer. Today, the Federal Reserve, White House and Congress, given the nation's high priority on avoiding unemployment, generally increase government spending and the money stock to avoid substantial unemployment albeit at the cost of validating the inflationary cost and price increases. Then the wage-price-wage-price spiral is set for another round up, from the new higher plateau of prices and money incomes, as everyone tries again to increase his real income faster, with little fear that inadequate final demand will punish him.

Any economist can tell you one sure-fire way to stop this cost-push demand-pull inflation spiral. Cut the growth of the money stock to zero, shift the federal budget to a large surplus, and the growth in spending and prices will grind to a halt within a few months--but at a terribly high cost in unemployment and probably financial panic. What we need now, above all, is some way to slow the growth of excess income claims (wages, prices, and government benefits) so monetary-fiscal policy can hold the growth in total spending to a reasonably noninflationary rate without generating unacceptable unemployment.

Concretely, what we need is strong Presidential leadership in establishing openly with business, labor, agriculture, the general public and Congress a realistic, moderate set of guideposts for wages and prices, to be backed up by an announced, moderately restrictive monetary-fiscal policy. Such guideposts need <u>not</u> involve absolute sacrifices by any or all. If we could thus get the economy growing fairly stably again, groups and individuals in the nation would only have to hold their claims for income increases to about 3-4 percent annually on the average, assuming that to be roughly the long-run growth rate in real output. To illustrate, if our short-run goal is, say, to slow inflation to 5-6% next year, labor would need to agree to a wage guidepost of 8% or so, while product prices could rise no more than 5% or so. (The old early-1960s "guideposts", with the substantial flexibility they had, suggest the appropriate general type of relationships.) The Federal Reserve would need to cooperate with a monetary policy leading to a growth in money gnp of about 8-10% per year. In 1976, if all goes well, the amount of inflation could be further reduced, with slower nominal income rises while real incomes continued to rise in proportion to real output.

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The nation is ready for a strong program against inflation. But the President faces a major job of economic education. We must learn that we cannot have more than the economy produces; widespread attempts to "catch up" or "get ahead" through escalated wage and price increases or government programs will simply lead to accelerated inflation, not to larger real incomes. The greatest contribution these "summit" meetings can make is to drive this fact home to the American people--to us--and to provide a foundation for a temporary national "incomes policy" to work with monetary-fiscal policy in slowing the debilitating inflation. Perhaps development of guideposts should include some off-the-record hard bargaining sessions among business, labor, and a few government leaders--under real pressure from the American people and their leaders in Washington. What is needed is a relatively simple, well-understood policy; sporadic, ad hoc jawboning will accomplish little, generate major inefficiencies and inequities, and prove economically and politically divisive. The only real anti-inflation alternative is to ask monetary-fiscal policy to do the job alone, with enormously costly recession; or to move to mandatory direct controls, with their equally great economic inefficiencies and socio-political disruptions.

It is stylish to say that history has shown that incomes policies don't work. This is wrong. They have worked, both here and in Europe, for crucial periods when there was no substantial excess aggregate demand, as there is not in America today. They will not work when there is large excess demand, which is the reason they must be integrated with moderating monetary-fiscal policy to slow the inflation down.

This argument does not, of course, imply that other measures, especially to increase productivity and supply generally may not also be important.

Bruce K. MacLaury
September 12, 1974

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WAGE-PRICE POLICY

The Council on Wage and Price Stability should have the power to subpoena records and the authority to delay wage settlements and price increases for ninety days in those major industries where competition appears to be of insignificant dimensions. The agency may have to establish guidelines for wages and profit margins to equitably administer such a program.

WAGE PRICE CONTROLS AND/OR MONITORING IN 1974-75

Charls E. Walker

Although there is a time and place for direct wage/price controls, the U.S. economy in 1974-75 affords neither the place nor the time.

Arguments made for controls include: (1) Other policies are not working or are likely to work much more slowly than the public will tolerate; (2) a majority of the people appears to favor their reimposition; (3) controls can "buy time" for restrictive fiscal and monetary policies to do their work; and (4) excessive "market power" of business and/or labor can only be controlled through direct Government intervention.

Arguments against direct controls include: (1) They are effective only under very special conditions--conditions which do not now prevail in the U.S.; (2) they are inequitable, distort resource allocation in the short run, and impede production in the long run; (3) they deal with the symptoms rather than the causes of inflation; and (4) both business and labor are opposed to reimposition of controls, so that the probability of legislative authorization is slight.

Any attempt to re-institute direct wage/price controls now would be a bad mistake. False hopes would be raised. Uneconomic actions would be fostered. Long-run supplies would be reduced. And, most important, early reiteration to the public (following the misguided attempt to freeze prices in mid-1973) that there is no Magic Wand in the fight against inflation would further impair national economic morale--a morale that must be strong if inflation is in fact to be brought to heel.

Inasmuch as the political cards are at least temporarily stacked against resumption of direct wage/price controls, the discussion above may be academic. But in fact it provides background for comments on a specific question posed to the Financial Conference on Inflation, namely, "How should the wage-price monitoring system be operated?"

The short answer to this question is "Very carefully." The Council on Wage and Price Stability authorized by Congress in late August (see P.L. 93-387) may, if cautiously and wisely operated, lead the nation toward a "social compact for wage-price stability" among Big Business, Big Labor and Big Government. But to rush out in that direction with early adoption of guidelines, while the economy and its constituent parts (particularly labor) is still adjusting to and catching up with recent double-digit inflation, could be highly counter-productive, perhaps hastening a return to direct controls.

Can the Council do more than "not do harm"? Yes, provided the President and the Council are willing to emphasize the two Congressional directives dealing with fostering productivity and identifying inflation-generating laws and actions of the government. As to productivity, both tax policies and labor-management relations are obviously of great importance. In addition, serious consideration should be given to shifting the functions of the National Commission on Productivity, whose accomplishments have fallen far short of expectations since its establishment in mid-1970, to the Council on Wage and Price Stability

As to ameliorating the inflation-inducing actions of the government, President Nixon initiated a review of this problem through his Council of Economic Advisers last summer. In addition, former CEA member Hendrik Houthakker of Harvard stated in the Economists' Summit that he had constructed a list of some 45 areas that deserve attention.

Hence the Council on Wage and Price Stability might play its most significant role in building on these studies toward legislative and Executive Department action. Stated differently, to the Federal Government and its new agency, the Council on Wage and Price Stability, the best advice might be, "Physician, heal thyself"!

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OTHER IDEAS

AND SUGGESTIONS

TO COMBAT INFLATION

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Statement of Edwin G. Alexander
Vice President, National Savings and Loan League
to the Pre Summit
Meeting on Banking and Finance
Washington, D. C. , Sept. 20, 1974

A balanced budget must be the cornerstone in the nation's fight against runaway inflation. To do this, we need a reduction in Federal spending by $10 to $15 billion. In addition, we urge that the seven per cent investment credit be extended only to those industries where supply shortages exist. The taxpayer should not have to subsidize investment in industries where supply is adequate to handle demand. We further believe the wage-price monitoring mechanism should be extended to tax area--so that demand can be watched and so that tax increases can be implemented quickly if necessary.

While we fight the battle against inflation through stronger fiscal policy so that monetary policy need not bear the brunt alone, incentives for individual savings through the tax area should be implemented.

For instance, we urge a deduction for up to $1,000 in interest earned from savings accounts--so that the average saver will not have his savings shriveled away by a strinking dollar. At the same time we recommend a new type of savings certificate, where part of the interest can be deferred as to payment and taxation until maturity.

We believe that the Treasury Department should immediately make deposits of tax and loan accounts in thrift institutions in the same manner as is now done, exclusively, with commercial banks. This, like the tax incentive, will result in increased money for the now-depressed housing market.

The asset-liability structure of our financial institutions is far too rigid and inflexible to cope with today's shifting worldwide demands for capital allocation. Financial institutions will be strengthened if the earnings on assets are made to vary with the cost of capital. To help achieve this, we strongly urge the implementation on a national basis of variable rate mortgage loan program. The unsettled times demand this--and if implemented it would insure a reasonable flow of mortgage money at all times.

Additionally, we urge enactment of the Financial Institutions Act of 1973 with the exception that we believe no elimination of date control authority should be effected at this time. Also, we believe the section of this legislation that calls for a tax credit for housing investment should be tabled pending completion of a number of important studies on the taxation of financial institutions.

Lastly, we recommend that legislation be enacted providing an exemption from State usury limits for all Federally related mortgate.

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loans. There is no question but that in many states these archaic rules are simply preventing families from securing the funds they need to purchase the housing of their choice. These laws, which were enacted to help families, are in fact hurting them.

Families that want to purchase housing, should not have to bear the brunt of economic policies that have failed. While we all recognize that we must take difficult steps in order to cure the inflation cancer in our economy, we must also provide the wherewithal to insure that the basic needs of our people are met. One such basic need is, of course, housing.

To meet this dual objective, the recommendations of the National Savings and Loan League are aimed at two fronts: to insure the economy functions in the future on an even keel by balancing monetary and fiscal policies; and to develop short and long range answers to the particular problems facing the housing and home financing markets.

September 13, 1974

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PRESENTATION BEFORE THE FINANCIAL CONFERENCE ON INFLATION
September 20, 1974, Washington, D.C.

BY Robert R. Dockson, President and Chief Executive Officer, California Federal Savings and Loan Association, Los Angeles, California

Regardless of the numerous arguments presented at these Conferences called by President Ford, the fundamental truth is that we have reached a point where we must now correct the excesses resulting from the fiscal policies of the past. The large military outlays of the last decade, along with the more than $80 billion of Federal deficits, has pumped more dollars into our system than the value of the consumer goods and services produced. As a consequence, it is now imperative that Federal spending be curtailed and a sizeable budget surplus be planned. Both Congress and the Administration must prove to the American people that they recognize the need for a budget surplus by reducing Federal expenditures below the $300 billion level. This can be done if specific programs are eliminated and others significantly reduced. The <u>will</u> to do it must be found in the hearts of our Representatives.

After a sensible fiscal policy is implemented and there is evidence that the back of the inflationary spiral has been broken, the current highly restrictive monetary policy should be relaxed. Such relaxation should stimulate investments and thus increase our productive capacity so that the supply side can be increased at the same time demand is being depressed.

In addition to the need for a more conservative fiscal policy, coupled with a less aggressive monetary policy, there is an overriding need to increase the rates of savings and capital formation. The demand for capital is astronomical and there is no way to meet this demand without pursuing policies that result in a higher aggregate level of savings. While it is important that a nation-wide publicity campaign be mobilized to encourage people to save and to reduce their expenditures, the Government's taxing powers also should be employed to encourage a higher savings rate. A tax incentive in the form of a tax exemption for interest income derived from savings placed with financial institutions would offer a most effective instrument to increase the size of the savings pool while simultaneously reducing consumption.

Specifically, it is recommended that the first $1,500 of income earned on savings accounts in either commercial banks or thrift institutions be exempt from the Federal income tax. Such an exemption would benefit greatly the small saver as opposed to the institutional investor and, at the same time, would stimulate housing -- the industry that has taken the brunt of the current tight monetary policy. Although the Treasury would have to estimate the exact cost of this kind of program, rough estimates indicate the cost would be less than $3 billion a year, far below the cost of the various subsidy programs being discussed.

A tax incentive along the lines recommended would have other ancillary effects. It would tend to reduce immediately the "disintermediation" taking place with financial institutions and it would return a viability to their financial structure. These savings would be used primarily for home loans and new residential construction and thus employment in the construction industry would pick up and the Federal tax base would be expanded, offsetting the actual loss of revenue resulting from the exemption. A tax exempt program of the nature of that described would reaffirm our Government's recognition of the important role of the American home.

Position Paper By:

MILTON J. HAYES, Chairman
Government Fiscal Policy
Committee
Independent Bankers Assoc.
of America

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A SOUND DOLLAR BASED ON GOLD WILL HELP COMBAT INFLATION

It is probably too simplistic and too self-evident to propose that a sound unit of currency will go a long way toward combating inflation. The counter-point could be made that even nations with a sound currency backed by gold are today also experiencing inflation and this is true, especially in the case of Switzerland. However, monetary and fiscal responsibility may not be enough to control an inflation if the other policies of a nation tend to undermine the strength of the currency and have the citizens question the value of their money.

History is replete with examples of Nations who have declined because the currency was debased and the savings of the people seriously eroded or destroyed. The United States must now face this question squarely and take steps to reverse the process of undermining the currency that has been going on for too many years.

The first and foremost move must be in the area of the budget. Immediate action should be instituted to abandon the full employment budget and adopt a budget based on actual income and expenditures. Then the budget must be brought into balance at once and kept in balance for the indefinite future. All the protestations about the impossibility of achieving this very necessary objective must be dismissed and all the pressure groups must be made to understand the absolute necessity of this action for the protection of the peoples' savings.

We must then take steps to bring the dollar back into the discipline of a gold backing. I propose this be done by the following actions:

1. Raise the official price of gold to $75.00 per oz.

2. Issue the additional Gold Certificates representing the difference between the present $42.22 official price and the new figure of $75.00 per oz. However, these Certificates are to be "frozen" as a backing to the currency and not used by the U.S. Treasury to pay current bills and thus increase the money supply as was done in the two previous increases in the price of gold. This is a vital step and must be part of the legislation authorizing the new official price of $75.00 an oz.

Studies must then go forward to have a statutory gold backing to the currency --this should eventually serve to prevent the irresponsible actions by many segments of our society in demanding special heavy spending programs for a small percentage of the population. History shows that unless there is a forced discipline in the matter of maintaining a sound currency the nature of man is such that debasement is an easy course to follow until the financial structure of a Nation collapses.

If these steps are taken we will find that confidence in the dollar will be restored, that the people will trust the value of their money, that natural forces will cause a decline in many basic commodities from their present speculative heights, and the rate of inflation will be substantially reduced. Time is of the essence in moving forward on this program.

CREDIT UNION STATISTICS
National Credit Union Administration

Vol. X, No. 8 291 NCUA:R-4 (5001)
August 26, 1974

Selected Data for JULY 1974

Loans outstanding at credit unions increased $365 million in July, seasonally adjusted, considerably more than the increase in the preceding month and more than twice the January-June average. During the last three months, loans were increasing at an annual rate of 15.5%, compared with 12.9% for the last 12 months.

Credit union savings, on the other hand, increased only $78 million in July, on a seasonally adjusted basis. This increase was substantially less than the previous month's gain and more than 75% smaller than the January-June average. On the basis of expansion during the last three months, savings were increasing at an annual rate of 12.8%, slightly faster than for the year ended July 31, 1974.

Loan-to-share ratios (back page of release) increased during the month while liquid asset ratios declined.

Credit union assets totaled $30.6 billion as of July 31, 1974.

Item	Seasonally adjusted				Unadjusted			
	Outstanding this monthend	Increase or decrease (-) from:			Outstanding this monthend	Increase or decrease (-) from:		
		Prev. month-end	Three months ago at annual rate			Prev. month-end	Year ago	
			Amount	Percent			Amount	Percent
	(dollar amounts in millions)							
Total Assets/Liab. & Capital	$30,628	$198	$3,680	13.0	$30,612	$-185	$3,535	13.1
Federal	15,651	101	2,004	13.9	15,635	-148	1,931	14.1
State	14,977	97	1,676	12.0	14,977	-37	1,604	12.0
Loans Outstanding	23,016	365	3,352	15.5	23,166	366	2,648	12.9
Federal	11,649	191	1,836	16.8	11,731	158	1,379	13.3
State	11,367	174	1,516	14.2	11,435	208	1,269	12.5
Savings	26,610	78	3,160	12.8	26,650	-162	2,889	12.2
Federal (shares)	13,692	40	1,820	14.5	13,719	-97	1,563	12.9
State (shares+dep.)	12,918	38	1,340	11.1	12,931	-65	1,326	11.4

NOTE:--Monthly figures, except where otherwise indicated, are preliminary estimates based on reports furnished by a group of Federal and State-chartered credit unions that account for about 30 percent of credit union assets. Estimates are revised annually, mainly to incorporate recent benchmark data.

Credit Unions
Selected Data

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Item	This month	Last month	Year ago
Number of operating credit unions[1/]	23,028	23,029	23,020
Federal	12,842	12,834	12,716
Charters issued	25	37	28
Entered liquidation[2/]	17	14	29
State	10,186	10,195	10,304
Number of members (thousands)	28,700	28,528	26,839
Federal credit unions	15,191	15,100	14,153
State credit unions	13,509	13,428	12,687
Average savings per member	$929	$940	$885
Federal credit unions (shares)	903	915	859
State credit unions (shares + deposits)	957	968	915
Delinquency rate[3/]:			
Federal credit unions:			
Number of loans	2.9	2.8	2.6
Amount of loans	1.8	1.8	1.6
Repayments ratio[4/]:			
Federal credit unions	9.6	8.0	9.9
State credit unions	7.4	6.7	7.3
Loan-to-share ratio:			
Federal credit unions with assets of:			
$2,000,000 or more	83.8	81.9	82.9
$500,000 - $1,999,999	89.5	88.2	89.2
Less than $500,000	93.2	92.3	94.5
Liquid asset ratio[5/]:			
Federal credit unions with assets of:			
$2,000,000 or more	43.2	44.7	47.0
$500,000 - $1,999,999	55.3	57.9	62.7
Less than $500,000	56.1	60.6	77.7

1/ Data for Federal credit unions based on complete reporting.
2/ Net of Federal credit unions that resumed operations during the month.
3/ Loans delinquent 2 months or more as a percentage of the number or amount of loans outstanding as reported by monthly respondents.
4/ Repayments in current month as a percentage of outstanding loans at end of preceding month as reported by monthly respondents.
5/ Represents the sum of U.S. Government securities, Savings and Loan Association shares, and loans to other credit unions as a percentage of notes payable and share accounts larger than $5,000.
NOTE:--Ratios and averages based on data not adjusted for seasonal variation.

Statement by Sylvia Porter, prepared for Pre-Summit Conference on Inflation, Washington, D.C., September 20, 1974.

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Since I am attending this Pre-Summit Conference in the role of representative of the consumer, it is in this role that I submit the following "other suggestion for controlling inflation."

I

In the anti-inflation fight to date, the consumer has been lectured, exhorted, patronized - but not enlisted. Yet, it is the consumer who is being squeezed by tight and horrendously expensive credit, trapped by soaring prices, battered by crashes in the securities markets.

I believe this is an extraordinary oversight. I also believe that consumers are now as eager to help combat inflation as we were eager in World War II to help combat Nazism. The consumer wants to be a participant in this battle, not just a pawn. There is an unspoken cry of "WHAT CAN I DO?" in the hearts of millions of Americans that the President can and should answer.

(1) Work should begin at once on preparations for the President's call for cooperation at the consumer level - voluntary but very definitely, cooperation. There need be no "stick," such as rationing. And the "carrot" is implicit in the fact that the consumer is doing something positive to help ease his or her own squeeze.

(2) Representatives of the widest range of groups of consumers should be called to meetings in Washington to be informed of the plans and hopes, to be asked for policy suggestions and practical ways the program should be carried out. All consumer groups, all national organizations of men and women, all types of educational, religious, civic, etc., organizations should be included. The groups may be broken down so each is small enough to be productive. I have seen this sort of call for action work magnificently under far less urgent circumstances. It could have an electrifying effect.

(3) The help of professionals in the fields of public relations, advertising and the like should be enlisted. They would leap to the opportunity.

(4) The program should be identified with the White House, to give it stature and insure its duration. (Perhaps, it might be placed under the continuing supervision of Virginia H. Knauer, Special Assistant to the President for Consumer Affairs.) But this program is to be implemented at the regional and local - not national level. This is a key aspect of it.

(5) After the details have been carefully worked out, the President himself should issue a major policy statement and kick off the call for voluntary cooperation via a prime time TV address.

Here are several illustrations that come quickly to mind. There must be hundreds of others equally valuable or far superior.

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Victory Gardens: Whether on a community or on an individual family scale, the victory garden can help keep some lid on food prices as well as contribute importantly to the individual American's feeling of participation. The "community garden" concept could be spectacularly expanded with the cooperation of corporations, churches, civic groups, schools, nursing homes, etc. Millions of publicly owned acres could be made suitable for community gardens even in densely populated cities.

Recycling: While local collection centers for waste paper, aluminum cans, bottles, etc., have proved comparatively ineffectual, they have helped raise the public's consciousness of the value of recycling in conserving our natural resources and helping to keep a lid on prices. Scrap collection and sale by communites themselves would pay off handsomely in every way.

Energy Conservation: I, for one, am utterly dismayed by the extent to which the U. S. has returned to a "burn-it-up" philosophy. Energy conservation measures must be revived and maintained. The list of moves that can be made by businesses, homeowners and individuals is well known to you. This would be both an anti-inflation and a consumer unifying force.

Educational Pamphlets: Booklets explaining in easy-to-follow language the many significant ways consumers can help hold down living costs - in all areas - could be inexpensively printed and widely circulated by organizations at the regional and local levels. As the Red Cross teaches swimming, for instance, so it could teach other vital subjects. While admittedly sketchy, if found worthy, this idea could easily be carried on from here.

II

In my role as a syndicated columnist specializing in economics and finance, I also submit these suggestions in what must be briefest summary:

The U. S. must assume leadership in bringing together the oil consuming nations to deal with the oil producing countries and meet the exceedingly delicate problems arising out of the oil price increases and production-limiting maneuvers. This cooperation among consuming nations is absolutely imperative - in sharing of available oil supplies, in developing policies to deal with price hikes and oil money flows, in conservation, in pursuing new sources of energy. And this common front and cooperation should be extended to other crucial raw materials so that we may handle adverse steps taken by other producers of essential raw materials without first piling crisis upon crisis.

III

Work must be speeded up well beyond what is apparent now on development of new international financial agreements and financial institutions - or perhaps strengthening of existing agreements and institutions - to handle the challenges of massive flows of funds. Our policies have been much too hesitant. Whatever progress has been achieved as a result of our timid steps to date seems to me far too little.

THE EQUITABLE LIFE ASSURANCE SOCIETY
OF THE UNITED STATES

1285 AVENUE OF THE AMERICAS, NEW YORK, N.Y. 10019

FRANCIS H. SCHOTT
Vice President and Economist

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September 13, 1974

The Hon. William E. Simon
Secretary of the Treasury
U. S. Treasury Dept.
Washington, D. C. - 20220

Dear Mr. Secretary,

In connection with the Sept. 20 Financial Conference on Inflation, I should like to be permitted to submit the following statement, for your information and that of the participants. The statement is submitted on my own behalf, and on behalf of the New York Chamber of Commerce and Industry. The Chamber has a Finance and Currency Committee, of which I am Chairman. The 30 members include top executives and economists of all segments of the New York financial community.

1. The New York financial community considers inflation the #1 problem. - A substantial reduction in the inflation rate is urgently required.

   This view reflects not only a general economic appraisal, but also our recently acquired knowledge of the direct impact of major inflation upon New York as the nation's financial capital.

2. The intermediary function of New York City is in jeopardy. - New York matches institutional and private savings with the capital requirements of domestic and international nonfinancial businesses. Confidence in financial values is a prime requirement of satisfactory performance of this role, which is in turn indispensable for capital formation.

   The bond market is functioning under severe strain. The equities market has faded. Previous arguments about the worth of inflation as a stimulant can be safely set aside. The proof of its destructiveness is at hand.

3. The challenge of dealing with inflation must be accepted. - Several immediate causes of the recent intensification of inflation escape our direct policy control (oil, agricultural production). But the underlying causes include excessively expansionary fiscal and monetary policy since the mid-1960s. A gradual, orderly correction of these excesses is required.

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4. The basic ingredient of success is fiscal and monetary restraint. - Current Federal Reserve policy has been helpful in preventing runaway inflation. Monetary policy has been about right and should stay on a restraint course. But because of continuing stimulus from fiscal policy, monetary policy has had to carry an excessive burden. There is a likelihood that the Federal Reserve will have to give specific assistance in problem situations, as has already occurred.

   The Fed's dilemma could be substantially alleviated with more assistance from fiscal policy. The planned rise of 14% in Federal spending to $305 billion in fiscal '75, and the associated deficit of $11 billion or more, are excessive. The Administration deserves encouragement in bringing about a spending cut of $5 billion - $10 billion, especially because it may be necessary to finance an enlarged public employment scheme for some time in 1975.

5. The economic readjustment now underway is essential to take some pressure off price increases. - The readjustment is especially painful, because not only rising unemployment but also a halt in the rise of real income for most of the population is involved. Poor productivity performance in recent years, and enlarged transfers to foreign oil producers and to relatively few farmers, make this widespread real income effect inevitable. A blunt statement of the facts may be more palatable than essentially futile attempts to evade the facts.

6. Liquidity assistance in the financial sector may be required, but not new long-term public expenditure programs to substitute for private activity. - The U. S. financial markets were the envy of the world while inflation was mild. Solving the #1 problem will ease most others.

   One serious danger is that Federal housing programs will become the sole source of housing finance, for which the Federal government obviously does not have adequate noninflationary sources. State usury laws are especially counterproductive at this time; and they damage the ability of savings institutions to cope with possible Regulation Q adjustments which are probably needed.

7. A basic policy choice is at hand -- traditional or regimented capital markets. - The price mechanism works well only in a relatively stable environment, in spite of the proved considerable adaptability of financial markets to inflation. If the inflation were to get worse, the demand for additional controls, allocations, and subsidies would become overwhelming, even though these mechanisms are unlikely to achieve the desired results. We support the short-term pain of readjustment vs. the long-term damage of inflation and controls.

* * *

Your attention, Mr. Secretary, is deeply appreciated.

Sincerely,

Francis H. Schott

OTHER SUGGESTIONS TO COMBAT INFLATION
by
Norman Strunk, Executive Vice President
United States League of Savings Associations

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At this point in anti-inflation discussions, it is a little hard to suggest new ideas, but I have a few.

1) Repeal or delay the authority for individuals to buy gold. We view this as another possibly very serious source of disintermediation. There is an obvious concern on the part of the American people about the value of the dollar and some concern relative to the safety of their funds in financial institutions. I can think of nothing less productive than the withdrawal of funds from financial institutions for the purchase of gold.

2) The 55-mile per hour speed limit on American highways should be retained. This obviously is a source of considerable economy in connection with energy in this country, and also in the family pocketbook.

3) The minimum wage law for teenagers, certainly those under 18, and maybe those even under 21, should be repealed or modified. Many young people are unable to secure jobs and thus be of help to the family budget because the nature of their employment is not worth $2.00 or $2.25. Having to pay the minimum wage for certain types of routine unskilled employment to young part time workers adds unnecessarily to the costs of some business enterprises. Exemption for teenagers from the law would hardly do violence to the concept of the minimum wage law.

4) Promote family growing of some of their own vegetables through an "anti-inflation garden" along the lines of victory gardens of World War II. With good promotion there could be wide participation in such a program and it would help reduce the cost of living to some extent. Through neighborhood organizations, cities could be encouraged to make available plots of ground for apartment dwellers.

5) In one way or another encourage some revision in the ad valorem tax system putting higher proportional tax or assessment on the land versus the improvements to the land. From this program should be exempted agricultural land, timber land and mining and oil land actually in production. I do not have time to develop the logic on this but it would bring into productive use some of the land now being kept idle for purely speculative purposes. It would reduce the cost of the land available for residential development and eliminate some of the speculative profits from land. One of the major reasons for the high costs of providing homes for American people is the extremely high cost of land and the huge profits that some people made in land purchased for speculative purposes.

Tax exemption for interest earned on savings accounts has been mentioned. I want to emphasize it, however, and express the hope that the Administration would embrace this idea, and urge its prompt passage by the Congress.

One-Page Summary of the U.S. League of Savings Associations

We would suggest the following general anti-inflation programs and policies by the Federal Government:

1) Achieve a Federal budgetary surplus at the earliest possible date. If at all possible, such a surplus should be sought without an increase in taxes, but a surplus is necessary even if taxes must be increased to attain it.

2) The Federal Reserve Board should restrain the growth of money supply and not relax its restrictive monetary policy too quickly -- even though thrift institutions are particularly hard hit by tight money policies.

3) New tax incentives are needed to encourage savings, thereby reducing inflationary pressures. We recommend a tax exclusion for the first $1,000 of interest earned on savings accounts at supervised financial institutions.

4) The Federal Government should announce its willingness to serve as the "employer of last resort". This would sever the presumed relationship between unemployment and the program of fiscal and monetary restraint so that anti-inflationary policies could be pursued with vigor.

5) Special tax incentives should be utilized to increase the productivity in appropriate areas of the general economy.

Specific recommendations to improve the flow of funds into the residential mortgage market:

1) Swift Congressional action on H.R. 11221, the Depository Institutions Amendments Act of 1974. Of particular importance is the increase in insurance of accounts coverage by the FSLIC and FDIC from $20,000 to $50,000. This would be of immediate practical help in assuring people that their money in financial institutions is completely safe, would encourage people to place their money in thrift institutions which are the backbone of the housing industry, and would not cost the Federal Government one additional dollar. We also ask support for the House-passed provision to permit 100% Federal insurance for deposits of governmental units -- another potential source of funds for our institutions and ultimately, homebuyers.

2) Reconsideration and reversal of the Treasury Department's regulation which effectively prohibits the issuance of tax-deferred savings accounts. This would permit savings associations to resume a useful service to many depositors -- particularly those approaching retirement.

3) Support for the Federal Home Loan Bank Board's efforts to encourage the use of a variable rate mortgage, thus encouraging lenders to make new commitments even under today's trying conditions.

4) Separate the controversial subjects of ending savings rate control and repealing the bad debt deduction tax treatment for thrift institutions from discussions on the Financial Institutions Act, so that Congress might consider and move ahead quickly on this important legislation.

BRIEF STATEMENT BY C. P. WILSON, CHAIRMAN OF THE BOARD,
ROBERT W. BAIRD & CO. INCORPORATED, MILWAUKEE, WISCONSIN
FINANCIAL CONFERENCE ON INFLATION, SEPTEMBER 20, 1974
WASHINGTON, D.C.

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President Ford has stated loudly and clearly that inflation is the number one problem in the United States. That leadership in our government has even identified the problem is encouraging. As we meet for this Financial Conference on Inflation, let us not lose sight of the number one problem and the priority that its cure deserves. All that we discuss or debate should relate back to the first priority: How can this country cure an intolerable rate of inflation?

Our firm is a regional investment banking firm and our principal focus is doing business with the public. All of our capital over the years has been provided by retention of earnings and investment by our people. In 1973, when the volume of corporate financing was off sharply, our investment banking deals managed or co-managed were up sharply, and we led all regional firms in this category. We have been in the top five regional firms in each of the past five years.

While profitable in 1973 and so far in 1974, we have found it necessary to reduce expenses by $1,500,000 so far in 1973-74. These are substantial reductions for a firm with gross revenues of about $12,000,000. We find ourselves suffering, with the industry, from all the well documented problems: low volume, rapidly rising costs, high interest rates, uncertainty of regulatory rules, illiquidity of markets, etc. etc.

However, we can relate <u>all</u> of these problems back to inflation. The intolerable rates of inflation of the past three years are destroying the products we have to sell to investors. Inflation is destroying the individual's incentive to save with any kind of a savings vehicle. He is no longer willing to make a long term contract. We can continue to try to attract him with innovative ideas such as variable rate notes, short term notes (Duke Power 13s) and perhaps others to come, but inflation at these rates is wiping out 30 million older people and middle income Americans. These people are the country's savers and investors. New legislation to increase social security benefits, pensions, health insurance are only feeding the fire. And now the results of inflation are filtering back into the capital markets. These markets are breaking down, as a result, just as they have in other countries for exactly the same reasons. Our capital needs by 1985 are estimated all the way from $2.6 trillion to $3.6 trillion with an estimate capital short fall of $400-$600.

It is obvious that we must change our goals in this country. We must be content with a slower growth rate and a permanently lower monetary growth rate. This must be accompanied by a balanced budget or smaller deficits. If these goals are defined, the alternatives accurately described, and the people are asked to make the necessary sacrifices to attain these goals, we believe they will respond. But it will take time and sacrifice. Unless government is willing to assume its painful role in "telling it as it is", the alternatives are frightening. Provide us with the needed leadership to cure inflation and most of our serious problems will disappear.

SUBMISSION TO THE PRESIDENT'S
FINANCIAL CONFERENCE ON INFLATION
September 20, 1974

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by

DR. ALBERT M. WOJNILOWER
Economist and Director
The First Boston Corporation

Our present economic condition is the legacy of a few short years during which the world business community learned that it is cheaper to buy today than to buy tomorrow, and that what is borrowed today can be paid back tomorrow in depreciated currency. Until quite recently, many firms acted as though they really believed that risk could be safely ignored and that caution had been outlawed, much as in a world in which no one bothered to lock any door because some higher power has provided everyone with free theft insurance. This attitude has found its fullest expression in the realm of finance.

When an illness is allowed to go untreated for too long, not many options remain open to the physician. The issue is no longer how to restore the patient to good health but how to save him, and even some rather unpleasant treatment may be adjudged as preferable to doing nothing. Thus, there is little hope, in my judgment, of preventing the emerging recession. Too many sectors of our economy, mainly the industries and financial institutions serving the consuming public, are being ravaged by the inflation and its financial symptons. They will continue to suffer until the inflation abates materially, which will surely not happen overnight. By contrast other sectors in our economy, mainly those catering to business and foreign demand, have benefited from the inflation and developed their long-range planning on the assumption that the prices of the products they sell will continue to outrage rising costs. For these important industries, the subsidence of inflation is likely to be fully as painful and injurious as inflation's ascendancy has been for so many others.

Nevertheless, I consider it important that certain steps be taken -- and others avoided -- so that the recession may be mitigated and ultimately do some good by murturing a noninflationary recovery. The danger is all too tangible -- and has been terrorizing the stock market -- that antirecession measures may cause prices and interest rates to chase each other upward still faster, even as real economic activity stubbornly goes on contracting and unemployment spreads. Such a conjucture is to be prevented at all cost, lest we arrive in a matter of months at that point of no return at which some people start to react to the inflation by buying their next year's shirts today, and then the shirts for the year after that (like steel, they will argue, you can always sell them to someone else if you don't need them) while others decide to feast on steak and champagne today, because they have reason to fear that the money won't even buy hamburgers a while later.

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PREVENTING EXCESSIVE CREDIT EXPANSION

by

DR. ALBERT M. WOJNILOWER
Economic and Director
The First Boston Corporation

Inhibiting and reversing the inflationary trend and expectations necessitates firm control over the expansion of credit -- a control so firmly set in place that the public can visualize it as surviving political counterpressure even after the initial anti-inflationary results. As a practical matter this means controlling the expansion of commercial bank credit, since the growth of other lenders has long ago been pinched off by the overwhelming competitive power of the banks that has been released by the recent dismantling of many of the restrictions placed on them during the 1930's. Controlling bank credit, in turn, must start with curbing the promises that banks make. Most important bank loans originate as the result of formal of informal credit lines or commitments issued by banks to their good clients. These promises, which can be cashed on the shortest of notice, are just as much as part of the nation's spendable money stock as is the money supply reported in the statistics that the Federal Reserve issues and they and we so closely watch each week. As long as loan commitments are readily available and widely merchandised--and the banks who make the promises are also able to deliver on them--inflationary spending (or any other kind) is not inhibited.

What happens if the promises are made but then the Federal Reserve tries to hold back the supply of funds that the banks need to make good? The cost of money rises sharply as banks bid for the available supply--and this invariably prompts the authorities to supply more funds than they originally intended, because everyone is afraid of sharply rising interest rates. Does the rise in rates deter the banks from issuing more promises? It used to, but no more. Until last year, the Federal Reserve's Regulation Q restricted the interest rate banks could pay to borrow large sums in the money market. Thus, whenever the price of money was near or beyond the maximum the banks were allowed to pay, the banks' ability to raise funds for lending was sharply curtailed and likewise their ability to make new loan commitments. Also, until last year, the banks' freedom to raise the prime and other lending rates was contrained. Consequently, when the banks' cost of borrowing money in the market rose in relation to what they could charge for their loans, their profit margin was squeezed and their ardor for new commitments cooled.

But since early 1973, these automatic "shut-offs" on the banks' promotion of loan commitments have been removed. Moreover, the practice of charging a "floating" rate has become virtually universal for large loans. On such a loan, the customer undertakes to pay a fixed mark-up over whatever the bank itself has to pay for the funds

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it passes through to him. The bank no longer needs to care at all what interest rate it has to pay, because it will get even more back from the customer. Nor do the borrowers care very much, because they know that all their competitors' interest costs are floating up (and occasionally down) together with their own, so that all borrowers will be passing through to consumers identical changes in their interest costs. The loan expansion dial is set at infinity.

The chief restraint of high interest rates on short-term and even much long-term borrowing has always been one of timing; in relation to the competition, is it wiser to borrow (and spend) today or tomorrow, or is it perhaps too late to borrow because my competitors were smart enough to borrow earlier when money was cheaper? Under floating rates, this concern over timing is virtually completely dispelled, so that rises in interest rates exercise virtually no deterrent effect. That is why short-term rates have been extraordinarily higher than long-term rates. There is a grave danger, moreover, foreshadowed by recent long-term floating rate bond issues, that this cancerous development will spread to the long-term market. If it does, any sustained return to single-digit interest rates will be foreclosed for the indefinite future.

If interest rates do not do an adequate job of rationing credit in the current environment, how does the market distribute credit? After all, the supply while excessive is not infinite. The answer is, when the credit structure is encouraged to overexpand, it doesn't take very long for defaults, insolvencies, and bankruptcies to emerge. These have now become the basis of credit allocation. To have allowed widespread default risks to reappear is playing with lightning; there is no telling when and where default may strike and how many innocent parties--creditors, vendors, suppliers, depositors--may be scarred.

The majority of large market participants, of course, simply take it for granted that the government or Federal Reserve will supply the wherewithal to bail out the serious cases--as indeed they must in order to prevent irremediable damage to the economy. The unfortunate outcome of this devil-may-care attitude has been,however, that the largest banks around the world--those regarded as having unbreakable unbilical cords to the central banks' money-printing presses-- have been operating as though they were branches of central banks run for commercial profit. Because they have seen that it is to their advantage to try to increase their loans to the maximum, and because they and their depositors know that the Federal Reserve is more afraid of bank failures than are these banks themselves, their expansion has been restrained only by the defaults of some of the firms with which they have done business. The consequence of this ruinous competition from these banks is that, viewed in terms of their prospects for institutional survival, the stock, bond, mortgage, and foreign ecxchange markets, depositary savings institutions, and mutual funds are a shambles--and even the banking system is under suspision to a degree unknown for more than 40 years

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We have taken a long step backwards to the disaster-ridden banking arrangements of yesteryear in response to which the modern conception of central banking was evolved. Until less than two years ago, our inflation, though stubborn, was not unusually rapid. The abdiction to the commercial banks of the de facto control over the growth of credit and money is, I am convinced, the principal cause of the exceptional virulence of inflation since then.

CONTROL OF BANK LOAN INTEREST RATES

by

Dr. Albert M. Wojnilower
Economist and Director
The First Boston Corporation

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To revive the public's fading hope that inflation can be curbed it is essential first and foremost to reimpose a permanent ceiling on bank loan interest rates. The ceiling could be set at current levels; perhaps there will be opportunity to lower it in the future, but only in the most exigent circumstances and only by legislation should it be possible to raise it. The purpose, it should be reiterated, is not to hold down interest rates. Rather, it is to provide a clear and unmistakable warning to large lenders and borrowers, and to business planners, that whenever money rates in the open market are in or threatening to rise into the critical zone, banks will have to curtail their lending commitments in order to protect their earnings. Thus banks could no longer afford to promise clients that large loans will be available under any and all market conditions. Equally no borrower will be justified in assuming that he is somehow immune from having his credit cut off. And the "suction" on the Fed to overissue money to validate excessive bank promises will be relived.

No doubt such a loan rate ceiling will on occasion, as in the past, cause market distortions at the expense of some commercial banks, but I am sure we would gladly accept the reappearance of these localized irritations if they helped reduce the general world-wide inflationary disruption we are privileged to have now. As for the cost to the banks, they do after all enjoy a legal monopoly of demand deposits and checking accounts; unique access to the Federal Reserve as a lender of last resort; restrictions on the entry of new competitors; and the benefits of Government-guaranteed deposit insurance. Like other public utilities, they should expect to bear certain public-interest costs in return for these enormous privileges.

My other recommendations run along the same lines. Existing interest rate and loan rate ceiling should be preserved where they still exist (although the levels may need updating in some cases). Floating interest rate securities, including variable rate mortages and, if possible, floating-rate commercial loans should be severely restricted or even outlawed by regulatory policy. (Let us remember that only the Government and the Federal Reserve can credibly guarantee payment on what are essentially open-ended contracts.) And controls over the outflow of capital to the rest of the world will need to be reinstated to prevent circumvention of these rules (as well as for other reasons cited below).

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In the absence of measures to this or similar effect, I am quite certain that inflation will, with fits and starts, continue to accelerate. Consequently, I am also quite certain that such measures will eventually be adopted. The later they come, the more Draconian they are apt to be, and the greater the price in terms of inflation and recession we will have paid.

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BUSINESS INVESTMENT IS NO PANACEA

by

DR. ALBERT M. WOJNILOWER
Economist and Director
The First Boston Corporation

Investment isn't always a good thing -- if it were, we should all be starving ourselves, early Communist style, to finance heavy industry -- and investment isn't a monopoly of business firms. Investment concerns creating resources for the future and the most important of these are to be found in our households. The building of the homes in which we live and bring up our children and the buying of cars and appliances which enable more members of each household to take on paying jobs and to get to sources of training and education do not bear the statistical jobs and to get to sources of training and education do not bear the statistical label of "investment in plant and equipment", but they are at least equally important. Such household-oriented activities, however, can never effectively compete for funds in free financial markets with business equipment, since they produce little or no cash flow and since the benefits often accrue not to the would-be borrowers but rather to their children or their community. If we had a truly free market, all but the richest of us would sleep and eat in our offices or at our workbenches, because that is clearly the cheapest and most efficient method of organizing production.

Inflation and high interest rates exacerbate the problems of the industries and institutions that enable American families to live together in privacy rather than in factory dormitories, but these problems would persist in a high-employment economy even if there were no inflation. The regulation of bank interest rates I have already proposed will be of some help in rechanneling funds toward household investment, but it will take a rather thoroughgoing reversal of current government philosophy which favors deregulation of financial institutions, and which mobilizes the Federal Reserve's lender of last resort function primarily on behalf of banks that lend primarily to business firms, to produce a better balancing of our financial structure between human and engineering values.

Much of the business investment now surging forward is, I am convinced, based on unsound premises. The elimate of scarcity that prevails in many basic materials (although fewer and fewer of them of late) reflects the unfortunate fact that over the last couple of years, these commodities have turned out to be the most profitable asset to own -- they have far outperformed money, foreign exchange, securities, labor skills, or finished goods as stores of value. Inventory profits have been a source of gigantic profit increases to business firms not normally in the commodity business. Because buying cheap and selling dear is what business is all about, firms have naturally stepped up their inventory orders enormously, beyond the capacity of the producers to deliver-- but if prices were to settle, these orders would vanish and some of the inventory buyers might even become sellers in competitition with the manufacturers. The desire to substitute inventories and machines for cash, so as to boost profits

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further, largely explains why a climate of shortage continues to prevail in many markets even though real final demands, and especially domestic consumer purchases, have been shrinking for a year or more. Self-aggravating runs from money into commodities are typical of business upswings. In the past, however, credit restraint has curbed the ability to finance such purchases much earlier in the game: in the present, viewed on an international stage, credit restraint has hardly begun to exert a meaningful checkrein.

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LEAVE THE BUDGET ALONE

by

Dr. Albert M. Wojnilower
Economist and Director
The First Boston Corporation

Let me now turn to some things we ought not to do. We ought not to try to cut the budget deficit. To do so will be seen by the business community as making large additional sums available for private borrowing, especially by those industries whose spending is contributing most to the inflationary pressures. Moreover, if Congress reduces the deficit, the Federal Reserve will have to ease credit to bring down interest rates as its part of the bargain. The fear that credit may become unavailable is the major if not the only anti-inflationary deterrent now in place, and it has been operating for only six months at most. The last thing we should do is to get rid of our only effective weapon.

As to reducing Federal expenditure, whatever may be the pros and cons in the longer run, it is most unlikely that any cuts can be instituted the timing of whose economic impact can occur any time soon. Why reduce employment on the Federal payroll at a time when large sums are being earmarked for disbursement on public service employment? Curtailment of military outlay on hardware and research and development would help relieve pressure on some of the "bottleneck" sectors in our economy, but such decisions cannot and should not be made to depend primarily on economic policy considerations.

As to taxation, raising individual taxes seems inappropriate when it is likely that within less than a year the case may become overwhelmingly strong for a large income tax cut to keep people's finances from being ground utterly to bits between recession and a steeply rising cost of living. At that time, there might be a case for offering increased revenue sharing payments to states and localities that agreed to use the funds to cut sales taxes and thereby help to lower the cost of living.

Increases in business taxation would also be unwise, since the effort will be made to pass on the taxes in higher prices. General business tax cuts or investment credits would be inappropriate insofar as they would simply serve to relieve the credit stringency that, as indicated earlier, is our only anti-inflationary weapon. Tax cuts may be justified for certain regulated utilities, where the funds would be used to keep down the rates charged the public rather than to support new expansion plans.

DANGERS OF AN UNCONTROLLED CAPITAL OUTFLOW

by

DR. ALBERT M. WOJNILOWER
Economist and Director
The First Boston Corporation

Indeed, to the extent that we may be suffering a genuine rather than a speculative heightening of scarcities, it is international in nature. For many decades, international financial flows (and often trade flows as well) have been dominated by political concerns such as wars and the rise of totalitarian regimes and/or have been administratively regulated for balance-of-payments reasons. Since the beginning of 1973, paralleling the abolition cited earlier of our internal self-disciplining financial regulations, international flows have also been rendered largely free of governmental intervention. Generally speaking, American levels of resource endowment, accumulated wealth, and consumption are far higher than in the rest of the world. The effect of free financial markets and trade must therefore be in the direction of equalizing, by means of exports of goods and capital from the U. S., the standard of living in the U. S. and that of the rest of the world. While this means a higher standard for the world seen as a whole, it may not mean a higher standard of living for most of us. We have seen this conflict illustrated, in a rather special but nevertheless instructive fashion, with regard to the grain trade. It is also taking place less dramatically -- though it could snowball -- insofar as OPEC oil revenues are being used to finance increased imports by the OPEC members and those other countries to whom they and their bankers choose to extend credit or grants, while the world pays its oil bills largely by borrowing funds coming from the U.S. These are monstrous issues that far transcend economics, but it should be clear that only the most gradual kind of reduction of American living standards can be viewed as a viable policy for the long run.

Translated into purely financial terms, the abolition of the controls over the outflow of U. S. funds has drastically reduced the scope for interest-rate reduction even in the best of circumstances, while the forthcoming freeing of Americans to purchase gold can at best do no good, and at worst wreak havoc.

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CONCLUSION

by

DR. ALBERT M. WOJNILOWER
Economist and Director
The First Boston Corporation

The burden of my proposal, then is to re-introduce into our financial structure certain frictions -- in particular, controls over interest rates -- that will limit the boundless expansion of credit commitments which in my judgment is what has made the inflation so exceptionally rapid and intractable. While these proposals made to some appear radical or anti-historical, they are actually in the conservative spirit and tradition of Bagehot's dictum that "money will not manage itself," a diagnosis amply confirmed in history and which is the foundation of modern central banking and banking legislation.

It is true that a free financial market is a beautifully efficient motor, but if human beings are beautiful it is precisely because we are not mechanically efficient, limitlessly adaptable, and totally predictably. Putting a jet engine on a tricycle won't improve its efficiency.

The allocation of capital is the rudder by which society steers into the future. That is why no society has ever left such decisions to a largely impersonal process. Indeed the economy cannot be steered like in a missile or a satallite, which will wind-up in the desire predicted place if the computers have been set properly. What is being steered is a vessel with very human passengers who have profound likes and dislikes and differences of opinion about where they want to go, who each in his own way can alter the pass of the ship even though the rudder may be set, and who understands and appreciates, perhaps even better than do those estimable individuals themselves, the strength as well as the foibles of their many captains.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE 6:30 P.M. September 23, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.5 billion of 13-week Treasury bills and for $1.8 billion of 26-week Treasury bills, both series to be issued on September 26, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 26, 1974		26-week bills maturing March 27, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.248 a/	6.931%	96.036 b/	7.841%
Low	98.205	7.101%	95.983	7.946%
Average	98.230	7.002% 1/	95.992	7.928% 1/

a/ Excepting 1 tender of $5,000,000
b/ Excepting 1 tender of $2,330,000

Tenders at the low price for the 13-week bills were allotted 45%.
Tenders at the low price for the 26-week bills were allotted 69%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 44,500,000	$ 32,925,000	$ 36,575,000	$ 22,575,000
New York	3,135,995,000	2,067,395,000	2,475,905,000	1,525,870,000
Philadelphia	32,380,000	30,850,000	50,530,000	12,975,000
Cleveland	99,150,000	45,610,000	31,980,000	28,530,000
Richmond	83,825,000	30,015,000	78,425,000	25,985,000
Atlanta	44,910,000	41,835,000	39,560,000	25,500,000
Chicago	257,715,000	87,185,000	221,320,000	67,100,000
St. Louis	46,370,000	26,695,000	49,055,000	16,935,000
Minneapolis	20,975,000	11,725,000	17,020,000	3,720,000
Kansas City	51,920,000	30,320,000	48,890,000	23,965,000
Dallas	31,420,000	26,020,000	26,110,000	14,700,000
San Francisco	188,575,000	69,670,000	163,700,000	32,400,000
TOTALS	$4,037,735,000	$2,500,245,000 c/	$3,239,070,000	$1,800,255,000 d/

c/ Includes $447,065,000 noncompetitive tenders accepted at average price.
d/ Includes $275,740,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 7.23% for the 13-week bills, and 8.37% for the 26-week bills.

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NEWS

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REMARKS OF
LESLIE S. SHAPIRO, DIRECTOR OF PRACTICE
BEFORE
THE ASSOCIATION OF TAX CONSULTANTS
LINCOLN CITY, OREGON, SEPTEMBER 21, 1974
DUNES HOTEL, EVENING BANQUET

I wish to thank Mr. Scheer and the members of his committee for extending me the invitation to participate at your convention.

The Office of Director of Practice, which is within the Office of the Secretary of the Treasury, administers and enforces the regulations governing practice before the Internal Revenue Service. While responsibility in tax practice is of particular concern to the Department of the Treasury, the Department's initial interest in administrative practice predates the Internal Revenue Service or Bureau of Internal Revenue by many years. Indeed, regulation of attorneys and agents before the Department of the Treasury can be traced back to as early as 1884. It appears that the government was authorized to make payment to individuals for horses lost during the Civil War. In the years following the War, claims for lost horses presented to the Treasury Department were pervasive. One could conjecture that there were perhaps more claims for payment than there were horses lost. In fact, it would seem that some persons considered themselves "experts" at representing claimants and so advised the public. The need for regulation of those representing such claimants became apparent, and Congress enacted legislation in 1884 for that purpose. While claims for horses may seem remote from tax practice, that same law has survived and is now the legislative basis for the regulation of practice before the Internal Revenue Service.

That 1884 law provided for the promulgation of rules and regulations governing the recognition of agents, attorneys and other persons representing claimants before the Department and for the suspension or disbarment of any such person who had acted in a disreputable manner. It is now applied to agency practice in a complex society filled with laws beyond comprehension 90 years ago. The obligations imposed on us as taxpayers by the Internal Revenue Code and the regulations thereunder are sometimes onerous. You know that better than I -- particularly as April 15 draws near. You also know that the preparation of some returns is more complex than others because of the intricacy of the laws and regulations. Consequently, it is understandable that tax returns are examined by the Internal Revenue Service in order to insure that taxpayers have complied with the revenue laws. It is not surprising that errors are often found in tax returns. Some of those errors are due to carelessness; some are due to negligence; and some are due to disregard of the laws.

The demands of our self assessment system of taxation have led to public dependence upon professional tax return preparers and representatives to safeguard taxpayers' interests in their contacts with the Internal Revenue Service. During the fiscal year ending June 30, 1973, over 1.8 million tax returns were audited. These represent returns filed by over 79 million people. This year 83 million individual and fiduciary returns were filed. One can appreciate the enormous potential for representation before the Internal Revenue Service created by the audit of almost 2 million returns in a single year. While exact figures are not ascertainable, I think it may be concluded that more persons appear before the Internal Revenue Service in a representative capacity than before all of the other Federal agencies combined. Further, the number of persons eligible to practice before the Service is virtually unlimited. With the enactment of the Agency Practice Act in 1965, nearly all attorneys and certified public accountants in this country are qualified to practice before the Internal Revenue Service. In addition, there are over 13,000 enrolled agents whose professional endeavors are almost exclusively limited to practice before the Service. The sheer numbers indicate a real potential for misconduct in such practice. In the past fiscal year alone, over 200 matters were on the case inventory of the Office of Director of Practice. This number does not include the alleged violations which were of insufficient gravity or which were not developed adequately enough to warrant placement on the inventory. The figures established a substantial amount of work for the legal staff of our Office. However, compared with the potential I have previously discussed, such figure is not great. In my judgment, this speaks well for tax practitioners. It leaves me with the impression that most practitioners before the Internal Revenue Service are aware of their responsibilities and are diligent in fulfilling them. However, the reports of violations of the regulations are increasing as are the number of disciplinary actions emanating from such violations. As a responsible member of a profession, the tax practitioner must conduct his practice so as not to abuse the position of trust he has assumed. When he abuses that trust, the practitioner does not fulfill his obligations to his clients, to the Internal Revenue Service or to his profession.

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Thus far, I have referred only to those persons who deal with the Internal Revenue Service as professionals and whose dealings are circumscribed by codes of ethics. However, matters concerning the Internal Revenue Service today are dealt with by others than accountants and attorneys. The wage earner with the simple return neither needs, nor can afford, the services of the professional. While he may be capable of preparing his own return, I believe that in his judgment, it has a mystique with which he is unable or unwilling to cope. Hence, he often seeks the services of others. It is estimated that, of the 83 million returns filed, over half were prepared by persons other than the taxpayer. The commercial tax return preparation industry has grown dramatically to accommodate the American public's dependence on assistance in the preparation of tax returns.

We all know that commercialism is pervasive in this country and that the tax return preparation industry is no exception. It is estimated that there are more than 200,000 return preparers in the United States. Some are huge and have franchises throughout the country; others are one-man operations that exist only during the filing season. Some are thoroughly knowledgeable in their work while others have been found to be incompetent and fraudulent. The need for the service performed by responsible return preparers is established. However, the increasing number of preparers who engage in disreputable conduct has created alarm in the public, in the profession and in the government. The regulations governing practice before the Internal Revenue Service apply only to persons who are eligible to appear in a representative capacity before all administrative levels of the Service. Those persons are attorneys, certified public accountants and enrolled agents. Commercial tax return preparers are ineligible to practice before the Service and, therefore, are not subject to the regulations governing such practice. Consequently, there is little recourse available to taxpayers or to the government against the commercial preparer who has acted in an irresponsible manner. This conclusion, of course, must be qualified. The preparer who has acted fraudulently is subject to the criminal sanctions of the United States Code. In addition, the preparer who engages in deceptive advertising, such as a promise to represent taxpayers before the Internal Revenue Service in the event of an audit, is subject to action by the Federal Trade Commission. Both of these safeguards have been employed. Finally, local or state authority may intervene in some instances.

An example of such state intervention is found in the present Oregon statute. Its licensing and examination requirements, along with the establishment of a code of professional conduct, appear to be viable methods of protecting the State's citizens from the unscrupulous tax return preparer. Hopefully, the education requirements will produce a high caliber of technical expertise in return preparers who would in turn provide accurate and efficient service to their clients. The judicious application of the sanctions set forth in the act promise to be an effective deterrent to the intentional and negligent violators of its provisions. The progress and effectiveness of your legislation during its infancy will be of considerable interest to the Department of the Treasury. I am of the view that it is a stringent, but fair, method of regulation within the confines of the State of Oregon, and its success may induce other states to enact similar legislation.

The protections which may be afforded by the Oregon legislation find no counterparts in present federal law. However, I believe it is generally recognized that federal statutes do not adequately protect either the public or the government from the irresponsible commercial return preparer. This belief is substantiated by the results of extensive shopping contacts with return preparers undertaken by the Compliance Division of the Internal Revenue Service. "Shopping" involves the technique of having an Internal Revenue Service agent pose as a potential client. Usually, the agent has a cover story regarding employment, family status, and dependents. He arrives at the preparer's office with a predetermined set of figures for income and deductions. The agent asks a series of questions regarding what can be legitimately deducted and what must be reported. During the 1972 filing season, over 3,000 preparers were contacted. It was found that 40.5% of the returns prepared were either correct or non-suspect incorrect returns. The remaining returns - 59.5% - were found to be potentially suspect. The 1973 shopping program included over 6000 preparers. This time, 60.7% of the returns prepared were correct; 16.8% of the returns were incorrect but non-suspect; and 22.5% of the returns were potentially suspect.

It is evident that the shopping program has been beneficial. The number of prosecutions has been reduced dramatically from 1972 to 1974. The total caseload of the Internal Revenue Service for the first six months of 1974 was 117, compared to 426 during the same period for 1973 and 360 for 1972. One may only speculate as to the reasons for this decline. Perhaps it may be attributed in part to the preparers' awareness of the shopping techniques employed by the Internal Revenue Service. However, the decline will not cause the government to cease its quest to maintain an acceptable level of compliance with the law by return preparers.

I have been advised by the Internal Revenue Service that the shoppi[ng] program has now been regionalized, leaving each region with discret[ion] to determine whether shopping will be used in the region, which districts will participate, and the extent of such participation. However, the concept of "shopping" itself is being deemphasized because it only serves to identify unscrupulous or incompetent preparers. A return prepared under such circumstances cannot be used as the basis of any legal action by the Internal Revenue Service because it is not signed by a bona fide taxpayer and is therefore not recognized by the Service as an actual return.

The Internal Revenue Service now relies more on its Preparer Inventory File which is maintained by its National Computer Center. This file includes all the tax returns executed by preparers who correctly sign the return with their identification number. Service Center computers can sort these returns, collate them based on the Employer Identification Number or the Social Security Number of the preparer and group together all returns completed by a suspect preparer. Moreover, the computer can be programmed to identify all returns in the file which meet pre-determined criteria such as a certain level of refund claimed or a certain percentage of itemized deductions compared to gross income. This is a more accurate and efficient method of identifying suspect preparers.

The problems posed by disreputable return preparers not only have attracted the attention of the Internal Revenue Service, but has attracted the attention of Congress as well. Congressional interest in the subject is not new. The files of the Office of Director of Practice showing such interest go back many years. In fact, a bill to regulate return preparers was introduced in the House of Representatives some nineteen years ago. However, it is only in recent sessions of Congress that such bills have proliferated.

During the first session of this, the 93rd Congress, seven bills relating to the subject of income tax return preparation were introduced. Most of that legislation provides for the licensing or registration of return preparers. Also provided for are the investigation of prospective licensees and penalties for preparers who either fail to comply with the licensing procedures or who engage in specified acts of misconduct in the preparation of returns. I am of the view that the bills recognize the need for regulatory control and would perhaps accomplish the goals envisioned. However, it is believed that federal licensing of return preparers is neither feasible nor appropriate. In order to be meaningful, a licensing program must be accompanied by strictly enforced standards of performance and integrity. The direct cost of a minimal licensing program is estimated to be $17.5 million per year. Imposition of this cost on the Internal Revenue Service would reduce the resources available for audit examinations and would cause a revenue loss of six times the monetary amount of those resources. In addition, the actual licensing procedure may not produce the desired results. Realistic examination and character investigations may not detect most preparers who could be considered unscrupulous. Hence, the licensing of those preparers would be contrary to public interest.

This is not to say that the Department of the Treasury is not concerned with the problems related to the preparation of tax returns. It is very much concerned. However, the position of the Department reflects a practical and comprehensive grasp of the problems giving rise to the need for regulation of the disreputable return preparer. The Department recognizes that the existing statutory sanctions in cases of negligence or civil fraud are based on a presumption that any deficiency in the tax reported on a return is the result of acts of the taxpayer. This results in either additions to taxes or penalties against the taxpayer. Reference has been made to existing criminal sanctions applicable to the preparer. However, there are no civil sanctions available to deter the unscrupulous or irresponsible return preparer. Hence the need for controls is acknowledged.

As a result, the Treasury has a somewhat different approach than that reflected by the bills previously introduced in Congress. Its views will help insure greater responsibility by return preparers and will raise their degree of compliance with the Internal Revenue laws. That approach has been incorporated into the Tax Reform Act of 1974 and is presently being considered by the House Ways and Means Committee. It is scheduled to reach the floor of the House either this month or early next month. The following provisions have been agreed upon by the Committee:

1. Each return and claim for refund prepared for compensation by someone other than the taxpayer would have to show the identification number of the preparer and other information which would serve to identify the preparer. Failure without reasonable cause to include such information or to sign such return or claim in accordance with the regulations would carry a penalty of $25 for each failure.

2. Each preparer would have to provide the taxpayer with a copy of the return or claim for refund at the time the document is signed by the taxpayer. Failure to do so without reasonable cause would also trigger a $25 penalty.

3. Each return preparer or every person who employs a tax return preparer must file an annual report listing the name, taxpayer identification number, and place of work of each preparer employed. This report would be filed by July 31 of each year for the preceding 12-month period ending June 30. Failure to comply without reasonable cause would carry a $100 penalty for each failure to file an annual return and $5 for each failure to include a name, identification number and place of work on the annual report. These penalties would not exceed $20,000 for a 12-month period.

4. Each return preparer or employer of preparers would be required to keep for three years either a list of taxpayers for whom returns were prepared or copies of these returns and claims for refund. There would be a $50 penalty in the absence of reasonable cause for each instance in which a copy of the return was not retained or the taxpayer was not listed, up to a maximum of $25,000 for each year.

5. The bill also provides penalties for negligence or fraud as follows: $100 for each negligent or intentional disregard of Internal Revenue Service rules or regulations and $500 for each willful attempt to evade or understate any tax by a preparer. These are flat sum penalties, unlike the ad valorem additions to the tax provided for negligence or fraud under present law. This, of course, will make it possible to assert the penalty before a final determination of the taxpayer's liability. Also, this approach avoids the need for quantitative judgments as to what portion of the tax is due to negligence or fraud. As long as there is a clear cut case of abuse, the appropriate penalty will apply. I have been assured, however, that no penalties will be attached to situations involving honest differences between the Internal Revenue Service and a practitioner as to a point of law rising from differing interpretations of a Code provision, Treasury regulation or published service position. Further, if no understatement of tax is ultimately established, the penalty against the preparer will be abated or refunded.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE September 24, 1974

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EMERGENCY LOAN GUARANTEE BOARD
SENDS ANNUAL REPORT TO CONGRESS

The Emergency Loan Guarantee Board, in accordance with the requirements of the Emergency Loan Guarantee Act, today delivered its Third Annual Report to Congress, which represents a full report of the Board's operations from August 1, 1973, to July 31, 1974, and the Board's assessment that the Government's position remains adequately protected by its first lien on the collateral which secures loans made under Government guarantee.

The Report begins with a brief discussion of the guarantee legislation and the Board's organization and functions. As of July 31, 1974, Lockheed the only borrower under the Act, had drawn down $220 million in loans under Government guarantee. The Board received almost $5 million in fees for its guarantee commitment during its third year of operations bringing total fees received since inception of the program to approximately $10.5 million. In addition, Part I discusses Board actions taken during the period with focus on the Board's monitoring activities of Lockheed's operations to assure satisfactory administration of the 1971 Credit Agreement. Additionally, material consents and amendments to the 1971 Credit Agreement approved by the Board are described.

Part II of the Report begins with a review of those events, in late 1973, which threatened to increase Lockheed's borrowing requirements above existing lines of credit and the new financing arrangements which the Company entered into in 1974 to alleviate this problem through 1975. In recognition that a better long-term solution was through capital strengthening measures, Lockheed intensified its efforts in this direction. The Report describes in detail the tentative plan agreed to by Lockheed and Textron, Inc. wherein the latter would make a substantial equity investment in Lockheed.

Focus then centers on the L-1011 program, including market conditions, deliveries, performance of the aircraft and manufacturing. The problems encountered until October 1973 in controlling production and work-loading on the L-1011 program are fully described, as are the actions taken by Lockheed

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management which corrected these difficulties. While L-1011 manufacturing has matured significantly, there remains a paucity of firm orders for delivery beyond 1975 and without additional firm orders, it may be difficult for Lockheed to maintain an economic rate of production.

In addition, Part II discloses Lockheed's financial condition in detail. The Board notes that the Company's overall operations again remained profitable, although L-1011 inventories were substantially financed by guaranteed bank borrowings with profits and cash flows from the non-L-1011 programs mitigating somewhat the need for greater debt financing.

The Report concludes with an assessment of the Government's position and expresses the Board's opinion that the best long-term solution to the Company's projected cash flow problem is through equity capital strengthening measures and further, that consummation of the Lockheed-Textron, Inc. tentative plan will better assure the Company's long-term viability.

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annual report

uly 31, 1974

mergency loan
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Third Annual Report

of the

EMERGENCY LOAN GUARANTEE BOARD

c/o Department of the Treasury
15th and Pennsylvania Avenue, N. W.
Washington, D. C. 20220

TO THE CONGRESS OF THE UNITED STATES

Covering the Period August 1, 1973, Through July 31, 1974

For sale by the Superintendent of Documents
U.S. Government Printing Office Washington, D.C. 20402

LETTER OF TRANSMITTAL

EMERGENCY LOAN GUARANTEE BOARD
Washington, D. C., September 24, 1974

THE ACTING PRESIDENT OF THE SENATE (pro tempore)
THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

Sirs:

Pursuant to the provisions of Section 12 of Public Law 92–70, submitted herewith is the Third Annual Report of the Emergency Loan Guarantee Board, covering the period August 1, 1973 through July 31, 1974.

Respectfully,

WILLIAM E. SIMON
Chairman

EMERGENCY LOAN GUARANTEE BOARD
BOARD MEMBERS AND STAFF

BOARD MEMBERS

WILLIAM E. SIMON, *Chairman*
Secretary of the Treasury

ARTHUR F. BURNS
Chairman of the Board of Governors of the Federal Reserve System

RAY GARRETT, JR.
Chairman of the Securities and Exchange Commission

STAFF

EDWARD C. SCHMULTS, *Executive Director and General Counsel*
Under Secretary of the Treasury

ALAN N. VINICK, *Secretary*
Financial Advisor to the General Counsel of the Treasury

DEWITT W. HAZELTON, *U.S.N. (Ret.), Technical Analyst to the Emergency Loan Guarantee Board*

FOREWORD

The Third Annual Report to Congress of the Emergency Loan Guarantee Board constitutes a full report of the Board's activities from August 1, 1973, to July 31, 1974, in accordance with the requirements of the Emergency Loan Guarantee Act. This report also encompasses a full description of the progress of Lockheed Aircraft Corporation, the only borrower under the guarantee program, with emphasis on the L–1011 TriStar program.

For additional information, reference is made to the First and Second Annual Reports of the Emergency Loan Guarantee Board, which are available through the U.S. Government Printing Office, Washington, D.C. 20402, Stock Numbers 4800–00197 and 4800–00221, respectively. These Reports address the background of the Emergency Loan Guarantee Act, the organization and functions of the Board, the Board's findings with respect to Lockheed Aircraft Corporation, the resultant 1971 Agreement, the Board's activities from inception through July 31, 1973, and the progress of Lockheed Aircraft Corporation through June 30, 1973. In addition, the Board submitted a Special Report to Congress on June 28, 1973, with its recommendation that the authority of the Board to commit new guarantees be allowed to lapse. This Report is available through the Department of the Treasury, 15th and Pennsylvania Avenue, N.W., Washington, D.C. 20220.

Reference is also made to the Reports by the Comptroller General of the United States, dated December 6, 1972, August 13, 1973, and April 26, 1974, all with Reference Number B–169300, for information with respect to his continuing independent assessment of the emergency loan guarantee program as required by the Emergency Loan Guarantee Act. Copies of these Reports can be obtained through the General Accounting Office, Washington, D.C. 20548.

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PART I

Introduction
and
Emergency Loan Guarantee Board Operations

Guarantee Legislation

The Emergency Loan Guarantee Act (the "Act"), Public Law 92–70, signed by the President on August 9, 1971, created the Emergency Loan Guarantee Board (the "Board") which was given responsibility for administering provisions of the Act. (*See Appendix A for text of Act.*) On September 9, 1971, the Board found that Lockheed Aircraft Corporation ("Lockheed") met the requirements of the Act and approved a Government guarantee for up to $250 million in loans to Lockheed by twenty-four banks, the maximum amount of loan guarantee provided for under the Act.[1] (*See Appendix B for List of Banks.*)

Organization and Function of the Board

The members of the Board are the Secretary of the Treasury (Chairman),[2] the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Securities and Exchange Commission.

A small staff was drawn from the Department of the Treasury to assist in the administration of the day-to-day operations of the Board. This staff is composed of an Executive Director and General Counsel, a Technical Analyst [3] and a full-time Secretary. In addition, the Board utilizes personnel from the Department of the Treasury, the Board of Governors of the Federal Reserve System, and the Securities and Exchange Commission when needed.

The Federal Reserve Bank of New York, as fiscal agent of the Board, receives payments in connection with guarantees under the Act, reviews financial information submitted by Lockheed, prepares credit analyses and special reports requested by the Board and assists in monitoring Lockheed's activities.

[1] The Board's authority to enter into any new guarantee commitments under the legislation expired on December 31, 1973; however, this does not affect the Board's rights or authority in connection with commitments entered into prior to that date.

[2] George P. Shultz was succeeded by William E. Simon as Secretary of the Treasury on May 8, 1974.

[3] In April 1973, a Technical Analyst was employed by the Board to advise on the technical aspects of Lockheed's various programs and, as a result of the continuing manufacturing and cost problems associated with the L–1011 program, served on a full-time basis until June 30, 1974. Because Lockheed's L–1011 manufacturing program achieved greater maturity and was performing within the Company's projection, the Technical Analyst was retained on only a part-time basis beginning July 2, 1974.

1971 Agreement[4]

The Government loan guarantee is an integral part of Lockheed's borrowing arrangements as set forth in three basic agreements, each of which incorporates the others by reference and which together constitute a single agreement (referred to as the "1971 Agreement"). A Credit Agreement between Lockheed and its twenty-four lending banks provides for the extension of credit to Lockheed in an amount up to $650 million, of which $400 million represents refinancing of loans previously extended by the same banks. The remaining $250 million is available to Lockheed under the terms of the Government's Guarantee Agreement. The underlying $400 million bank loans must be outstanding before any guaranteed loans are extended and the guaranteed portion is the first to be repaid.[5]

A Security and Pledge Agreement between Lockheed and its banks provides for the creation of a single pool of collateral consisting of certain assets of Lockheed which are being held as security for the $650 million credit. This collateral would be used first for the repayment of the Government guaranteed portion of the loans and then for the repayment of the underlying $400 million bank loans.

1974 Credit and Security Agreement[6]

For the purpose of meeting its borrowing requirements during 1974 and 1975, which Lockheed projected may be in excess of the $650 million available under the 1971 Agreement, the Company and bank parties to the 1971 Agreement entered into a 1974 Credit and Security Agreement (referred to as the "1974 Agreement") which provides an additional $75 million line of revolving credit and grants to the lending banks a security interest in certain assets. (*See PART II, "New Financing," page 16 for details.*)

Bonding Collateral Agreement[7]

Lockheed and a surety consortium, which furnish performance and return-of-monies bonds in connection with foreign sales and service con-

[4] Copies of the 1971 Agreement, and Amendments thereto, are available through the Public Reference Section of the Securities and Exchange Commission, Washington, D. C. 20549.

[5] Concurrently with the execution of the 1971 Agreement, Lockheed's three major domestic airline customers, Eastern Air Lines, Trans World Airlines and Delta Air lines, agreed to make additional prepayments totaling $100 million above those already scheduled toward the purchase of L-1011 aircraft.

[6] Copies of the 1974 Credit and Security Agreement, and Amendments thereto, are available through the Public Reference Section of the Securities and Exchange Commission, Washington, D. C. 20549.

[7] Bonding Collateral Agreement, *Ibid.*

tracts, entered into an agreement which expresses the willingness of the surety companies to provide Lockheed with a $200 million line of bonding credit and removes prepayment escrow requirements which had previously been imposed. *(See PART II, "New Financing," page 16 for details.)*

Lockheed-Textron Tentative Plan

Lockheed's Board of Directors, in recognition of the necessity for increasing the Company's equity-capital base, established a committee in December 1973 to pursue merger or other capital-strengthening measures. The investment banking firm of Lazard Freres & Company was retained to assist in this regard. These efforts culminated in a joint announcement on June 3, by Lockheed and Textron that they had agreed upon a tentative plan whereby Textron would make a substantial equity investment in Lockheed. The plan contemplates a restructuring of Lockheed's outstanding debt and termination of the Government's guarantee commitment. Finalization of this plan is subject to the satisfaction of certain conditions. *(See Appendix C for text of Memorandum [of Understanding] and PART II, "New Financing," page 16 for details.)*

Guaranteed Borrowings of Lockheed Aircraft Corporation

During the period covered by this Report, Lockheed has renewed all maturing nine-month guaranteed borrowings and has drawn down three additional guaranteed borrowings aggregating $70 million, bringing total outstanding loans under Government guarantee, as of July 31, 1974, to $220 million.[8] The loan takedowns and applicable financing charges are shown in Table 1.

The total financing charge to be paid by Lockheed on guaranteed borrowings is determined on the principle that: (1) the banks should receive a rate of interest appropriate for a risk-free (Government) guaranteed loan adjusted for "illiquidity" [9] and "additional servicing costs"; (2) the total financing charge to Lockheed should be a rate which is appropriate for a loan of comparable risk and maturity; and furthermore, (3) the total charge should not be such as to allow Lockheed to acquire Government guaranteed funds at a lower cost than other companies in similar circumstances can acquire non-guaranteed funds.

The interest is thus calculated on the basis of the average yield on outstanding nine-month Treasury Bills to which is added a ¼ percent illiquidity premium plus a ⅛ percent allowance for the servicing cost of

[8] At a meeting held September 10, 1974, the Board approved an additional borrowing, of up to $25 million, to be drawn down during the period September 13, 1974, through September 18, 1974.

[9] These loans do not have the ready marketability of Government bills.

TABLE 1—*Interest Rate and Guaranteed Fees on Loan Takedowns by Lockheed Under Government Guarantee*

Date	Amount (in millions)	Maturity	Interest Rate	Guarantee Fee	Total Finance Charges	Cumulative Loans Outstanding (in millions)	Weighted Average Finance Charge on Loans Outstanding
September 14, 1971	$50	June 14, 1972	5.70%	2.3%	8.00%	$ 50	8.000%
November 18, 1971	$25	August 18, 1972	5.00%	2.3%	7.30%	$ 75	7.767%
January 26, 1972	$25	October 26, 1972	4.30%	2.3%	6.60%	$100	7.475%
June 14, 1972*	$50	March 14, 1973	4.95%	2.3%	7.25%	$100	7.100%
August 18, 1972*	$25	May 18, 1973	5.25%	2.3%	7.55%	$100	7.163%
August 24, 1972	$30	May 24, 1973	5.25%	2.3%	7.55%	$130	7.252%
October 26, 1972*	$25	July 26, 1973	5.95%	2.3%	8.25%	$130	7.569%
January 11, 1973	$20	October 11, 1973	5.90%	2.3%	8.20%	$150	7.653%
March 14, 1973*	$50	December 14, 1973	6.50%	2.3%	8.80%	$150	8.170%
May 18, 1973*	$25	February 19, 1974	7.20%	2.3%	9.50%	$150	8.495%
May 24, 1973*	$30	February 25, 1974	7.25%	2.3%	9.55%	$150	8.895%
July 26, 1973*	$25	April 26, 1974	8.60%	2.0%	10.60%	$150	9.287%
September 11, 1973	$30	June 11, 1974	9.10%	2.0%	11.10%	$180	9.590%
October 11, 1973*	$20	July 11, 1974	8.70%	2.0%	10.70%	$180	9.868%
December 14, 1973*	$50	September 13, 1974	8.40%	2.75%	11.15%	$180	10.584%
December 14, 1973	$20	September 13, 1974	8.40%	2.75%	11.15%	$200	
January 23, 1974	$20	October 23, 1974	8.00%	2.75%	10.75%	$220	10.598%
February 19, 1974*	$25	November 19, 1974	7.75%	2.75%	10.50%	$220	10.711%
February 25, 1974*	$30	November 25, 1974	7.55%	2.75%	10.30%	$220	10.814%
April 26, 1974*	$25	January 27, 1975	8.95%	2.75%	11.70%	$220	10.939%
June 11, 1974*	$30	March 11, 1975	9.05%	2.75%	11.80%	$220	11.034%
July 11, 1974*	$20	April 11, 1975	9.05%	3.00%	12.05%	$220	11.157%

* This takedown was a renewal of a previous borrowing maturing on this date.

a guaranteed loan.[10] A guarantee fee is determined by the Board and is added to the interest rate so that Lockheed's total financing charge is appropriate for loan agreements of comparable risk and maturity if supplied by the normal capital markets. Lockheed is also required to pay a ½ percent per annum commitment fee to the banks on the unused amount of the loan. The banks must in turn pay to the Board 50 percent of each commitment fee payment.

Emergency Loan Guarantee Fund

The Emergency Loan Guarantee Fund (the "Fund") was established on August 12, 1971, on the general account of the Treasury. The Fund is credited with fees prescribed by the Board in connection with each borrowing guaranteed under the Act and is available for the payment of expenses and obligations of the Board. Monies not anticipated to be utilized by the Board for current operations have been invested in United States Government Treasury Bills.

During its third year of operations, the Board earned fees of $4,940,357 pursuant to the guarantee commitment to Lockheed, while expenses totaled $178,870 and the amortized discount on the Board's investment was $536,722. The following Income Statements covering the periods from Inception through July 31, 1973, and from August 1, 1973, through July 31, 1974, and the Statement of Financial Condition as of July 31, 1974, were prepared by the Bureau of Government Financial Operations, Trust and Revolving Funds Branch.[11]

Actions Taken by the Board

MONITORING ACTIVITIES

The Board continued its intensified monitoring of Lockheed's operations instituted in 1972. The Board's staff and fiscal agent periodically met with Lockheed officials and visited appropriate Company facilities to review financial data and the status of various programs. Meetings were also held with representatives of the lending banks, airline customers, and Arthur Young & Company, Lockheed's independent auditor, to review specific areas of the Company's operations.

The Board has continued to receive current data from Lockheed covering all aspects of its business with particular emphasis on the L–1011 program. This has included, among other things, Lockheed's financial forecasts, annual audited financial statements, monthly and quarterly

[10] Pursuant to terms of the 1971 Agreement.

[11] Expenses and Accounts Payable as set forth in the Board's financial statements reflect estimated expenses incurred during the latter part of the Board's fiscal year.

Emergency Loan Guarantee Board

Income Statements

	Inception Through July 31, 1973		August 1, 1973 Through July 31, 1974	
Income				
Guarantee Fees Earned	$4,908,545.71		$4,835,013.68	
Commitment Fees Earned	661,533.00		105,343.34	
Amortized Discount	199,250.80		536,721.81	
Total Income		$5,769,329.51		$5,477,078.83
Expenses				
Fiscal Agency Expenses	$ 141,365.18		$ 61,976.82	
Legal Expenses	56,395.83		20,385.34	
Administrative Expenses	73,681.85		96,893.64	
Total Expenses		271,442.86		179,255.80
Net Income		$5,497,886.65		$5,297,823.03

Statement of Financial Condition
July 31, 1974

Assets		
Available Cash		$ 66,940.24
Accrued Receivables:		
Guarantee Fee Receivable	$ 512,602.74	
Commitment Fee Receivable	6,369.86	518,972.60
Investments		
U. S. Treasury Bills (Amortized Value)		10,257,395.14
Total Assets		$10,843,307.98
Liabilities		
Accounts Payable & Accruals		$ 47,598.30
Equity		
Retained Earnings		10,795,709.68
Total Liabilities & Equity		$10,843,307.98

Schedule of Investments
July 31, 1974

	Maturity Date	Face Value	Unamortized Discount	Amortized Value
Treasury Bills	9/24/74	$725.000	$8,873.02	$716,126.98
Treasury Bills	9/24/74	950,000	10,730.25	939,269.75
Treasury Bills	10/22/74	45,000	768.72	44,231.28
Treasury Bills	12/17/74	1,345,000	35,618.80	1,309,381.20
Treasury Bills	12/17/74	1,170,000	30,991.36	1,139,008.64
Treasury Bills	3/11/75	1,565,000	66,528.98	1,498,471.02
Treasury Bills	4/ 8/75	1,590,000	89,989.59	1,500,010.41
Treasury Bills	6/ 3/75	1,680,000	117,786.47	1,562,213.53
Treasury Bills	7/ 1/75	1,680,000	131,317.67	1,548,682.33
Totals		$10,750,000	$492,604.86	$10,257,395.14

Prepared by: Bureau of Govt. Financial Operations, August 9, 1974 unaudited financial statements of Lockheed and its pledged subsidiaries, and quarterly reports on the progress of the L–1011 program. Lockheed's submissions of data to the Board have been timely and all significant developments appear to have been promptly reported.

In December 1973 and January 1974, the Board met with representatives of Lockheed's Agent Banks [12] to express its concern regarding Lockheed's financial problems, as described in PART II, and to seek the Agents' assessment of possible solutions. The Agents advised the Board that, in their joint opinion and that of Lockheed, additional debt financing was not the best long-term solution for the Company's problem; however, such financing would be necessary during 1974 and 1975 to provide for the forecasted working capital requirements while means were sought to permanently strengthen Lockheed's equity position. The Agents further advised that although they had not discussed the matter in detail with all the other lending banks, in their opinion, there was a high probability that additional debt financing could be obtained on this basis.

MATERIAL CONSENTS AND AMENDMENTS TO THE 1971 AGREEMENT

Since its last fiscal year end, the Board considered a number of consents under and amendments to the 1971 Agreement. In August 1973, the Board consented to the Company's request to transfer property from a pledged subsidiary to Lockheed, which in turn transferred the property to its retirement fund trustee in lieu of making a cash payment. The Board also granted its consent to allow Lockheed to enter into an agreement with the Department of the Navy for guaranteeing the repayment, if any, of provisional payments received by Lockheed Shipbuilding and Construction Company ("LSCC") under a 1971 settlement of certain ship contract claims.[13]

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[12] The Agent Banks under the 1971 Agreement are Bank of America National Trust and Savings Association and Bankers Trust Company.

[13] In 1971, Lockheed and the Department of the Navy reached a tentative settlement for $62 million on claims arising under certain ship construction contracts. The agreement was subject to further administrative proceedings within the Department of the Navy. Lockheed received provisional payments of $49.5 million, the balance to be paid upon the completion of administrative proceedings. In May 1973, Lockheed filed an appeal with the Armed Services Board of Contract Appeals ("ASBCA") for the $12.5 million of the $62 million that remained unpaid. Subsequent to Lockheed's appeal, the Navy contracting officer found that only about $7 million of Lockheed's original $159 million claim had been adequately substantiated and requested a refund of $42.5 million. The Navy was willing to enter into a Deferred Payment Agreement with LSCC whereby the $42.5 million would not have to be returned while the issue was before the ASBCA. The Navy insisted, however, that Lockheed guarantee LSCC's repayment to the Navy in the event that the ASBCA were to determine a settlement in an amount less than $49.5 million.

In December 1973, the Board approved amendments which clarified the original intent of the parties to the 1971 Agreement. These amendments, in effect, reiterated the Board's authority to consent to changes in the Credit Agreement borrowing schedule at any time, and from time to time, prior to the "Termination Date" as that term is defined in the Credit Agreement.

By year end 1973, it became apparent that Lockheed's borrowing requirements would exceed the schedule of borrowings permitted under the 1971 Agreement. The Board considered and granted a series of consents, during the period from December 1973 to June 1974, which allowed the Company to borrow amounts in excess of those permitted by the schedule. These consents were limited to each specific instance wherein Lockheed requested additional drawdowns or renewal of maturing nine-month guaranteed borrowings. No change in the borrowing schedule was made during this period of significant uncertainties, so that each drawdown or renewal afforded the Board the opportunity to maintain close control and to be assured that progress toward completion of the additional financing was proceeding satisfactorily.

In May 1974, the Board granted its consent to revisions in Lockheed's L–1011 sales contract with Eastern Air Lines ("Eastern"). These revisions included deferral to subsequent years of nine of the eleven L–1011's scheduled for delivery in 1974.[14] This was necessitated by the magnitude of Eastern's financial reverses which did not become apparent until the fall of 1973.

The Board, in May 1974, also considered and approved a Consent and Agreement, dated as of April 22, 1974, to the 1971 Agreement, the purpose of which was to permit Lockheed to enter into new financing arrangements with (1) its twenty-four banks to provide an additional $75 million line of revolving credit and (2) its surety companies to obtain performance and return-of-monies bonding adequate to support the Company's projected non-L–1011 programs. The Consent and Agreement also allowed Lockheed to grant to the banks and surety companies security interests in certain unencumbered assets. Amendments to the 1971 Agreement were necessary to accommodate the new financing. The schedule of permitted borrowings was modified to allow Lockheed to draw down up to $250 million under Government guarantee through December 30, 1975, and the "Total Liabilities" ceiling, as defined in the 1971 Credit Agreement, was raised $75 million to $1.675 billion.

In approving the Consent and Agreement, the Board determined that these financing arrangements were necessary to sustain Lockheed's forecast level of operations during 1974 and 1975 and would not adversely affect the Government's interest. The Board also concluded that the arrangements would provide adequate financing while the Company continued intensified efforts to strengthen its equity-capital position. The

[14] Under the terms of the revised contract, Eastern will receive delivery of three L-1011's in 1975 and six in 1976.

Board noted in approving the Consent and Agreement that the Government's first lien on the "pool of collateral," which secures the guaranteed loans, would remain intact.[15]

[15] The Board was assisted in making this determination by the legal advice of its General Counsel and outside counsel retained by the Board in connection with the new financing.

PART II

Operations of Lockheed Aircraft Corporation

Overview

The Board's Second Annual Report noted that Lockheed's cost of L–1011 production continued to decline as experience was gained on the program and this trend has continued to date. However, costs were higher than projections for several months prior to October 1973 at which time certain program-management changes and cost-reduction actions were initiated. Since that time, costs have remained under the latest forecast and schedules have been met. The Company's non-L–1011 programs again generated significant positive cash flows which mitigated the need to borrow external funds necessary to support L–1011 inventories.

Beginning in the summer of 1973, a series of events threatened to increase Lockheed's borrowing requirements above existing lines of credit and adversely affected the prospects for repayment of Government guaranteed loans in 1975, as was projected in the Company's 2/73 Financial Forecast.

- Until October 1973, Lockheed's L–1011 program costs were higher than projected.
- In the fall of 1973, Eastern Air Lines encountered financial reverses which necessitated deferral of nine L–1011's scheduled for delivery in 1974.
- Throughout the fall and winter of 1973, other airline customers were concerned about the uncertainties surrounding near-term traffic growth and availability of fuel.
- In December 1973, those surety companies that provided return-of-monies and performance bonds necessary in connection with foreign C–130 aircraft sales and service contracts advised Lockheed that future prepayments must be placed in escrow.

These events hampered Lockheed's ability, in late 1973, to forecast its cash flow with certainty or to assess the magnitude of its projected borrowing needs. However, the Company was able to project that funds might be required above the $650 million available under the 1971 Agreement. Thus, in December 1973, it was apparent to the Board that without additional financing, should the Company's projection materialize, a high probability existed that the Company would be unable to continue operations without undergoing some form of corporate reorganization. Such financing was obtained, after prolonged negotiations, with the execution of the 1974 Agreement and the Bonding Collateral Agreement, which alleviated the above problem. In addition, recognizing that a better long-term solution was through equity-capital strengthening measures, Lockheed intensified its efforts in this direction. These efforts resulted in an agreement to a tentative plan with Textron, Inc. whereby substantial new equity capital would be provided to Lockheed and the Government's commitment would be terminated.

Corporate Projected Cash Flow

Because of the above-mentioned problems, Lockheed's cash flow projections in its 12/73 (Revision B) Financial Forecast worsened substantially from those made in the 2/73 Financial Forecast (*See Chart 1*). Borrowing needs have exceeded the original schedule of borrowings set forth in the 1971 Agreement and the Baseline Forecast and could exceed the $250 million maximum guarantee commitment of the Government. Cash flows were adversely affected during the first half of 1974 by the prepayment escrow required by Lockheed's surety companies.[16] Lockheed's latest financial forecast projects that corporate cash flow will turn positive in 1976, at which time sizeable paydowns on guaranteed borrowings are expected to begin. Final repayment of all guaranteed borrowings, from internally generated sources, is not projected to occur until 1977.[17]

New Financing

To meet the Company's projected 1974 and 1975 cash requirements, Lockheed's twenty-four lending banks agreed to provide an additional $75 million line of revolving credit, terminating on December 31, 1975, and secured principally by L–1011 flight-line and finished inventory and the stock of Lockheed Aircraft Services Company, Inc. ("LAS").[18] Under this agreement, Lockheed may not borrow in excess of the "Borrowing Base" which consists of the "Loan Value" [19] of L–1011's in flight-line production, L–1011's completed and awaiting delivery and immediately available funds in its "Collateral Account." [20] The full amount of Government guaranteed indebtedness ($250 million) must be outstanding before any drawdowns can be made under the new line of credit, and the amounts borrowed under the 1974 Agreement are to be repaid prior to any repayment of guaranteed loans. The 1974 Agreement imposes rigid conditions upon the Company, including a 5 percent limit on adverse cost deviations from the latest forecast and a ceiling on expenditures for L–1011 aircraft not under firm order.

Early in 1974, Lockheed held discussions with certain of its airline customers who indicated a possible need for L–1011 deliveries earlier

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[16] The Bonding Collateral Agreement became operative on June 17, 1974, and approximately $30 million, then in escrow, was released for working capital purposes.

[17] The 1971 Agreement terminates on December 31, 1975, unless extended by the parties.

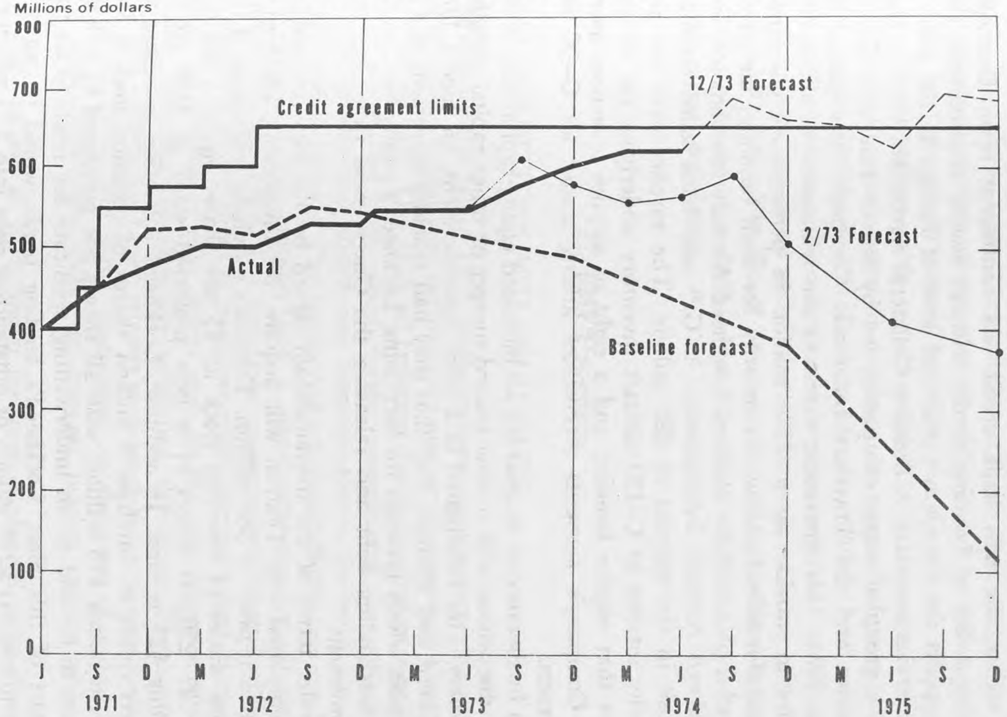
[18] LAS provides technical services and performs aircraft modification and overhaul operations nationally and internationally.

[19] The loan value of the L–1011's is approximately equal to the final payment to be received by Lockheed less the amount estimated to be required by the Company to complete production of the aircraft.

[20] The collateral account consists of funds received by the Pledgee upon or in connection with collateral assigned under the 1974 Agreement.

Chart 1

LOCKHEED AIRCRAFT CORPORATION BANK BORROWING



Source: Lockheed Aircraft Corporation.

than contractually scheduled. This resulted in Trans World Airlines ("TWA") and Delta Airlines ("Delta") agreeing to accept delivery of a total of six L–1011's in the latter part of 1974 rather than 1975. These two customers, as part of their agreements, and Eastern Air Lines separately, agreed to defer liquidation of special prepayments made by them to Lockheed in 1971. The effect of these actions was to reduce Lockheed's cash requirements during the 1974 peak borrowing period.

Further, the new bank credit was contingent upon Lockheed's obtaining a line of bonding credit, without escrow requirements, adequate to support the Company's projected level of foreign C–130 aircraft sales and service contracts. A Bonding Collateral Agreement between Lockheed and a group of surety companies, led by Safeco Insurance Company of America and the Travelers Indemnity Company, was entered into in June 1974. This agreement expresses the willingness of the surety companies to provide up to $200 million in performance guarantees and return-of-monies bonding. As security for such bonding, the sureties received a pledge of the stock of Lockheed Aircraft International, Inc. and Lockheed Aircraft International A. G.[21] and bank-issued certificates of deposit in the amount of $20 million. The sureties were also given a security interest in C–130 aircraft inventory underlying the foreign contracts that require bonding and a right to acquire a security interest in the Company's accounts receivables arising under all C–130 aircraft contracts.

In furtherance of its goal for an increased equity-capital base, Lockheed held discussions with a view toward merger or other capital-strengthening measures. This culminated in a joint announcement, on June 3, 1974, by Lockheed and Textron, Inc. that they had reached agreement on a tentative plan which provides for increasing Lockheed's equity base, restructuring outstanding debt and releasing the Government from its guarantee commitment.

Under terms of the memorandum signed by the two companies, it is contemplated that Textron will acquire, for investment, Lockheed stock for a total price of $85 million. Textron's purchase will consist of (1) 12 million shares of common stock at $5 per share, equaling $60 million and (2) 250,000 shares of a new preferred stock at $100 per share, equaling $25 million. In addition, Lockheed will offer its existing stockholders rights to purchase 3 million shares of common stock at $5 per share, equaling $15 million, with all shares not purchased by such shareholders to be sold to an underwriting syndicate for resale to the public. As part of this plan, Lockheed's lending banks would be required to agree to convert $275 million of outstanding debt into 2.75 million shares

[21] Lockheed Aircraft International, Inc. has been assigned substantially all foreign C-130 contracts and will execute all future foreign C-130 contracts. Lockheed Georgia Company will perform all C-130 work under subcontract. Lockheed Aircraft International A.G. is a Swiss subsidiary which performs service and maintenance contracts with foreign governments under contracts which it has executed.

of the new preferred stock valued at $100 per share and make available, initially, a credit of $375 million.[22]

The Company must also agree to write off certain nonrecurring costs related to the L–1011 program which would, under revised accounting procedures, amount to approximately $300 million net after providing for related tax benefits.

Finalization of the plan is subject to several other significant conditions. Among the most important: Lockheed must have firm orders for 180 L–1011 aircraft, including those already delivered;[23] a favorable tax ruling must be received in connection with the Company's change in its accounting procedures with respect to the L–1011 program; Rolls-Royce (1971) Ltd. must agree to continue its support of the L–1011 program; certain Lockheed and Textron security holders must approve the plan; and consents and rulings must be received from certain governmental agencies. Lockheed and Textron contemplate closing will occur by November 30, 1974. The Board has expressed its favorable reaction to the tentative plan and its belief that it would considerably improve Lockheed's capital position.

L-1011 Program

MARKET CONDITIONS AND DELIVERIES

In the summer and fall of 1973, airline revenue passenger traffic growth became extremely sluggish and performance was well below earlier industry estimates for the year. The Arab oil embargo, beginning in October 1973, resulted in higher fuel costs, which further complicated the outlook for future traffic growth and added new uncertainties to the need for additional wide-bodied aircraft. The number of scheduled flights was cut back sharply throughout the industry and a significant number of aircraft were temporarily grounded. The uncertain environment facing Lockheed's airline customers caused them to postpone either the exercising of existing options or the placing of new orders and, in the case of some airlines, to consider deferring contractually scheduled deliveries. These events, together with Eastern Air Lines' request to defer delivery of nine L–1011's scheduled for 1974, and some customers' acceleration of deliveries[24] severely taxed Lockheed's ability to forecast market targets with any precision.

During the first half of 1974, higher fuel costs continued to be of major

[22] The Banks are now preparing the necessary documentation in expectation that final agreement can be reached if the conditions of the plan are met.

[23] As of August 31, 1974, the Company had 148 firm L–1011 orders, 13 of which are subject to receipt of certain foreign governmental approvals.

[24] In addition to Delta's and TWA's decision (*See PART II, "New Financing," page 16 for details*), All Nippon Airways agreed to accept, in 1974, one aircraft scheduled for delivery in 1975.

concern to the airlines. Lockheed did succeed, however, in obtaining L–1011 orders from new foreign customers.

In March 1974, Cathay Pacific Airlines placed a firm order for two L–1011's with an option for two more aircraft and shortly thereafter, Saudi Arabian Airlines also ordered two L–1011's, both orders being for 1975 delivery. These represented the first new sales since December 1972 (*See Table 2*) and were also the first orders for two growth variants of the basic L–1011 configuration, described later. Additionally, in April 1974, Pacific Southwest Airways exercised options for two aircraft and asked for delivery in 1975 of its last three aircraft on order. Delivery of these had previously been planned for 1976 and 1977.

Airlease International, the owner of the two L–1011's leased to Court Line Aviation which was placed in liquidation in August 1974, has advised Lockheed that it is invoking the Market Support Agreement between Airlease and Lockheed. This agreement requires Lockheed to assist in re-lease or resale of the aircraft within 12 months and guarantees a minimum resale value. Inasmuch as the resale value guaranteed is significantly below current market value, Lockheed does not anticipate this will have a financial impact on the Company. These two used L–1011's could, however, substitute for what otherwise might be added sales of two new L–1011's.

There remains, however, a paucity of firm L–1011 orders for delivery beyond 1975. Without additional firm orders, either from new customers or by exercise of options, it will be difficult for Lockheed to maintain an economic rate of production. This situation led Lockheed to intensify its marketing efforts with potential new customers, particularly in the Middle East and Far East, and with existing airline customers.

Despite this difficult near-term order outlook, market studies prepared by Lockheed, the Civil Aeronautics Board, and others provide rational bases for concluding that a good demand for wide-bodied aircraft will continue into the mid-1980's. Supporting this premise, an October 1973 CAB study concluded that the wide-bodied jets give the airlines the possibility, through appropriate fleet composition, of realizing substantial cost and fuel savings per passenger mile. Lockheed's conclusion that there is a potential market for over 300 aircraft (including those already delivered) of the basic L–1011 model and proposed improvements, with production and deliveries extending into the first half of the 1980's, seems realistic.

All twenty-three aircraft scheduled for the first half of 1974 were delivered on or ahead of schedule, bringing total deliveries to seventy-nine through June 1974.

IN-SERVICE PERFORMANCE

By the end of June 1974, there were seventy-seven L–1011's in airline service.[25] Airline operator and customer reaction to the L–1011 has been

[25] An additional two had been delivered but were lost to service, one by Eastern Air Lines in a crash in 1972, reported in the Board's Second Annual Report, and a second by TWA due to a fire while on the ground.

TABLE 2.—Lockheed Ai

TABLE 2.—*Lockheed Aircraft Corporation Firm and Option L-1011 Orders*

	As of August 30, 1971			As of June 30, 1973			As of June 30, 1974		
	FIRM	OPTION	TOTAL	FIRM	OPTION	TOTAL	FIRM	OPTION	TOTAL
Eastern Air Lines	37	13	50	37	13	50	37	13	50
Trans World Airlines	33	11	44	33	11	44	33	11	44
Delta Air Lines	18	6	24	18	12	30	18	12	30
Air Canada	10	9	19	10	9	19	10	9	19
Pacific Southwest Airlines	2	3	5	3	2	5	5		5
Haas/Turner	2		2	2		2	2		2
Court Line *				2	3	5	2	3	5
British European Airways				6	12	18	9	9	18
L T U				1	1	2	1	1	2
All Nippon Airways				10	11	21	14	7	21
Cathay Pacific							2	2	4
Saudi Arabian Airlines							2		2
Total **	102	42	144	122	74	196	135	67	202
Delivered	0		0	35		35	79		79
Balance	102	42	144	87	74	161	56	67	123

* The Court-Line Group, of which Court-Line Aviation is a part, went into liquidation in August 1974. Thus, it now appears that its three options will lapse.

** Totals as of August 30, 1971 do not include the one firm and one option order from Air Jamaica, and totals as of August 30, 1971 and June 30, 1973 do not include the three option orders from L–1011 Oregon, Ltd. Lockheed removed these orders from its backlog on advice from each customer that it would be unable to accept delivery.

Source: Lockheed Aircraft Corporation

good and was enhanced by the continued improvement in reliability of the aircraft. "Dispatch Reliability" [26] has steadily improved, reaching a high of 98 percent in the second quarter of 1974, acknowledged as excellent by usual industry standards. "Operational Reliability" [27] has regularly exceeded 99 percent in spite of certain difficulties with the RB 211-22B engines, which now power most of the fleet. In general, the L-1011 has been performing well, although certain engine "teething" problems, as described below, have been of somewhat unusual aggravation to some airline operations; however, safety of the airplane was not involved.

Engine difficulties encountered since the Board's last Report were: (1) an engine "surge" or overspeed; (2) development of a high overhaul rate for the combustion module (hot section); and (3) a higher-than-expected number of accessory drive-gear failures. By mid-May 1974, the basic causal factors of the "surge" problem had been identified. While final correction of all engines to reduce their susceptibility to this phenomenon is a rather lengthy process, interim measures have significantly reduced the frequency of occurrence. Rolls-Royce issued modification Service Bulletins which, when associated hardware kits are installed throughout the L-1011 fleet, will largely alleviate the problems associated with the hot section and accessory drives.

PRODUCTION AND MANUFACTURING

During the late summer and early fall of 1973, the L-1011 program exhibited a disappointing and significant flattening in actual manufacturing hours required, as compared to learning-curve projections. In part, this was attributable to the difficulty in adjusting to acceleration of the manufacturing flow in order to achieve the scheduled higher rate of deliveries in November and December 1973. Eastern Air Lines' request to Lockheed to shift nine aircraft scheduled for 1974 delivery to 1975 and 1976, already included in the L-1011 production flow, further aggravated the manufacturing problem. Underlying these difficulties was a seeming inability on the part of manufacturing management to effectively control the daily work in the fabrication and assembly shops. In October, the situation reached a level which caused Company management to undertake realignment of the manufacturing operation. This included organizational restructuring, adjustments in assembly and flight-line station work-loading and the replacement, largely through early retirements, of several middle and senior level managers.

By the end of November, considerable improvement in productivity had been achieved. During November and December, eleven TriStars

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[26] Dispatch reliability is the percentage of scheduled airline flights that depart within fifteen minutes of schedule without incurring a delay or cancellation due to aircraft equipment.

[27] Operational reliability is the percentage of flights completed without unscheduled landings due to equipment failure.

were delivered; actual production hours per aircraft began a downturn; and by year end, some 3,000 production workers had been released.

In January 1974, the Lockheed California Company,[28] under its new President, implemented an "Action Plan" to eliminate or reduce expenditures in such a manner as to expend $50 million less in 1974 than anticipated by the Company's latest financial forecast. This included creation of the position of Vice-President, Manufacturing to provide greater emphasis to that function, additional streamlining of the organization to gain greater responsiveness and reduction of work-in-process inventory through further reorganization of assembly and flight-line work-loading. The return to a slower manufacturing rate aided in accomplishing the Action Plan objectives.

From September 1973 through mid-April 1974, four significant revisions to the L–1011 Manufacturing Plan were required to accommodate the deferral of Eastern Air Lines deliveries; the acceleration of deliveries to Delta, TWA, ANA and PSA; and sales to Cathay Pacific Airlines and Saudi Arabian Airlines. These revisions were accomplished without disruption of the manufacturing operation. Deliveries remained on or ahead of schedule, unit production hours continued a steady decrease and the quality of the delivered aircraft improved. During the first half of 1974, the usual indicators of productivity have shown improving trends and learning-curve projections have been met or bettered. The result, which the Board has been gratified to note, is that actual manufacturing manhours are running well under the Company's latest forecast. Thus, program costs for 1974 are expected to demonstrate a reversal of the experience of 1972 and 1973, when costs exceeded projections.

A few suppliers' problems caused a modest increase in manhours for out-of-station assembly of material delivered late, but these additional hours fell within the scope of total cost reductions described above. Along with most manufacturers, Lockheed is encountering general price increases and continually lengthening order lead-time in acquiring some basic materials.[29] However, the Company exhibited foresight in protecting its order position with material suppliers and envisions no disruptions on this account at the present time. Lockheed is conducting a comprehensive study to better ascertain the total impact of material price increases on the cost of manufacturing.

In summation, L–1011 production planning is faced with the need to adjust to potentially wide extremes in the manufacturing rate as dictated by the degree of success achieved in the market place. This includes timing of deliveries which may be necessary if sales are to be consummated in the face of strong competition. The extremes range from the uneconomical

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[28] The division of Lockheed Aircraft Corporation which manufacturers the L–1011.

[29] Those L–1011 suppliers and subcontractors who provide the major dollar portion of material used in the TriStar are largely bound by fixed price contracts with abnormal cost escalator provisions. However, Lockheed's sales contracts with its customers also include compensatory abnormal price escalator provisions in many cases.

stretchout in deliveries necessary to avoid a complete shutdown of the line, on one hand, to an unfeasible acceleration of production flow, on the other hand. However, present L–1011 program performance seems to signify the Company has now achieved the incremental increase in management competence, austerity and adaptability necessary to cope with those situations short of the extreme conditions.

NEW VERSIONS OF THE L–1011

Lockheed's original plan to develop a significantly extended-range version of the L–1011 (the Dash 2) has been indefinitely postponed in view of the combination of high nonrecurring cost for development and current market uncertainties. With this postponement, a possible $100 million financing package proposed for this purpose was allowed to lapse. However, in response to present and potential customers' needs for increased range in the L–1011, thereby enhancing its marketing potential, Lockheed formulated a number of design changes to the basic airframe which will provide somewhat longer range and greater load-carrying capabilities.[30] The nonrecurring cost increase associated with development and production of these modifications is projected to be quite nominal when compared to that for a Dash 2 or other derivatives.

Varying requirements of the airline operators in terms of route structure, capacity forecasts and operating environment led Lockheed early in 1974 to offer two increased GTOW variants of the basic L–1011, identified as the L–1011–100. These will allow both present and prospective customers the opportunity to trade off the increased lift capability between additional revenue payload and longer range in an aircraft whose purchase price is just slightly greater than the basic L–1011. Present operators are also offered an opportunity to upgrade their aircraft to gain this increased flexibility by installation of modification kits.

As mentioned earlier, two Dash 100 variants have been purchased by new customers: the 450,000-pound version by Saudi Arabian Airlines and the 466,000-pound version by Cathay Pacific Airlines. Lockheed states, and there is no evidence to the contrary, that construction of these longer-range aircraft will fit into the present manufacturing program with a minimum of disruption to assembly operations.

Improved versions of the RB–211 engine are also being developed. Rolls-Royce's –22F engine, under development for mid-1976 release, is directly interchangeable with the –22B now in use and provides 1000 pounds more thrust. This reduces time to climb, allows a higher initial cruise altitude and provides a slight reduction in fuel consumption. Also being developed is a –524 engine of 48,000-pound thrust with about 1000 pounds more weight than the –22B or –22F, which will require only minor

[30] These changes were made possible in part because the basic L–1011 design was conceived so as to allow for both a "stetch" in length and an increase in gross takeoff weight (GTOW). Further, extensive fatigue testing of an L–1011 airframe demonstrated intrinsic strength greater than that originally projected.

airframe modification for installation.[31] Rolls-Royce received approval to proceed with development of the –524 engine from the United Kingdom Department of Industry in February 1974.[32] This engine is planned for 1977 availability in new-production L–1011's and for retrofit of previously-produced aircraft by those airlines desiring the improved performance. Lockheed considers the –524 engine an important element in development of a full "family" of L–1011's, realization of its 300-aircraft program projections and satisfaction of the Textron condition for 180 firm orders prior to December 1974. Present orders for the L–1011 include two other configurations of the basic design: a lower-deck lounge, seating sixteen passengers, designed for Pacific Southwest Airways and an enlarged cargo door, with reinforced cargo deck and cabin floor, designed for British Airways. Lockheed believes that the availability of these, in combination with the Dash 100 and Dash 200, will enhance the ultimate marketing success of the program.[33] Further derivatives of the L–1011 remain under study. Table 3 depicts the characteristics of the Dash 100 and Dash 200.

COST PROBLEMS

The costs associated with the production, manufacturing and delivery delays experienced in the summer and fall of 1973 were considerably higher than the Company's 2/73 Financial Forecast projections. Although L–1011 productivity did improve, the cost of manufacturing continued to exceed projections. Lockheed, in December 1973, made a new forecast which recognized these cost increases and reflected a conservative approach in projecting further cost of the L–1011 program. Because of the Company's increased manufacturing experience both in terms of the number of aircraft produced and in accommodating variations in the production line caused by changing delivery schedules and customer aircraft peculiarities, the Board believes the 12/73 (Revision B) Financial Forecast is more reasonable than previous forecasts, at least during the near-term.

Certain increases in cost were experienced on the L–1011 program during the first half of 1974. These have resulted primarily from introduction of new L–1011 variations into production, changing delivery schedules, material shortages, and suppliers' problems. However, in light of the Company's performance since October 1973 in maintaining costs below projections and improving its manufacturing operations, it is not anticipated that the costs associated with these problems will exceed provisions for such contingencies included in Lockheed's latest forecast.

Lockheed continues to study the effects of both production slowdown and acceleration which could be necessitated by the market-place. An

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[31] Aircraft to be powered by the –524 engine have been designated the L–1011–200 (Dash 200).

[32] Production of the –524 engine will require assurance of production support by the United Kingdom Department of Industry, which has not yet been given.

[33] For example, Cathay Pacific's 466,000-pound configuration includes the larger cargo door arrangement devised for British Airways.

TABLE 3.—*L-1011 Characteristics Summary*

	—1		—100		—200	
Engine (R.B. 211)	—22B	—22B	—22B	—22F	—524	—524
Takeoff Thrust, lbs.	42,000	42,000	42,000	43,500	48,000	48,000
Maximum Takeoff Weight, lbs.	430,000	450,000	466,000	466,000	450,000	466,000
Takeoff Field Length @ 84 °F (MTOGW), ft.	8,350	9,550	11,200	10,220	7,800	8,450
Maximum Landing Weight, lbs.	358,000	368,000	368,000	368,000	368,000	368,000
Maximum Zero Fuel Weight, lbs.	325,00	330,000	320,000	320,000	330,000	320,000
Fuel Capacity, lbs. [1]	159,560	159,560	177,560	177,560	159,560	177,560
Operating Empty Weight Increment, lbs. Base	....	470	1,800	1,800	1,471	2,801
Structure [2]	....	365	365	365	365	365
Rolling Stock [3]	....	....	450	450	....	450
Engines	....	....	....	....	1,001	1,001
Fuel System [1]	....	105	950	950	105	950
Range with 273 passengers (n.mi)	3,040	3,500	3,830	3,910	3,600	3,930

[1] 466,000 lb. GTOW version incorporates additional 18,000 lb. fuel capacity in wing center section.
[2] All increased GTOW versions require slight strengthening of wings and fuselage, plus new nose landing gear tire.
[3] 466,000 lb. GTOW version requires increased strength main landing gear wheels, brakes and tires.

Source: Lockheed Aircraft Corporation data otherwise uneconomically low production rate, for instance, might be preferable to a total suspension of production. At the other extreme, a brief acceleration of the production rate to satisfy customers' orders, which could increase total program costs, might well be preferable to the loss of those orders creating the acceleration. Occurrence of situations of this type would constitute departures from the premises underlying the Company's current forecast and consequently could affect its ability to meet projections for repayment of guaranteed borrowings.

Other Programs

The financial performance of Lockheed's non-L–1011 programs has been generally better than forecast and the cash receipts thus derived have offset to some extent greater cash requirements for the L–1011 program. Sales to the United States Government during calendar year 1973 were only 60 percent of total sales as compared to 75 percent in 1972.

Lockheed's major defense programs are the S–3A, carrier-based, and P-3C, land-based, antisubmarine warfare aircraft; the Poseidon and Trident missile systems; and the C–130 military transport aircraft. The C–130 also represents the Company's largest non-L–1011 commercial program. In addition, a variety of important military, space and commercial programs are being carried on by the various divisions and subsidiaries of the corporation.

Lockheed Shipbuilding and Construction Company has continued to be unprofitable with losses of $14 million and $5.2 million recorded in 1973 and the first half of 1974, respectively, on certain shipbuilding contracts. The Company is presently reviewing its shipbuilding operations to determine whether additional significant losses may be incurred on current ship contracts.

1973 Financial Results

For the fiscal year ended December 30, 1973, Lockheed's overall operations continued to be profitable, with its increased inventories substantially financed by Government guaranteed bank loans under the 1971 Agreement and advances and progress payments from customers. Lockheed's year-end financial statements, as audited by Arthur Young & Company, Certified Public Accountants, were again qualified with respect to resolution of the claims on certain ship contracts and the ultimate realization of L-1011 inventories. An additional qualification was made with respect to the completion and maintenance of the financing under the 1974 Agreement.

Lockheed's 1973 Annual Report to Shareholders noted several factors which bear upon the L–1011 program and the Company's financial condition:

- Approximately $900 million L–1011 gross inventory recovery is dependent upon the receipt of future firm orders beyond those currently on hand.
- For accounting purposes, cost and selling price assumptions have been based on a 300-aircraft L–1011 program.
- Zero gross profit has been recorded on the L–1011 program and none will be recorded until uncertainties are reduced.
- By mid-1974, recurring costs incurred are projected to be less than the sales price of aircraft then being delivered.[34]
- Final realization of L–1011 development, tooling, and production start-up costs could extend into the early 1980's.

In view of the many variables included in Lockheed's projections, a final determination of recoverability of inventory costs cannot be made until sometime in the future.

During 1973, operations were adversely affected by higher than projected costs on the L–1011 program; however, these were somewhat offset by more favorable than expected profits from non-L–1011 operations.

YEAR END OPERATING STATEMENT

Consolidated operations for the year ended December 30, 1973, resulted in a net profit of $16.8 million on sales of $2.76 billion as compared with a net profit of $16.2 million on sales of $2.47 billion for the prior year. (*See Table 4.*) [35]

The increase in sales in 1973 reflected a more balanced mix and commercial products (primarily L–1011 aircraft) increased in importance. Eight of Lockheed's major military and commercial programs achieved sales in excess of $100 million each. Backlog at year end 1973 rose to $4.6 billion from $4.2 billion at year end 1972.[36]

Despite L–1011 sales in 1973 of $730 million, more than double the $302 million in 1972, Lockheed recorded a $69.7 million loss on the program. (*See Table 5.*) This loss represents the full amount of L–1011 program general and administrative expense charged to income in 1973. Total L–1011 costs charged to income, from program inception through year end 1973, amounted to $308 million, which includes $65 million in disruption costs and $243 million in general and administrative expenses.

In contrast to losses associated with the L–1011 program and certain ship contracts, Lockheed's other programs continued to operate profitably. In 1973 these programs generated operating profits of $168 million, up slightly from the 1972 level, and approximately $17 million more than the Company had projected at the beginning of the year.

[34] The Company has advised that this projection has now been achieved.

[35] Net earnings for 1972 and 1973 included extraordinary income from the sale of land amounting to $3.2 million and $2.7 million respectively.

[36] Year end 1973 backlog includes $1.07 billion representing L–1011 second-buy options but does not include $665 million negotiated U. S. Government contracts for which the Government had not yet allocated funds.

Table 4.—*Lockheed Aircraft Corporation*
Fiscal 1973 Operating Statement as Compared with 1972
(In Millions of Dollars)

	1972 Actual	1973 Actual	Change Favorable/ (Unfavorable)
Sales	2,472.7	2,756.8	284.1
Interest & Other Income	6.7	6.8	.1
Total	2,479.4	2,763.6	284.2
Interest Expense	47.5	69.3	(21.8)
Other Expenses & Costs	2,404.2	2,674.7	(270.5)
Total	2,451.7	2,744.0	(292.3)
Operating Income	27.7	19.6	(8.1)
Provision for Taxes	14.7	5.5	9.2
Total	13.0	14.1	1.1
Gain on Sale of Land	3.2	2.7	(.5)
Net Income	16.2	16.8	.6

Source: Lockheed Aircraft Corporation. Columns "Actual" taken from statements certified to by Arthur Young & Company, Certified Public Accountants.

Table 5.—*Lockheed Aircraft Corporation*
Fiscal 1973 Net Operating Income as Compared with 1972
(In Millions of Dollars)

	1972 Actual	1973 Actual	Change Favorable/ (Unfavorable)
Operating Profit (Loss)			
Other than L–1011 Program	155.7	158.6	2.9
L-1011 Program	(80.5)	(69.7)	10.8
Less: Interest Expense	47.5	69.3	(21.8)
Sub Total	27.7	19.6	(8.1)
Less: Provision for Taxes	14.7	5.5	9.2
	13.0	14.1	1.1
Gain on Sale of Land	3.2	2.7	(.5)
Net Income	16.2	16.8	.6

Source: Lockheed Aircraft Corporation. Columns "Actual" taken from statements certified to by Arthur Young & Company, Certified Public Accountants.

Interest expense for 1973 amounted to almost $70 million compared with $47.5 million in 1972. This increase was occasioned by a higher level of required borrowings, principally to finance L–1011 inventory, and the high interest rate experienced throughout 1973.

YEAR END BALANCE SHEET

The importance to Lockheed of the realization of L–1011 program inventories is emphasized by a comparison of its December 30, 1973, and December 31, 1972, balance sheets. (*See Table 6.*) The balance sheets

Table 6.—*Lockheed Aircraft Corporation Consolidated Balance Sheet Comparisons*

(In Millions of Dollars)

Assets	12/31/72 Actual	12/30/73 Actual	Change
Cash & Equivalent	89	76	− 13
Receivables (net):			
U.S. Government	139	121	− 18
Other	36	49	+ 13
Inventories (net)	1,066	1,292	+226
Prepaid Expenses	31	25	− 6
Total Current Assets	1,361	1,563	+202
Fixed Assets (net)	268	279	+ 11
Other Assets	3	13	+ 10
Total Assets	1,632	1,855	+223
Liabilities & Net Worth			
Accounts Payable	229	233	+ 4
Deferred Taxes	65	77	+ 12
Retirement Plan	80	82	+ 2
Salaries & Wages	93	108	+ 15
Customers' Advances	64	107	+ 43
Other Current Liabilities [1]	74	112	+ 38
Total Current Liabilities	605	719	+114
Notes Payable—Banks	530	600	+ 70
Notes Payable—U.S. Government	—	27	+ 27
Notes Payable—Banks, Murdock	—	7	+ 7
Deferred Liability to U.S. Government	100	90	− 10
Debentures	131	129	− 2
Net Worth	266	283	+ 17
Total Liabilities & Net Worth	1,632	1,855	+223

[1] Includes portion of long term debt due within one year: $16.5 million at December 30, 1973, and $1.8 million at December 31, 1972.

Source: Lockheed Aircraft Corporation. Columns "Actual" taken from statements certified to by Arthur Young & Company, Certified Public Accountants.

reflect only moderate change between the two dates in all principal asset accounts, with the exception of inventories.

The "Cash and Equivalent" balance of $76 million at December 30, 1973, declined by $13 million for the second consecutive year. Average Cash and Equivalent balances approximated $52 million in 1973 compared to average balances of $93 million in 1972. Receivables also declined slightly, by about $5 million, from year end 1972 levels.[37] Fixed assets, after depreciation charges and property sales, incresed about $10 million during 1973. This increase reflects Lockheed's purchase, in June 1973, of certain U. S. Government properties from the General Services Administration for approximately $30 million.

The inventory balance at year end 1973 reflected increased L–1011 program investment. (*See Table 7.*) Gross inventories increased by $264 million from December 31, 1972, of which $107 million is attributed to the L–1011 program. During the same period, net inventories increased by $226 million with $201 million of that amount attributed to the L–1011 program. The L–1011 program has represented about 90 percent of net inventories in each of the past three fiscal years. Lockheed's current financial forecast projects that permanent reductions in net L–1011 inventories will not begin until 1976.

Notes payable under the 1971 Agreement increased $70 million from $530 million outstanding at December 31, 1972, to $600 million at

[37] Included in Accounts Receivables is $12.5 million in claims against the Department of the Navy relating to certain ship construction contracts. (See footnote 13 on page 9 for details.)

Table 7.—*Lockheed Aircraft Corporation Inventory Position*

(In Millions of Dollars)

	12/31/72 Actual	12/30/73 Actual	Change
Work-in-Process	1,514	1,735	+221
Materials & Spare Parts	112	137	+ 25
Advances to Subcontractors	132	150	+ 18
Gross Inventories—Total	1,758	2,022	+264
L–1011 Portion	1,389	1,496	+107
Less: Advances & Progress Payments	692	730	+ 38
Net Inventories—Total	1,066	1,292	+226
L–1011 Portion	959	1,160	+201

Source: Lockheed Aircraft Corporation. Columns "Actual" taken from statements certified to by Arthur Young & Company, Certified Public Accountants.

December 30, 1973. This was $20 million greater than projected by Lockheed in its 2/73 Financial Forecast.

For the year ended December 30, 1973, Lockheed's net worth increased $16.8 million as a result of earnings retained by the Company. Despite its increased inventories and growing debt at year end 1973, Lockheed was in compliance with all required covenants of the 1971 Agreement relating to working capital, total liabilities [38] and net worth.

First Half 1974 Results

For the six months ended June 30, 1974, Lockheed recorded sales of $1.6 billion and net income of $10.8 million, the latter premised on a 300 L–1011 airplane program. L–1011 net inventory increased $9.6 million and bank borrowings increased $20 million [39] from 1973 year-end levels.

During the first half of 1974, most programs achieved better results than projected in the Company's 12/73 (Revision B) Financial Forecast. The L–1011 program showed a favorable cost variance of approximately $8 million and a favorable cash variance of almost $50 million. Lockheed has advised that of these amounts, $6.6 million of the favorable cost variance and between $20 million to $25 million of the favorable cash variance are related to "time-phasing" events and the balance reflects the improvements on the L–1011 program previously discussed. Total L–1011 costs charged to income, from inception through June 30, 1974, were $336 million.

Assessment of the Government's Position

Developments in late 1973 made the amount and timing of Lockheed's repayment of guaranteed indebtedness more uncertain than before. The Company's latest forecast reflects such repayment in 1977 which, of course, is dependent upon the Company's achieving results in line with its forecast premises, particularly those regarding the timing and number of new L–1011 firm orders to support an efficient production schedule. The Board has satisfied itself that Lockheed's latest forecast and the premises upon which it is based are not unreasonable. However, the Board is of the opinion that the best long-term solution for the Company's cash flow problem is through measures that would strengthen its capital position and further, that finalization of the tentative plan agreed to by Lockheed and Textron would provide a means to better assure the Company's long-term viability and the success of existing programs.

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[38] The Board and lending banks agreed to raise the "Total Liabilities" ceiling $75 million in connection with the 1974 Agreement. (See PART I, "MATERIAL CONSENTS AND AMENDMENTS TO THE 1971 AGREEMENT," Page 9.)

[39] See Chart 1 on page 17 for information relating to the Company's borrowing projections.

The Board, recognizing the numerous uncertainties which confront the Company, the volatile nature of the aerospace industry, and the details necessary to be resolved before the plan between Lockheed and Textron can be finalized, continues to monitor Lockheed's activities closely to assure protection of the Government's interest.

In the eventuality that the Government should be called upon to make payment on the guaranteed loans, the Board is still of the opinion that the Government's position is adequately protected by the "pool of collateral" under the 1971 Agreement, in which the Government has a priority interest.

APPENDIX A

Public Law 92-70
92nd Congress, H. R. 8432
August 9, 1971

An Act

To authorize emergency loan guarantees to major business enterprises.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, Emergency Loan Guarantee Act.

SHORT TITLE

SECTION 1. This Act may be cited as the "Emergency Loan Guarantee Act".

ESTABLISHMENT OF THE BOARD

SEC. 2. There is created an Emergency Loan Guarantee Board (referred to in this Act as the "Board") composed of the Secretary of the Treasury, as Chairman, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Securities and Exchange Commission. Decisions of the Board shall be made by majority vote. Membership.

AUTHORITY

SEC. 3. The Board, on such terms and conditions as it deems appropriate, may guarantee, or make commitments to guarantee, lenders against loss of principal or interest on loans that meet the requirements of this Act.

LIMITATIONS AND CONDITIONS

SEC. 4. (a) A guarantee of a loan may be made under this Act only if—

(1) the Board finds that (A) the loan is needed to enable the borrower to continue to furnish goods or services and failure to meet this need would adversely and seriously affect the economy of or employment in the Nation or any region thereof, (B) credit is not otherwise available to the borrower under reasonable terms or conditions, and (C) the prospective earning power of the borrower, together with the character and value of the security pledged, furnish reasonable assurance that it will be able to repay the loan within the time fixed, and afford reasonable protection to the United States; and

(2) the lender certifies that it would not make the loan without such guarantee.

85 STAT. 178

85 STAT. 179

(b) Loans guaranteed under this Act shall be payable in not more than five years, but may be renewable for not more than an additional three years.

(c)(1) Loans guaranteed under this Act shall bear interest payable to the lending institutions at rates determined by the Board taking into account the reduction in risk afforded by the loan guarantee and rates charged by lending institutions on otherwise comparable loans. Interest rates determination.

(2) The Board shall prescribe and collect a guarantee fee in connection with each loan guaranteed under this Act. Such fee shall reflect the Government's administrative expense in making the guarantee and the risk assumed by the Government and shall not be less than an amount which, when added to the amount of interest payable to the lender of such loan, produces a total charge appropriate for loan agreements of comparable risk and maturity if supplied by the normal capital markets. Guarantee fee.

SECURITY FOR LOAN GUARANTEES

SEC. 5. In negotiating a loan guarantee under this Act, the Board shall make every effort to arrange that the payment of the principal of and interest on any plan guaranteed shall be secured by sufficient property of the enterprise to collateralize fully the amount of the loan guarantee.

REQUIREMENTS APPLICABLE TO LOAN GUARANTEES

Stock dividends or other payments, prohibition.

SEC. 6. (a) A guarantee agreement made under this Act with respect to an enterprise shall require that while there is any principal or interest remaining unpaid on a guaranteed loan to that enterprise the enterprise may not—

(1) declare a dividend on its common stock; or

(2) make any payment on its other indebtedness to a lender whose loan has been guaranteed under this Act.

Waiver.

The Board may waive either or both of the requirements set forth in this subsection, as specified in the guarantee agreement covering a loan to any particular enterprise, if it determines that such waiver is not inconsistent with the reasonable protection of the interests of the United States under the guarantee.

Managerial changes.

(b) If the Board determines that the inability of an enterprise to obtain credit without a guarantee under this Act is the result of a failure on the part of management to exercise reasonable business prudence in the conduct of the affairs of the enterprise, the Board shall require before guaranteeing any loan to the enterprise that the enterprise make such management changes as the Board deems necessary to give the enterprise a sound managerial base.

Financial statement.

(c) A guarantee of a loan to any enterprise shall not be made under this Act unless—

(1) the Board has received an audited financial statement of the enterprise; and

(2) the enterprise permits the Board to have the same access to its books and other documents as the Board would have under section 7 in the event the loan is guaranteed.

(d) No payment shall be made or become due under a guarantee entered into under this Act unless the lender has exhausted any remedies which it may have under the guarantee agreement.

Protective provisions.

85 STAT. 179

85 STAT. 180

(e)(1) Prior to making any guarantee under this Act, the Board shall satisfy itself that the underlying loan agreement on which the guarantee is sought contains all the affirmative and negative covenants and other protective provisions which are usual and customary in loan agreements of a similar kind, including previous loan agreements between the lender and the borrower, and that it cannot be amended, or any provisions waived, without the Board's prior consent.

Advances.

(2) On each occasion when the borrower seeks an advance under the loan agreement, the guarantee authorized by this Act shall be in force as to the funds advanced only if—

(A) the lender gives the Board at least ten days' notice in writing of its intent to provide the borrower with funds pursuant to the loan agreement:

(B) the lender certifies to the Board before an advance is made that, as of the date of the notice provided for in subparagraph (A) the borrower is not in default under the loan agreement: *Provided*, That if a default has occurred the lender shall report the facts and circumstances relating thereto to the Board and the Board may expressly and in writing waive such default in any case where it determines that such waiver is not inconsistent with the reasonable protection of the interests of the United States under the guarantee; and

(C) the borrower provides the Board with a plan setting forth the expenditures for which the advance will be used and the period during which the expenditures will be made, and, upon the expiration of such periods, reports to the Board any instances in which amounts advanced have not been expended in accordance with the plan.

Loan security, priority.

(f)(1) A guarantee agreement made under this Act shall contain a requirement that as between the Board and the lender, the Board shall have a priority with respect to, and to the extent of, the lender's interest in any collateral securing the loan and any earlier outstanding loans. The Board shall take all steps necessary to assure such priority against any other persons.

"Collateral."

(2) As used in paragraph (1) of this subsection, the term "collateral" includes all assets pledged under loan agreements and, if appropriate in the opinion of the Board, all sums of the borrower on deposit with the lender and subject to offset under section 68 of the Bankruptcy Act.

52 Stat. 878.
11 USC 108.

INSPECTION OF DOCUMENTS; AUTHORITY TO DISAPPROVE CERTAIN TRANSACTIONS

SEC. 7. (a) The Board is authorized to inspect and copy all accounts, books, records, memoranda, correspondence, and other documents of any enterprise which has received financial assistance under this Act concerning any matter which may bear upon (1) the ability of such enterprise to repay the loan within the time fixed therefor; (2) the interests of the United States in the property of such enterprise; and (3) the assurance that there is reasonable protection to the United States. The Board is authorized to disapprove any transaction of such enterprise involving the disposition of its assets which may affect the repayment of a loan that has been guaranteed pursuant to the provisions of this Act.

GAO audit.

(b) The General Accounting Office shall make a detailed audit of all accounts, books, records, and transactions of any borrower with respect to which an application for a loan guarantee is made under this Act. The General Accounting Office shall report the results of such audit to the Board and to the Congress.

Report to Board and Congress.

85 STAT. 180
85 STAT. 181

MAXIMUM OBLIGATION

SEC. 8. The maximum obligation of the Board under all outstanding loans guaranteed by it shall not exceed at any time $250,000,000.

EMERGENCY LOAN GUARANTEE FUND

Establishment; use.

SEC. 9. (a) There is established in the Treasury an emergency loan guarantee fund to be administered by the Board. The fund shall be used for the payment of the expenses of the Board and for the purpose of fulfilling the Board's obligations under this Act. Moneys in the fund not needed for current operations may be invested in direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof.

Guarantee fee.

(b) The Board shall prescribe and collect a guarantee fee in connection with each loan guaranteed by it under this Act. Sums realized from such fees shall be deposited in the emergency loan guarantee fund.

Payments.

(c) Payments required to be made as a consequence of any guarantee by the Board shall be made from the emergency loan guarantee fund. In the event that moneys in the fund are insufficient to make such payments, in order to discharge its responsibilities, the Board is authorized to issue to the Secretary of the Treasury notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions as may be prescribed by the Board with the approval of the Secretary of the Treasury. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the month preceding the issuance of the notes or other obligations. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations issued hereunder and for that purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include any purchase of such notes and obligations.

40 Stat. 288.
31 USC 774.

FEDERAL RESERVE BANKS AS FISCAL AGENTS

SEC. 10. Any Federal Reserve bank which is requested to do so shall act as fiscal agent for the Board. Each such fiscal agent shall be reimbursed by the Board for all expenses and losses incurred by it in acting as agent on behalf of the Board.

PROTECTION OF GOVERNMENT'S INTEREST

Attorney General, enforcement authority.

SEC. 11. (a) The Attorney General shall take such action as may be appropriate to enforce any right accruing to the United States or any officer or agency thereof as a result of the issuance of guarantees under this Act. Any sums recovered pursuant to this section shall be paid into the emergency loan guarantee fund.

Recovery rights.

(b) The Board shall be entitled to recover from the borrower, or any other person liable therefor, the amount of any payments made pursuant to any guarantee agreement entered into under this Act, and upon making any such payment, the Board shall be subrogated to all the rights of the recipient thereof.

85 STAT. 181

85 STAT. 182

REPORTS

Reports to Congress.
Recommendations.

SEC. 12. The Board shall submit to the Congress annually a full report of its operations under this Act. In addition, the Board shall submit to the Congress a special report not later than June 30, 1972, which shall include a full report of the Board's operations together with its recommendations with respect to the need to continue the guarantee program beyond the termination date specified in section 13. If the Board recommends that the program should be continued beyond such termination date, it shall state its recommendations with respect to the appropriate board, agency, or corporation which should administer the program.

TERMINATION

SEC. 13. The authority of the Board to enter into any guarantee or to make any commitment to guarantee under this Act terminates on December 31, 1973. Such termination does not affect the carrying out of any contract, guarantee, commitment, or other obligation entered into pursuant to this Act prior to that date, or the taking of any action necessary to preserve or protect the interests of the United States in any amounts advanced or paid out in carrying on operations under this Act.

Approved August 9, 1971.

LEGISLATIVE HISTORY:

HOUSE REPORT No. 92-379 (Comm. on Banking and Currency).
SENATE REPORT No. 92-270 accompanying S. 2308 (Comm. on Banking, Housing, and Urban Affairs).
CONGRESSIONAL RECORD, Vol. 117 (1971):
July 30, considered and passed House.
July 21-24, 26-31, Aug. 2, considered and passed Senate, in lieu of S. 2308.

APPENDIX B

Participating Banks and Percentage of Participation in the 1971 Credit Agreement

Specified Percentage	*Name of Bank*
7.5%	Bank of America National Trust and Savings Association
7.5%	Bankers Trust Company
7.5%	The Chase Manhattan Bank
7.5%	First National City Bank
7.5%	Manufacturers Hanover Trust Company
7.5%	Morgan Guaranty Trust Company of New York
7.5%	Security Pacific National Bank
5.75%	Continental Illinois National Bank and Trust Company of Chicago
5.75%	Mellon National Bank and Trust Company
5%	Chemical Bank
5%	United California Bank
3.75%	Crocker National Bank
3.75%	The First National Bank of Boston
3.75%	The First National Bank of Chicago
3.75%	Irving Trust Company
3.75%	Wells Fargo Bank National Association
2%	Girard Trust Bank
2%	The Philadelphia National Bank
1.25%	The Bank of California National Association
.5%	The Citizens and Southern National Bank
.5%	The First National Bank of Atlanta
.5%	Trust Company of Georgia
.25%	The Fulton National Bank of Atlanta
.25%	The Pacific National Bank of Washington

APPENDIX C

MEMORANDUM

Lockheed Recapitalization Program
3 June 1974

This will confirm the following basic terms for an agreement between Lockheed Aircraft Corporation and Textron Inc. with respect to a program for increasing Lockheed's equity capital and restructuring Lockheed's outstanding debt and credit arrangements.

1. *Textron Investment.* Subject to the conditions of this memorandum, Textron will purchase for investment (a) 12 million shares of new Lockheed common stock at a price of $5 per share, or a total of $60 million, and (b) 250,000 shares of new Lockheed Preferred Stock (described below) at a price of $100 per share, or a total of $25 million. The total Textron investment in new Lockheed shares will be $85 million.

2. *Lockheed Rights Offering.* Lockheed will sell an additional 3 million shares of new Lockheed common stock at a price of $5 per share by means of a rights offering to Lockheed shareholders. The rights offering will be registered under the Securities Laws and underwritten by Lazard Freres & Co. Textron's purchase of any Lockheed shares shall be conditioned upon the execution of an underwriting agreement and effectiveness of the registration statement for the rights offering.

3. *Restructuring Debt.* The agreement is subject to restructuring the present Lockheed bank debt and bank credit arrangements as follows:

(a) The lending banks will convert $275 million of present Lockheed bank debt into 2,750,000 shares of new Lockheed Preferred Stock (described below) at $100 per share.

(b) The lending banks will make available to Lockheed credit lines initially totaling $375 million on terms outlined below.

4. *New Lockheed Preferred.* The new Lockheed Preferred Stock to be issued to lending banks and Textron will have the following terms:

(a) Total of 3 million shares, par value $100 a share. Aggregate par value will be $300 million.

(b) Dividend rate—Cumulative from 1 October 1974 at 5% per annum, increasing to 6% per annum commencing 1 October 1979 and to 7% per annum commencing 1 October 1980.

(c) Dividend payment—Cumulative dividends payable on 1 October 1975 and on each 1 October thereafter.

(d) Voting—One vote per share on all matters, with the right as a class to elect 25% of Lockheed Directors in case of failure to pay dividends when due for a period of one year or to meet required sinking fund payments.

(e) Fixed Sinking Fund—6% of original aggregate par value, plus redemption premium, payable on 1 October 1976 and each 1 October thereafter until fully redeemed. This fixed sinking fund of $18 million, plus premium, will be applied prorata on the basis of the original preferred shareholders. The sinking fund redemption price will be $106 per share plus accrued dividends.

(f) Contingent Sinking Fund—An amount equal to 50% of Lockheed net income after taxes (at full rate whether or not paid or payable) and preferred dividends, commencing with the calendar year 1975, payable on 1 October 1977 with respect to such net income for calendar years 1975 and 1976 and on each 1 October thereafter with respect to net income for the preceding calendar year. The contingent sinking fund, plus premium, will be applied prorata on the basis of the original preferred shareholders. The sinking fund price will be $106 per share plus accrued dividends.

(g) Redemption—Redeemable at any time at the option of Lockheed, in whole or in part, at $106 per share plus accrued dividends.

5. *Lockheed Bank Lines.* The credit lines to be made available to Lockheed by the lending banks will be on the following terms:

(a) Initial Amount—$375 million.

(b) Interest—4% per annum until 30 September 1976, and thereafter at prime rate plus ½%. During the period from 1 January 1976 through 30 September 1976, a rate of prime plus ¼% will apply to that portion of borrowings under the lines in excess of amounts set forth below (in millions):

Period	Amount
1st Quarter	$350
2nd Quarter	315
3rd Quarter	275

(c) Commitment fee of ½% per annum for unused portion of lines.

(d) Secured by the collateral now securing the Lockheed borrowings, plus a security interest in flight-line commercial aircraft as contemplated by the recent $75 million bank credit.

(e) Reduction of the lines on the following schedule (in millions):

31 December	Amount of Reduction
1977	$ 75
1978	100
1979	100
1980	100
	$375

6. *Payment of Deferred Interest.* The deferred interest accrued by Lockheed estimated to be $6 million on 30 September 1974, will be paid to the banks at closing.

7. *Change in Lockheed Accounting.* Upon the recapitalization, Lockheed's accounting policies will be amended by writing off certain nonrecurring costs related to the L–1011 program. It is estimated that the write-off under an amended accounting policy, which would be charged to income in 1974, would amount to about $300 million net after providing for anticipated related tax benefits. The accounting treatment will be subject to concurrence of Lockheed, its auditors, Textron and the SEC. The projected program for 300 L–1011 airplanes will not be changed.

8. *Lockheed Management.* Provisions satisfactory to Textron will be made for Textron participation in Lockheed management, while maintaining management continuity.

9. *Conditions of Agreement.* The agreement is subject to each of the following conditions:

(a) Firm orders for the L–1011 will be sufficient to bring the total program, including airplanes already delivered, to 180 airplanes. The delivery schedules and prices will be mutually acceptable to Lockheed and Textron.

(b) Release of the U.S. Government loan guarantee upon terms mutually acceptable to Lockheed, Textron and the Lockheed banks.

(c) Indications of continued support of the L–1011 program by Rolls-Royce, including assurances with respect to funding of production of the larger engine.

(d) A favorable tax ruling permitting Lockheed to change to a program basis for tax costing in 1974, and any other required governmental approvals.

(e) Verification of Lockheed financial condition and projections.

(f) Audit of interim Lockheed financials to the extent required by Textron.

(g) No material adverse change in Lockheed's business or financial condition prior to closing. Lockheed's business to be conducted in the ordinary course, with any transactions outside the ordinary course to be subject to Textron concurrence.

(h) Definitive agreements with appropriate warranties and registration rights, and satisfactory arrangements for underwriting the rights offering to Lockheed shareholders.

(i) Proper corporate approvals, including approval by Lockheed's and Textron's respective Boards of Directors and shareholders.

(j) Approval by holders of two-thirds of the outstanding Lockheed Subordinated Debentures to amend the Indenture to permit redemption of the Lockheed Preferred Stock and other necessary matters.

(k) Closing by 30 November 1974.

(signed) D. J. HAUGHTON
LOCKHEED AIRCRAFT CORPORATION

(signed) G. WILLIAM MILLER
TEXTRON INC.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

September 24, 1974

FOR IMMEDIATE RELEASE

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AMOUNT OF TREASURY BILL OFFERING

The amount of Treasury bills announced for sale in the regular weekly auction of September 30, for delivery October 3, is $4.5 billion, which is the amount of bills maturing on October 3.

The $4.5 billion total will be made up of $2.6 billion of 13-week and $1.9 billion of 26-week bills.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE September 24, 1974

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $4,500,000,000 , or thereabouts, to be issued October 3, 1974, as follows:

91-day bills (to maturity date) in the amount of $2,600,000,000, or thereabouts, representing an additional amount of bills dated July 5, 1974, and to mature January 2, 1975 (CUSIP No. 912793 VP8), originally issued in the amount of $1,904,700,000, the additional and original bills to be freely interchangeable.

182-day bills, for $1,900,000,000, or thereabouts, to be dated October 3, 1974, and to mature April 3, 1975 (CUSIP No. 912793 WC6).

The bills will be issued for cash and in exchange for Treasury bills maturing October 3, 1974, outstanding in the amount of $4,512,280,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,494,145,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, September 30, 1974. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

(OVER)

securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $200,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on October 3, 1974, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 3, 1974. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE September 24, 1974

RESULTS OF AUCTION OF 2-YEAR TREASURY NOTES

The Treasury has accepted $2.0 billion of the $3.2 billion of tenders received for the 2-year notes auctioned today. The range of accepted competitive bids on a yield basis was as follows:

Lowest yield	8.20% a/
Highest yield	8.39%
Average yield	8.34%

The interest rate on the notes will be 8-1/4%. At the 8-1/4% rate, the above yields result in the following prices:

Low-yield price	100.09
High-yield price	99.75
Average-yield price	99.84

The $2.0 billion of accepted tenders includes 43 % of the amount of notes bid for at the highest yield, and $0.6 billion of noncompetitive tenders accepted at the average yield, $0.2 billion of which were from Federal Reserve Banks and Government accounts exchanging notes maturing September 30.

a/ Excepting 4 tenders totaling $480,000

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE UPON DELIVERY
8:00 P.M., SEPTEMBER 25, 1974

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REMARKS OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE CBS RADIO AFFILIATES MEETING
BILTMORE HOTEL, PHOENIX, ARIZONA
8:00 P.M., SEPTEMBER 25, 1974

I 'm honored to be here tonight and the first thing I want to do is to say "thank you" on behalf of your government and your country for your performance last winter during the energy crisis. I want to thank you for supporting the 55 mile an hour speed limit program, for encouraging conservation, and for telling the public why they had a share in a serious national crisis.

A second reason I am here is because I am told that 57% of the American people turn on their radios in the morning to listen to the news. And I'd like to enlist your aid now in informing this 57% about another national problem which is hurting all of us. It is, of course, inflation.

I can tell you this topic is foremost in the concerns of government officials in Washington, and as the surveys clearly show, it is foremost in the minds of the American people.

Unfortunately, it is also a topic which is too little understood. All of us are feeling the effects of the pervasive price increases we are experiencing, but too few of us know what is causing them; fewer still are familiar with the remedies and how they work.

And this is where your industry can again be of enormous service -- by informing the American people in an understandable, down-to-earth fashion about inflation in all its aspects. By this, I mean not only reporting the current rate of price increases, but helping your listeners understand what factors are fueling these price advances and what weapons are being used to bring them under control.

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As leaders in our communications industry, I know you are aware that enlightened public opinion springs from basic public knowledge. And that is why I am enlisting your support in what has been called a war on inflation. One of the first doctrines of warfare is "Know your enemy." And you can play a vital role in communicating this knowledge to the American people by reporting on inflation, as you did on the energy crisis, in a way our citizens understand and respond to.

It seems to me that too often radio stations deprecate their own potential in this sort of situation. When President Nixon resigned, 110 million Americans watched on TV. I saw that printed. But I also know that 40 million Americans listened to that historic event on radio. Forty million is no small number, either.

I realize that even with such huge audiences, radio has become locally-oriented. You often take part in more local activities than neighboring television stations. But the battle against inflation is a national crisis that has local implications. You can really help by reporting these local aspects and relating them to our broad national problem.

I agree we in government won't make the task easier if we keep talking in the jargon that we used at some of our recent mini-summits about the economy. Last Friday when Treasury held its own "foothill" meeting, a columnist -- Sylvia Porter -- came up to me and almost shook her finger under my nose for using the word "disintermediation."

"What you mean" -- she said -- "is that prople are taking their money out of their bank accounts. Why didn't you say that?"

She's right. What we need is more communication and less gobbledygook. So let me try to take a step in that direction here today as I discuss our current economic problems.

It has become commonplace to discuss how the current inflation is eroding the value of savings, income, pensions and insurance policies. But in my view, it is also destroying something even more precious: the confidence of Americans in their government, their future, and their free enterprise system.

In the unwritten social contract between free citizens and their government, Americans have placed their faith in the central government to protect the value of the dollars they earn. In this responsibility, the U. S. Government has failed the American people.

Although a few people may prosper during inflation, most of us do not. And it is the poor and the pensioners who suffer the most. Thus, it is not only economic stability that dictates an early end to double-digit inflation -- but social justice as well.

Bringing inflation under control will not be an easy or painless process. But it is a necessary one, because inflation is the most insidious, regressive and unjust tax a democratic government can impose.

The cure will have unpleasant side effects: it will mean slightly higher unemployment than we would otherwise have, less easily available credit, and curbs on federal spending. But painful as this medicine will be, we must take it now, because in the end it will be less traumatic and less costly than allowing the present double digit inflation to continue.

But it is not just the short-term crisis of inflation I want to discuss today. I also want to assess the future, and the prospects for continued prosperity into the next decade.

Policies For The Long Run

The late Lord Keynes had a famous retort to those who would venture to discuss economics over the long run. "In the long run," he observed, "we are all dead."

Well, certainly, that is true of men. But it is not necessarily true of nations and peoples. If men in high office can resist the temptation to rely on politically attractive, short-term palliatives and can instead make the tough but right decisions here in 1974, we can help achieve prosperity for the American people in 1980 and 1985.

In this regard, the economic factor that we should be most concerned with is the growth in productivity of the American worker, the rate of increase in output per man hour.

We know from both economic theory and from history that productivity is a crucial factor in the performance of our economy, because our standard of living cannot rise any faster than the productivity of our work force.

Let me repeat that statement for emphasis, because it is a fact of overriding importance: The standard of living of the American people cannot rise faster than the productivity of our work force. If everybody understood that fact, I believe our economic policies could be improved measurably.

Between 1960 and 1973, the growth in productivity of the average American worker was lower than that of industrial nations in the Western world. It amounted to only about 3% a year -- compared to almost 6% for the French and Germans, and more than 10% for the Japanese.

And the reason that the United States stands at the bottom of the scale is very clear. During the same dozen years the United States was devoting only about 18% of its total output to capital investment -- one of the smallest percentages of any nation in the Western world. In those nations willing to devote a quarter or a third of their output to investment, the rates of productivity growth were double and triple that of the United States.

Of course, all investment is not in machines or mortar. We invest as well in "human" capital -- our labor force, in making it more skilled and better educated. And although no direct comparisons are available, it is my guess that in this regard the United States is <u>not</u> lagging behind. Each year, the new class of entrants into our labor force is more capable of coping with changing technology than the last.

There has been an uptrend in spending for new plant and equipment since 1971. And at present, that uptrend shows no sign of abating. However, I don't think the present and prospective volume of capital investment is big enough. It is not enough to satisfy the expectations of the public, the promises of our politicians, or, most important, the basic need of our economy.

We face enormous demands on our investment dollars in the coming decade. With this in mind, the Council of Economic Advisers was directed to study the nation's future requirements

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for investment capital. Without predicting or anticipating the results of that study, let me give you my views.

A Reversal of Priorities

I believe there has to be a major reversal of economic priorities in the United States. We have to turn away from primary emphasis upon consumption, and toward a new emphasis upon saving and investment. We must also curb government spending, which consumes more and more of the gross national product every year.

If we do not step up our volume of capital investment in the coming decade, then we should begin scaling down our hopes and hedging on our promises about new housing, meeting our energy and environmental needs, and re-invigorating American industry. If however, we are going to build for the future, then we have to start making sacrifices for that future.

Where is the new capital to come from? What are the sources upon which the United States must rely? The first source is the pool of profits earned annually by business and industry.

Historically, the role of profits in our system has been to provide both the incentive and the wherewithal for investment. In the political environment of the past decade, however, that role has become less and less understood by the American people.

To many Americans, profits are not the legitimate and honest return on investment. They are rather the immoral rewards of corporate greed -- the conspicuous consumption of Big Business at the expense of the common man.

Today, not only the role of profits, but the historical level of profits is grossly misunderstood. In one major survey of U. S. opinion, Americans thought profits accounted for 28% of the sales of American corporations. The true figure is less than five percent. Less than one nickel out of every dollar in sales in this country goes into corporate profits -- a ratio that in many parts of this country is less than the take of the state government.

In some industries, like food retailing, profit margins are hovering around one percent. But, try to argue that position, in some political forums, or on some campuses in this country, and you will be fortunate if you are only called a liar.

Let's look at the figures.

In 1973, after-tax profits of all non-financial corporations increased $12 billion, 23 percent over the year previous. On the surface, that would appear to represent a sparkling performance. But a huge slice of that gain amounted to nothing more than inflationary increases in the value of inventory and undervaluation of depreciation. Indeed undistributed corporate profits, after taking out the impact of inflation on inventory values and capital consumption allowances increased only $3 billion last year.

In fact, the undistributed profits of non-financial corporati[illegible] in 1973 were less than one-fifth of what they were in 1965 when the inflation of the intervening period is taken into account. If this nation is going to accumulate the investment captial necessary to fund our domestic needs -- that profit picture has to be dramatically improved.

The electric utilities industry presents a graphic case in point. Government rate-setters who regulate the profits of the electric utilities have -- for obvious political reasons -- been slow to react to the skyrocketing cost of fuel and other commodities used by the utilities. As a consequence, utilities' after-tax profits have been squeezed in the midst of an energy crisis when those profits are vitally needed for additional investment.

If the utilities are continually denied necessary rate increases, then the country will pay one day for these temporarily reduced rates in black-outs and brownouts, in the midst of some summer hot spell or winter storm.

Summed up then, my concern is this. Profits are the fuel of the engine that pulls the train of American business and industry, the train that carries as cargo the jobs of two-thirds of the working men and women of this nation.

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If the nation doesn't understand that, if through hasty or unwise legislation we restrict or diminish these profits further, the nation will eventually pay in lost jobs, in diminished prosperity, and in failure to achieve the grand goals we have set for ourselves as a people.

Let us look at those goals -- and what they require. Estimates of the capital requirements of the energy industry -- to achieve Project Independence -- range from 750 billion to a thousand billion dollars. Pollution control could require another 100 billion dollars over the next decade.

The cost of rebuilding basic industries that have languished in recent years -- steel, paper, cement, fertilizer, zinc, others -- could require another $50 billion or more. The needs for urban transportation systems, housing and other major programs could add scores to that already astronomical sum. And these come on top of the conventional requirements.

Without doubt, then, one of the crucial economic challenges of the coming decade will be finding the investment capital to meet the challenges that we have imposed upon ourselves?

In the traditional metaphor, we can go two ways: Either we re-slice the investment pie -- with a larger share going to energy, and less to traditional investment needs. Or we can enlarge that investment pie, by diverting resources away from consumption and into savings, away from government expenditure and into private investment.

That last is the only workable approach with the prospect of success. And in encouraging savings, the most important step the United States Government can take is to get a grip on the double-digit inflation described at the outset of my address.

Inflation is the silent partner of speculation and the enemy of thrift. What reason on earth is there for a family to put its savings into a bank at five or six percent interest annually, when inflation is consuming 10 or 12 percent of the principal every year? So, if we are to increase the volume of savings, and the funds available for investment, we have to remove the greatest disincentive to savings today -- inflation.

That is priority number one; priority number two is a change in the expansive budget policy that has guided the government for the past dozen years.

The basic budget objective should be to run a balanced budget over the cycle: That is, to run deficits in years when there is slack in the economy, and surpluses in years when the economy is overheated. However, over the past 14 years, the United States Government has run one surplus, and thirteen deficits. The budget has not been balanced over the cycle. Indeed, in those years, we have added more than $100 billion to the national debt.

We have increased government spending faster than we have been willing to pay for it through taxes. We have created too much money and credit, so that more borrowing has taken place than can be financed out of savings. By these actions, we have permitted, encouraged, even forced the demand for goods and services to outrun our productive capacity.

We should not then be surprised that the inflation is embedded so deeply in this economy. After all, we have been planting the seeds for the better part of a decade.

In the long run, what can we accomplish by shifting to a balanced budget policy? First, we would enlarge the flow of savings available to the private sector, because the government could reduce its claims on the capital markets. Government would no longer pre-empt so vast a share of funds needed by home-builders and others, who are now shouldered out of the capital markets by the superior credit rations of the Federal Government. Second, balanced budgets in the future would provide the necessary fiscal restraint critical to the control of inflation.

In addition, unproductive government restraints on industry -- such as maintaining artifically low prices for electricity and natural gas -- can and should be lifted.

While politically popular in the short term, we pay the full economic price, inevitably, in the long run.

We are paying, frankly, for more government than we need, more government than most of us want. The time has come to start moving in the other direction -- leaving more of the output of the nation in the hands of its people, and their private institutions.

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To some people, that idea implies leaving more income and wealth in the hands of the rich, and less for the poor. Not so. Not at all. You only have to look quickly at the history of our economy to appreciate that the growing prosperity of America has been widely shared by all groups.

Thirty years ago, Joseph Schumpeter, the great disciple of American capitalism, wrote:

> "Queen Elizabeth owned silk stockings. The capitalist achievement does not typically consist in providing more silk stockings for queens, but in bringing them within the reach of factory girls in return for steadily decreasing amounts of effort."

Well, if not silk stockings, then certainly nylon stockings for the factory girls of America -- and washers and dryers and automobiles and television sets and packaged foods and all sorts of other things in a variety and abundance unknown in the history of man. And that prosperity can and will continue to grow, if government will only build its incentives toward saving, not spending -- and if government will start following that advice itself.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

327-H

September 26, 1974

NOTE TO CORRESPONDENTS:

Secretary William E. Simon has scheduled a press breakfast, to which all accredited press are invited, at 8:00 a.m., Tuesday, October 1, in the Diplomat Room of the Shoreham Hotel, as background on the speech he will deliver later in the morning to the plenary session of the IMF/IBRD. Information is embargoed until delivery of the speech at 11:00 a.m.

A summation press conference will be held by the Secretary at approximately 2:30 p.m., Friday, October 4, in the Cotillion Room of the Sheraton Park, following the IMF/IBRD closing session and the final press briefing given by IMF Managing Director Witteveen.

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FOR IMMEDIATE RELEASE SEPTEMBER 26, 1974

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TREASURY SEIZES ILLEGAL IMPORTS OF RHODESIAN SCULPTURES

The Treasury Department announced today that 181 stone sculptures of Rhodesian and African origins have been seized from the Military Supply Agency, San Bernardino, California, and other persons and firms located in California.

The merchandise has an estimated domestic value of more than $100,000 and was seized by Customs and Office of Foreign Assets Control agents after a series of investigations.

It was charged the sculptures had been imported in violation of sanctions against dealing with Southern Rhodesia, and had been falsely declared of South African origin in violation of Customs marking regulations.

The Rhodesian origin stone sculptures were created by African Mashonaland artists and purchased in Rhodesia by Mr. Ian Fraser Johnston.

The unlicensed importation of Rhodesian origin merchandise is illegal under the Treasury Department's Rhodesian Sanctions Regulations, issued under the authority of the United Nations Participation Act (22 USC 287c) enacted by Congress in 1945. The Regulations implement Executive Order 11419 of July 29, 1968, issued in connection with United Nations Security Council Resolution 253 of the United Nations Resolution, enacted with United States support, which called on member nations to impose economic sanctions against Southern Rhodesia.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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September 27, 1974

MEMORANDUM FOR THE PRESS:

Secretary Simon's speech to be delivered at 11:00 a.m., Tuesday, October 1, and for release at that time, will be made available in advance by the Secretary at his 8:00 a.m. press briefing that day in the Diplomat Room, Shoreham Americana.

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federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

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FOR IMMEDIATE RELEASE September 27, 1974

LENDING ACTIVITY
SEPTEMBER 9 - SEPTEMBER 27, 1974

Federal Financing Bank lending activity for the period September 9 through September 27 was as follows:

-- On September 23, the Bank purchased $3 million of notes from the Department of Health, Education and Welfare. HEW had previously acquired the notes which were issued by public agencies under the Medical Facilities Loan Program (Hill Burton). This brings the amount borrowed from the Bank under this program to $25.3 million under a total commitment of $27.6 million. The notes purchased by the Bank are guaranteed by HEW and have various maturities up to 25 years.

-- The Bank purchased $500 million of 5-year Certificates of Beneficial Ownership (CBO's) from the Farmers Home Administration on September 24, at an interest rate of 8.80 percent on an annual basis.

-- On September 24, Amtrak, the National Railroad Passenger Corporation, made a $3.5 million drawing at an interest rate of 7.51 percent against a $200 million commitment which matures on October 11, 1974. This brings Amtrak's borrowings from the Bank to $180 million. Amtrak's borrowings are guaranteed by the Department of Transportation.

-- On September 25, the Tennessee Valley Authority borrowed $220 million for 91 days at an interst rate of 7.59 percent.

The Federal Financing Bank was established by an Act of Congress last December (Public Law 93-224) to consolidate the financing of various Federal agencies and other borrowers whose obligations are guaranteed by the Federal Government. The Bank began operations last May.

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FOR IMMEDIATE RELEASE September 27, 1974

TREASURY ANNOUNCES REVOCATION OF DUMPING FINDING ON NORTHERN BLEACHED HARDWOOD KRAFT PULP FROM CANADA

Assistant Secretary of the Treasury David R. Macdonald announced today a "Notice of Determination to Revoke Dumping Finding," with respect to Northern Bleached Hardwood Kraft Pulp from Canada. Notice of this action will appear in the Federal Register of Monday, September 30, 1974.

On April 5, 1974, a petition was received by the Treasury Department requesting revocation of the finding. After reviewing the most recent price information available, the Treasury ascertained that this Canadian pulp was still being sold at less than fair value. Furthermore, no assurances had been offered by any Canadian producer or exporter of this merchandise that future sales would not be at less than fair value. Accordingly, on June 28, 1974, notice was published affirming Treasury's previous determination that this pulp is being or is likely to be sold at less than fair value within the meaning of the Antidumping Act. Since the request for revocation was based primarily upon considerations involving the injury aspect of the antidumping proceedings, the petition was referred to the U.S. Tariff Commission for such review of its injury determination as the Commission deemed appropriate.

On September 23, 1974, the Tariff Commission advised the Secretary of the Treasury that, "if the finding of dumping were revoked, an industry in the United States would not be or would not be likely to be injured by reason of the importation of prime-grade and off-grade northern bleached hardwood kraft pulp from Canada sold, or likely to be sold, at less than fair value within the meaning of the Antidumping Act, 1921, as amended." Accordingly, the Treasury is revoking the finding of dumping. As of September 27, 1974, the date the Tariff Commission's determination was published in the Federal Register, special dumping duties will no longer be assessed on this merchandise from Canada.

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WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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September 27, 1974

MEMORANDUM FOR THE PRESS:

Secretary Simon's speech to be delivered at 11:00 a.m., Tuesday, October 1, and for release at that time, will be made available in advance by the Secretary at his 8:00 a.m. press briefing that day in the Diplomat Room, Shoreham Americana.

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Department of the TREASURY
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
NEWS

FOR IMMEDIATE RELEASE September 30, 1974 333

H. STUART KNIGHT
ELECTED AS DELEGATE TO THE
EXECUTIVE COMMITTEE OF INTERPOL

H. Stuart Knight, Director of the U.S. Secret Service, was elected as Delegate to the Executive Committee of the International Criminal Police Organization (INTERPOL) during the 43rd General Assembly held in Cannes, France, September 19-25, 1974.

Delegates to the Executive Committee are elected from the General Assembly, comprised of official representatives from the 121 member countries of Interpol.

Executive Committee delegates supervise the execution of the decisions of the General Assembly, submit to the General Assembly any program of work or projects it considers useful, supervise the administration and work of the Secretary General of Interpol, and exercise all powers delegated to it by the Assembly.

The purpose of INTERPOL is to insure and promote the widest possible assistance among all criminal police authorities within the laws existing in the countries and to establish and develop all institutions likely to contribute effectively to the suppression and prevention of crime.

Knight is a career Special Agent of the Secret Service and was appointed Director in November 1973, after 25 years of law enforcement experience. He resides in Falls Church, Virginia.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE 6:30 P.M. September 30, 1974

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.6 billion of 13-week Treasury bills and for $1.9 billion of 26-week Treasury bills, both series to be issued on October 3, 1974, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 2, 1975		26-week bills maturing April 3, 1975	
	Price	Equivalent Annual Rate	Price	Equivalent Annual Rate
High	98.458	6.100%	96.451 a/	7.020%
Low	98.319	6.650%	96.145	7.625%
Average	98.386	6.385% 1/	96.239	7.439% 1/

a/ Excepting 1 tender of $1,475,000

Tenders at the low price for the 13-week bills were allotted 81%.
Tenders at the low price for the 26-week bills were allotted 29%.

TOTAL TENDERS APPLIED FOR AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Applied For	Accepted	Applied For	Accepted
Boston	$ 37,550,000	$ 27,550,000	$ 26,935,000	$ 16,935,000
New York	2,959,515,000	2,179,045,000	2,140,855,000	1,439,295,000
Philadelphia	37,010,000	37,010,000	51,675,000	49,175,000
Cleveland	40,065,000	40,065,000	33,035,000	33,035,000
Richmond	44,365,000	34,365,000	37,690,000	24,130,000
Atlanta	28,925,000	28,625,000	31,465,000	31,265,000
Chicago	122,745,000	46,795,000	158,820,000	72,810,000
St. Louis	36,175,000	34,985,000	40,910,000	36,900,000
Minneapolis	14,030,000	14,030,000	18,050,000	18,050,000
Kansas City	27,205,000	27,205,000	30,175,000	30,165,000
Dallas	20,615,000	20,615,000	32,335,000	32,295,000
San Francisco	149,860,000	109,805,000	166,070,000	116,020,000
TOTALS	$3,518,060,000	$2,600,095,000 b/	$2,768,015,000	$1,900,075,000 c/

b/ Includes $365,450,000 noncompetitive tenders accepted at average price.
c/ Includes $306,630,000 noncompetitive tenders accepted at average price.
1/ These rates are on a bank-discount basis. The equivalent coupon-issue yields are 6.58% for the 13-week bills, and 7.84% for the 26-week bills.

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The Conference on Inflation

Transcript

September 27–28, 1974
Washington, D.C.

FRIDAY, SEPTEMBER 27, 1974 FOR IMMEDIATE RELEASE

CONFERENCE ON INFLATION
INTERNATIONAL BALLROOM
WASHINGTON HILTON HOTEL
WASHINGTON, D. C.

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MR. SEIDMAN: Members of the Congress, Members of the Cabinet, representatives from many lands, participants, ladies and gentlemen:

I am Bill Seidman, Director of this Conference and I am pleased to welcome you to the Conference on behalf of its sponsors, the Congress and the President of the United States.

I am sure the whole country wants to thank you for this time and effort you are giving to work on our number one problem -- inflation.

Incidentally, it should be known to all that you are not only giving time, but you are paying your own way.

Because the President and I are from Grand Rapids, a town of Dutch origin, we are particularly pleased to welcome you to what may be one of the largest Dutch-treat events in recent years.

The rules and procedures of this Conference have been set by a steering committee of its sponsors -- for the Congress and the Senate, the Honorable John Tower of Texas and the Honorable Hubert Humphrey of Minnesota. For the House of Representatives, the Honorable John McCall of California and the Honorable Barber Conable of New York.

For the President, Counsel to the President Rush, Secretary of the Treasury William Simon, Director of the Office of Management and Budget, Roy Ash, and Chairman of the Council of Economic Advisors, Alan Greenspan.

As you know, previous to this Conference there have been a series of meetings covering various sectors of our economy. Today each sector will be given 45 minutes to report on its proceedings and to answer questions.

Questioning comes first from those around the table and then from the floor. If you wish to ask a question, please move to the numbered mike nearest you and wait to be recognized when the number is called.

In order to avoid the possibility of questions becoming speeches, please take no more than one minute to state your question. Please give your name before you ask the question.

There will be a five-minute break between sector appearances to allow the participants to move to the head table and all of you to take an in-place stretch.

Just before Noon, we will have a special report from government organizations and departments.

At the request of the Congress, the President of the United States will preside at this meeting.

THE PRESIDENT: Thank you very, very much.

Good morning. I think it is appropriate that we begin this historic gathering with the invocation by the Chaplain of the House of Representatives, the Honorable Edward Latch.

Dr. Latch.

DR. LATCH: Let us pray.

O God and Father of us all, Who art the source of light and life, without Whom no one is strong, no one is good, no one is wise, in Thy presence we pause in prayer as we begin our great undertaking, knowing that without Thee all of our labor is in vain, and yet with Thee all our efforts can be crowned with success.

May Thy blessing rest upon our President, who calls us to this gigantic task, upon all here assembled. May the spirit of wisdom flow to their hearts, giving them confidence to seek the truth, the courage to apply it and the creative faith to make it work in our day.

Let us not be frightened by the problems which confront us, great as they are, but let us give thanks that Thou art with us, making us equal to this task and ready for this day.

Grant that we may be a part of the solution and not the problem, that we may never keep forever asking questions, but that we begin to provide answers.

In spite of all differences, may we be of one mind, possessed by one spirit, motivated by one purpose, to serve our Nation with all our hearts that inflation may not only be met but managed and not only be managed but mastered.

With faith and hope, we set out upon our task. Crown our efforts, we pray Thee; be an abiding success for the good of all our people and for the benefit of the world in which we live, in Thy Holy Name we pray, Amen.

THE PRESIDENT: Mr. Speaker, Senator Mansfield, Senator Scott, distinguished Members of the Congress of the United States, Members of the Cabinet, participants, observers, ladies and gentlemen:

At the first session of the Conference on Inflation, I asked that we get to work on a battle plan against Public Enemy Number One. Important work has been done throughout the country.

Today the climax of our efforts is at hand. I welcome the many distinguished Members of the Congress and citizens from all sectors of American society. I deeply appreciate your commitment and your involvement.

I am also very pleased to welcome representatives from many foreign lands. This is, as we all know, and independent world. Inflation is an international problem. The efforts of each nation can become more effective if concerted action is achieved.

The United States Government will consult with friends abroad as we move to combat an international threat.

I look forward to a productive series of discussions today and tomorrow morning.

In the great tradition of the American town hall, this Conference includes the widest range of views and opinions. Inflation concerns all Americans. This is a joint Executive-Legislative undertaking in response to a bipartisan recommendation of the Congress.

It demonstrates that Americans can still come together in an effective way to confront an immediate danger threatening every citizen.

There has been much talk at the various sessions throughout the country but there has been action and a generation of ideas that will be used as tools for us on this occasion today and tomorrow. We have taken a good look at many, many options and we have already narrowed some of the options to those which would appear to be most effective and command the widest support.

I appreciate your willingness to work with me on the inflationary problem which transcend America's special interests -- whether Republican or Democratic, labor or business, urban or rural.

Nor does inflation respect age, sex, race, color or creed, and inflation certainly punishes most cruelly those less able to cope with it.

Today's Conference, like others that preceed it, is wide open. All views and opinions are invited. This Administration's commitment to visible and responsive government remains intact.

I might not like everything I hear, but it is my solemn duty as President of the United States to give fair consideration to all views and to carefully weigh the possible courses of action.

At the outset of this session, a word about expectations is appropriate. In searching for the very best policies, let us recognize that there are no quick or easy solutions. No miracle cure has emerged from the pre-conference meetings.

Inflation is a problem which we must deal with patiently. In this battle, there is no substitute for candor and hard work.

Spokesmen from the specialized meetings will report areas of general agreement. I have also asked them and I think this is important, to report areas of disagreementand alternatives which the Congress and I must consider in making the difficult decisions.

I, like all of you, have unlimited confidence in America. The battle against inflation will not be an easy one. It will require sacrifice and a strong common effort. It will require discipline, but I am certain and positive that we as Americans can and will win.

This Administration will seek to ensure that burdens are distributed equally. No group should be calledupon to carry an unfair share of the burden.

America's traditional resourcefulness and ingenuity helped build this nation and provide an abundance unknown by most other peoples of the world. Although Americans must increase their productive capacity, this by itself will not eliminate the scourge of inflation.

Other actions and hard decisions are required. We cannot hope to satisfy all, but we will seek to act in the best interest of all.

I intend to constantly reassess policies and to change those that are not working. My actions will not be set in concrete. As President, I will continue to listen with all of the openness with which I am capable, and acting with all of the decisiveness at my command.

Together, with confidence in Amerca's great capacity, let us begin.

At this point, it is my great privilege to introduce the distinguished Speaker of the House of Representatives, the Honorable Carl Albert of Oklahoma.

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SPEAKER ALBERT: Thank you, Mr. President.

My colleagues of the Congress, Members of the President's Cabinet, and distinguished members of the panel, ladies and gentlemen:

I agree with the President that the occasion which brings us together today is an important one.

I wish to thank the President on behalf of the Democratic Members of the House of Representatives for convening this economic summit and for inviting Members of the Congress to participate.

This effort to call upon the best thinking of business, labor, government and the democratic community underscores the extraordinary nature of our current economic problems.

The American people are facing their most severe economic difficulties in a generation.

Our economy is besieged by rapid inflation, growing recession and unemployment.

Inflation in the price of consumer goods is running at a rate of 12 percent annually.

Almost five million workers are already without jobs, and unemployment continues to spread across our land.

In the face of these urgent problems, we have come together to endeavor to work out mutually agreeable and effective solutions.

The Congress has willingly participated in this Congress but I think it should be made clear that the Congress -- and I do not say this critically -- has been managed by the Executive Branch, and that Congressional input in its organization has been limited.

I have appointed outstanding Members of Congress to participate in the various economic summit meetings, and I have been informed by them that elements of conference planning, which strongly influenced conclusions, for example, the selection of pre-summit meeting participants, the writing of agendas and the naming of spokesmen for the various panels appearing today have been done entirely by the Executive Branch.

As we begin our work today, it is no secret that there is a divergence of views, generally and specifically between the Republican Administration and the Democratic Majority in Congress with regard to economic policy.

The pre-summit meetings have made this abundantly clear.

The Administration in effect has spoken of the old-time religion, of tight money and fiscal stringency, coupled with tax incentives for business and cutbacks in social programs.

We believe that if this Conference gives its entire attention to only those economic factors, we will surely not accomplish what we hoped to achieve today and we will fall short of what our Nation needs.

For example, we must recognize from the outset that several major factors in our current price inflation lie beyond our immediate control, and that some other factors we can readily control, such as federal spending, have had little role in causing price increases.

Among elements to some extent beyond our control -- food and oil have been two of the major contributors to rapid price increases in our economy.

While in the past policy errors have led to food price increases, mcuh of our present food price inflation results from bad weather in the Middle West and elsewhere in the world, which has, unfortunately, limited harvests.

There is no recovering these crop losses in the short term.

Similarly, great increases in the price of oil have resulted from a factor beyond our control, particularly the decision of the oil-producing countries to curtail production. This has caused world as well as domestic problems of a magnitude which can hardly be overestimated, and I commend the President for bringing this matter to the attention of the United Nations a few days ago.

The Democratic Party, and particularly the House Democratic Caucus, have searched for broad policies to counteract the many and varied elements which are causing our current price inflation.

We are on record as supporting expanded public employment programs. We stand for an adequate program of public service employment with the goal of a job for all able and willing to work.

I believe that the prompt creation of 100,000 such jobs is vitally necessary.

Public service employment helps those worst hurt by inflation without unleashing inflationary forces in the economy and additional local governments benefit by obtaining the manpower needed to improve their services.

We Democrats in Congress also favor bringing down interest rates through chanelling credit toward activities that can help people most, such as housing, small business, utilities, food production and other productive capital investment, assisting labor and industry in achieving an equitable wage structure for the worker is also an important goal.

This can be achieved, we believe, through a balanced tax reform package including measures to offset the harm done by inflation, to the purchasing power of lower and middle-income families.

We hope for tax reform that includes social security or tax relief to low and middle-income persons balanced by eliminating unjustified tax subsidies wherever found.

We have been very pleased by recent indications that the President intends to cooperate in achieving this urgently needed tax reform.

We would expect the business sector to show equivalent restraint in price behavior. In particular, we want an end to administrative price increases, those introduced by concentrated industries solely as an exercise of their economic might upon a captive consumer market.

This may be achievable through skillful and imaginative use of the Council on Wage and Price Stability -- at least we hope so.

Finally, we have proposed a thorough review of the government's own economic policies and machinery and cutting out of waste and unnecessary expenditures. Of course, in all candor, we must admit there are differences in opinion among well-intentioned people and good Americans as to what in any case constitutes waste.

Thus, as we go into today's discussion, it is clear that there have been differences in the views held by the various party participants.

But we come here today in the spirit of compromise and conciliation, in the knowledge that the problems we face are too serious to allow partisan wrangling or preconceived ideas about fiscal and monetary policy to delay their solution.

We are truly hopeful that we will find in our sessions today and tomorrow the flexibility of mind and unity of purpose, which will allow us to move and to move quickly to combat our growing economic ills.

We in Congress, I believe, have already shown our spirit of cooperation by quickly passing more than a month ago the legislation authorizing establishment of the Council on Wage and Price Stability.

Let me note parenthetically we hope the Executive Branch will soon name the Members of this Council and that it will begin its important work.

Other actions of the Congress have also shown our willingness to cooperate to solve our Nation's economic problems. The Congress' Joint Economic Committee, for example, has reported unanimously with every Democratic and Republican Member participating in an action program to reduce inflation and restore economic growth.

This program represents a sound initiative and I would hope these recommendations can be considered carefully here today and I believe they have been overlooked at the pre-summit meeting sessions.

Extremely important, for example, is the Committee's conclusion that massive reductions in federal spending would do little to forestall inflation while such reductions might in fact trigger a major inflation.

This conclusion in my view may very well be a breakthrough in economic thinking, second only to Congressional acceptance in the 1964 Revenue Act of the deliberate creation of a budget deficit for the purpose of getting the Nation moving again.

Finally, the Joint Democratic Leadership stands ready to bring the Congress back in session after the elections to receive and to act on proposals from the Executive Branch to address our problem of unemployment, recession and inflation.

In short, we will do all that we can to restore the economic health of our nation without sacrificing long-standing principles of social and economic justice for all Americans.

We hope that the Administration will continue throughout these sessions to demonstrate the spirit shown in the President's decision to follow up on Senator Mansfield's suggestion to hold these economic summit meetings, for only through cooperation and compromise, which I hope we can achieve at this Conference, will we be able to formulate an economic recovery program which will offer relief to the great majority of our people, distribute the burden of inflation more equitably and get this Nation moving again.

After we have achieved these goals, we can turn to the really important business of building America, of guaranteeing every American's right to a job and to economic security as we set out to do under the Full Employment Act, guaranteeing every American's right to a good education, to decent housing, and health care, and to all the other goals which represent the best part of the programs of America.

THE PRESIDENT: Thank you very, very much, Mr. Speaker.

It is now my privilege and honor to introduce and to ask him to make some observations, comments and recommendations, the distinguished Majority Leader of the United States Senate, the Honorable Mike Mansfield from Montana.

Senator Mansfield.

SENATOR MANSFIELD: Mr. President, Mr. Speaker, Senator Scott, Senator Tower, Ladies and Gentlemen: As the President has said, we are all soldiers in the fight against inflation.

As he also said, it applies -- inflation -- to Democrats, Republicans and independents alike -- in other words, to all of us.

There have been mini-meetings of this Conference in Washington and across the land. These meetings have been educational and instructive. They have brought to light many views on the state of the economy. But what thing of value to the people of the nation will come out of these meetings?

The is the critical question. As one who was among the first to welcome the President's call for this Summit Comference, I must state in all candor that I am not too optimistic about the results.

This Conference has had the participation of the foremost economists in the country -- in and out of government. They have told us what the inflation and recession are all about -- in a hundred versions. The talk has been of micro-economics, macro-economics, econometrics and what not.

Of these things, of importance to economists, the public knows nothing. Of inflation, the public knows a great deal. Of recession, the public is learning more and more each day. The public knows, too that little has been done to stem the inflation or to halt the march of recession, anywhere by anyone.

Everyone recognizes that petroleum is one of the main sources of the problems which confront us. Yet, today, we are importing 40 percent of our petroleum needs as compared to 35 percent a year ago. The price of crude has sky-rocketed and the ned is not in sight. In 1972, $4.7 billion was spent on imports; $8.2 billion in 1973; $27 billion plus in 1974. The trend is up, up, up.

For America and for many other countries, a major source of inflation lies in these figures, in the manipulated spigot of international petroleum flow. As far as the United States is concerned, the other factor is Viet Nam. Viet Nam is water under the bridge only in the sense that we cannot undo what has already been done. Its terrible cost will extend far into the first half of the next century. It will be paid by the sacrifices of several generations.

Inflation has turned the world of the past two decades upside down. Things that are giong up should be coming down and they are not. Retail prices are up by 47 percent annually. Unemployment is up. Interest rates are up. Medical costs are up by 36 percent.

Things that are coming down should be going up and they are not. The stock market is down -- $500 billion in values have been lost and 31 million people are affected. Real income is down. Our international trade belances have hit a record low. Auto sales are down 22 percent from a year ago. Unemployment in Michigan stands at 9.3 percent, compared to 5-1/2 overall in the country. Housing is down 45 percent and yet in some places, construction wages have been increased by 20 percent. How can more houses be built and sold when prices are higher, interest rates are higher and construction wages are higher?

I am not an economist and make no pretenses. What is clear to me, however, is that the time for words -- micro, macro or whatever is at an end. Words will no longer satisfy the nation. Inflation is social dynamite; walk through any food market in any suburb and take note of the comments. Recession is social dynamite; walk through areas of high unemployment in any city and ask what lies ahead. The divisions among people, among societies, among nations, are on the rist. They will not wait for the "self-adjusting mechanisms" of the economy to self-adjust.

What is the answer? Mostly, we hear talk about the need for a tight Federal budget and tight money. Of course, we need to keep rein on government expenditures, in good times and bad, and especially on the extravagant and the irrelevant. At best, however, the Federal budget is only a fragment of the answer to our difficulties.

It is said, too, the fault lies with the American consumer. Tell that to the grocery-shopper who feeds a family on inflation-eroded wages or a fixed income. Tell it to the home-owner who uses oil to keep out the cold and the worker who uses gasoline to get to work. The fact is that the laissez faire application of the laws of demand and supply no longer correct the economic ills of a society already bound in by a massive complex of intervention built up over decades. The clock cannot be turned back to Adam Smith's Eighteenth Century England.

The nation is in an economic emergency. The people expect government to confront that emergency and to act on it in the general interests of the people. We have not done so and even now, seem to lack the capacity to do so.

Take the problem of energy-supply as an example. A year ago, we talked of crash programs to increase our own production and to develop substitutes to reduce the dependency on imported oil.

Congress has appropriated vast funds and stands ready to appropriate more for this purpose. But what have we really achieved with this year of grace? What have we really done? We have allowed the self-adjusting mechanisms of the economy to operate quite freely in petroleum.

We have let prices find their own level. In a society grown universally depending on petroleum, that is the cruelest form of rationing. The burden falls heavest on those with the least income.

The need for a new action -- equitable action -- by this Administration in cooperationwith the Congress. It exists not only with regard to petroleum but in many other matters. As the Presidnet has already been informed, the Senate majority believes that integrated action in seven fields is needed to curb inflation and to halt the recession.

These fields are: (1) budget reductions, (2) wage, prices and profit control, (3) selective monetary credit easement, (4) tax adjustments, (5) positive action to deal with shortages and supplies, (6) development of new employment, and (7) readjustment of international policies.

Credit curbs alone are not enough. Budget cutting alone is not enough. Indeed, the budget has already been cut by Congress and will be cut further. But how much inflation can really be squeezed out of the economy by this method and at what price? How much will it cost in lost jobs, lost output, lost public services and business failures?

As for the international economic situation, particularly as it involves petroleum, the Senate and all Americans welcome the call for increased cooperation among consuming nations; and, indeed, there is no reason not to extend the call to the producing nations.

We welcome joint policies designed to assure international distribution of essential commodities. The answer will not be found in confrontation with other nations but in cooperation by our own people with others.

Some countries like Italy and the United Kingdom face bankruptcy. A whole corridor of humanity spanning the African Continent is starving. Along with petroleum these and countless other specific situations are all parts of a world-wide whole. International petroleum problems must be dealt with in that context.

There are many areas that must be addressed in regard to our economic predicament. We must address them candidly and act on their dictates within the framework of this nation's basic tenets.

At this time, I offer on my own behalf for the consideration of this Conference, a nine-point program of Federal action. I do not think we are going to come to grips with the mounting problems of the economy unless we begin to move in the direction of:

1. Establishing, as needed, mandatory wage, price, rent and profit controls;

2. Reviving the Reconstruction Finance Corporation to deal with the credit needs of ailing businesses such as Penn Central, Lockheed and Grumman, Pan American, TWA and many more headed in the same direction; Congress is not the proper forum for specific decisions involving government bail-outs;

3. Restoring Regulation W to require larger downpayments on credit purchases and shorter periods for repayment and allocating credit on a priority basis in the light of the nation's critical needs;

4. Beginning an equitable rationing system for energy and other scarce materials to the end that dependency on foreign sources of petroleum can be reduced and beginning, too, a stringent conservation system including measures to enforce the speed limit and to bring about a reduction of wastage in the utility and other industrial fields:

5. Developing a broader system of indexing to the end that the real incomes of wage earners can be tied to real living costs;

Six, without delay, to establish a commission on supplies and shortages, legislation for which has already passed the Congress.

Seven, curbing excessive profits and controlling the flow of investments abroad through the taxing power while conversely cutting taxes on Americans hardest hit by inflation, those in low and moderate income categories and those on moderate fixed incomes.

Eight, creating without delay, a jobs program which puts people to work in public services and elsewhere as necessary to keep down the level of unemployment.

Nine, working with all nations prepared to work with us to deal with cartel-created shortages in petroleum or other commodities, and there are other commodities, recognizing that petroleum is only one aspect of the larger

-more-question of the interrelationship of the economic well-being of all nations and the stability of the world.

Sacrifices are needed across the board if we are going to restore the nation's economy. In my judgment, the people of this nation are prepared to make those sacrifices. They will do whatever must be done, so long as the burdens are equitable. That is the job of the President and the Congress -- to ensure that the sacrifices are fairly distributed.

It is time to put aside the evasions and circumlocutions. The bell is tolling. There is no need to send to find out for whom. It is tolling for all of us.

THE PRESIDENT: Thank you very, very much, Senator Mike Mansfield, and now it is my privilege and honor to introduce for his observations and comments the distinguished Senator from the State of Pennsylvania, Senator Hugh Scott.

Senator Scott.

SENATOR SCOTT: Mr. President and Mr. Speaker, Senator Mansfield, Senator Tower, my colleagues, members of the government, distinguished members of this Conference:

We are modest in the presence of experts. Some of us are modest in the presence of the majority, and manifestly awed by the suggestion of solutions not heretofore proposed.

We are aware of the skepticism of those who report our doings. We have arrived at this economic summit and each of us has traveled here in good faith not to practice politics but to exhibit sensibility.

We are here at the behest of the President to chart our way toward those decisions which will be of supreme importance to our country and to the world.

The dimensions of our problems are global, their solution a matter of economic survival. We will pay into the future for the mistakes of the past, such as the war we fought on credit and for the economic aggressions of nations against nations.

We meet with representatives of the people to serve their best interests in our efforts to control the brutal inflation that affects all of us.

We must indeed move effectively to hold prices down, to find means to increase the supply of commodities, to contemplate and advance methods to increase productivity.

We must certainly stop the soaring prices of energy that threatens the economic stability of all nations, and bring an end to the rising unemployment that causes the cruel waste of human talent, loss of dignity to the individual and of service to community and country.

I strongly favor a program of public service jobs to ease the economic rigors through which we are going. We need to remedy the social injustices visited particularly upon our elderly, our poor, and others on fixed income.

These suffer most when the economy suffers. Their burden can be made lighter if we institute short-term and long-term programs to provide them such essential needs as energy.

The problem is critical and in the short-term I believe we must weigh carefully whether our government should embark upon new programs of direct assistance and to stabilize our financial institutions, the ramparts of our economy.

I am supporting and drafting for the Senate side legislation that would serve both to spur savings and ease the economic woes of the housing industry. One bill would provide for an exemption from federal taxes on interest up to $1,000 on savings accounts, and I deplore the recent report that the House Ways and Means Committee is not presently looking favorably upon this proposal.

I believe such legislation would encourage Americans to save, an essential step if we are to increase the availability of capital to keep our economy healthy and growing in years to come.

We will support tax reform as one way of bringing in more tax revenue through equitable and balanced programs and to provide U. S. leadership and full cooperation to other nations in a far-reaching program of energy research and development.

As the leading industrial nation in the world, the United States can and must provide the direction to avert what could be catastrophic to the world economy.

At home we must explore these new sources of energy which you have been discussing and make the fullest possible use of traditional but under-utilized resources without sacrifice to our environment.

Solar energy and thermal energy, for example, are relatively untapped resources, but our ancient and vast deep coal reserves must be tapped to meet accelerating demands.

We must expand intensive research into gasification and liquification processes to make the fullest possible use of coal.

We must develop, as quickly as possible, all feasible sources of alternative fuel.

We need to accept a prime concern of this economic summit as the conservation of our resources. We will need to practice austerity and discipline if we are to be fair to the citizens and to bring a balance to the economy.

I believe this economic summit should especially look to the needs of middle income persons. We all know that the middle income American family today endures great inequities and receives the least consideration at all levels of government.

He is always the "they" when we speak of what we are going to do for someone, but it is the "they" who rarely benefit in proportion.

Too many Americans, especially our young Americans, cannot afford to buy their first homes because of the unavailability of mortgages and because, of course, of high interest rates on those few that can be obtained.

Hospital costs are soaring and sending a child to college requires so much money that this traditional dream of parents is becoming a nightmare.

I have recently introduced legislation for the ninth year that would provide for middle-income taxpayers to deduct up to $2,000 a year from their income taxes to help defray the costs of higher education.

Economic reforms and health care are also urgently needed and I support them.

I believe this summit can serve two extremely important purposes: First of all, we came here united by a common ideal, that of improving the lives of all Americans through a stabilized economy, one which will serve to help stabilize the world economy.

Second, this venture is one where we look for answers through learning from each other. Only by educating ourselves about the complexities of our economic problems can we hope to find the answers to them.

Thereafter, we can share more wisely this collective present wisdom for future needs, which is the supreme goal of the climb we are beginning to the summit.

Now here let me enter a modest dissent to something that has been said heretofore. In my view Congress has not been managed by the Executive Branch.

Not one cent -- and, incidentally, yesterday Senator Mansfield and I passed a bill to lighten the weight of the penny.

Now, this is one of the major fiscal reforms we have adopted so far this year.

I commented at the time that a penny saved is a penny earned but a penny lightened is a penny spurned.

However, be the penny light or heavy, not one penny of government expenditures has been spent which was not first authorized and appropriated by a Congress, and this we need always to remember. If we have overspent, if we have lacked fiscal discipline, Congress has lacked fiscal discipline.

This Conference was called by the Executive at the request of the legislature. It was put together following a suggestion first made by my beloved colleague, Senator Mansfield, but called by the Executive at the request of the legislature and if solutions, perhaps emerging from this Conference are being presented by the Executive to the Congress, then it becomes the responsibility of the Congress either to enact these proposals or to enact better ones.

Failing that, the Congress becomes no more than a wailing wall. Congress has yet to respond to a number of Executive requests and these include actions on trade and health and energy. Congress has not yet brought to the Floor of either House tax reform legislation. Congress will be judged by what it has done. Congress will also be judged by what it has not done.

The seven-point fiscal proposals of the Democratic Caucus deserve the careful consideration and will have the cooperation of the Executive and of the Congressional Minority. Even so, they are for the Congress self-fulfilling.

They can be enacted by the Congressional leadership and if workable that is the test, they should be prepared to meet.

Thank you, Mr. President.

THE PRESIDENT: Thank you very much, Senator Hugh Scott, the distinguished Minority Leader in the United States Senate.

Our next spokesman from the Congress is the Senator from the State of Texas, the Honorable John Tower, a member of the Steering Committee of this Conference and a distinguished member of the Senate Committee on Banking Currency.

Senator Tower.

SENATOR TOWER: Thank you, Mr. President, Mr. Speaker, Senator Mansfield, Senator Scott, and my colleagues in the Congress and distinguished participants in this important Conference.

It is my view that we should not waste time trying to determine who is responsible for inflation. All of us are to blame -- the Congress as well as the Executive, the Democratics as well as the Republicans, business as well as labor, and certain external forces over which we have no direct control.

It is clear to me that the roots of our current inflation may be traced to profound historical tilt in the social tolerances and value systems of our democratic system as reflected in our political decisions in the 1940's.

Our political body subsequently superimposed massive social costs upon the normal workings of our free enterprise system. Such costs are only now coming home with the buyer and the consumer.

The proposals to reduce the rate of inflation must deal first with the social issues. The technical prescription of the economists can only be superficial, incomplete and inconclusive.

Our political institutions on all levels initiated this round of inflation. We have been witnessing a political consumption to spend the public's money and to guarantee private debts in socially significant areas of the economy without ever fully tallying up the cost.

In order to avoid politically unacceptable interest rates, the Fed allowed an excessive growth in our money supply and the Fed thus ultimately accommodated political pressures and turned them into price pressures and inflation.

Congress as well as the Executive must share the blame for inflation. But in a larger sense, the elected representatives are merely emulating what they sincerely believe their constituents demand. Our greatest fault has been in not correctly assessing the total cost of our political actions and in educating the public as to what the true costs of programs are, both in terms of tax dollars spent and inflationary pressures unleashed.

Looking beyond our boundaries, we find that all developed nations are engulfed by inflation.

Mr. President, we are engaged in a massive world war and not a brushfire conflict which will test the very limits of our free enterprise system. We will need the same dedicated and brilliant leadership we have had in our past global conflicts, yet it will be much more difficult.

Inflation is very unpopular to stop because inflation in its early stages closely resembled the healthy flush of prosperity. Much of the damage done by inflation is hidden, yet the perceived cost of stopping inflation looms large and immediate. It would be easy and comforting to retreat from the charge.

We must not do so and we must not reinflate this economy. Our entire political and economic system based on individual freedom of actions at stake. If we do not conquer inflation, we will lose not just justice and nobs or luxuries or politicians some elections.

We may lose our entire system of government and free society as we know it.

We must not allow parties and skirmishes to sap strength from our all-out effort to conquer inflation. We must not pick policies merely to win an election for election results are too fleeting.

If our policies are ill-conceived, both parties as well as our system of government will crumble.

Mr. President, do not expect proposals which will be without detractors. For every proposal, however meritorious, someone will document ten reasons why it should not be used. However, we should encourage such debate as you have in the past for such well meaning, intellectually honest discussion clearly spells out the cost and risk of each proposal, and there will be no cost-free solutions.

I would like to list the basic elements that I think are fundamental to the overall plan.

First, the people of the nation are calling for less government and more private initiative. This is my interpretation of the near unanimous recommendations such as cutting government spending, reducing the government deficit, but not by raising taxes, reduced Treasury borrowings so individuals and corporations can borrow more; ease monetary policy and reduce interest rates so more private individuals can afford to borrow; reduce taxes and thus allow the private sector to keep more of its earnings.

Number two, improve efficiency and productive output. This is what I perceive when I hear recommendations such as "return to a more competitive system by removing government-imposed restrictions."

Over the past few years, our government has erected enormous costs upon American businesses and consumers and all of these must be reevaluated. Remove the sacred cows of both industry and labor.

Blatent industry waste and labor featherbedding can no longer be tolerated. Encourage savings and foster productive investments.

Thirdly, provide effective cushioning for sharing the hardship of conquering inflation. And lastly, foster international cooperation so that one country's policies are not antagonistic to another country's efforts.

Let no one believe that the costs will not be great, yet the failure to conquer it will be even greater -- the potential loss of our political and economic freedom.

Thank you, Mr. President.

THE PRESIDENT: Thank you very, very much, Senator Tower. We have now concluded the remarks by the members from the House as well as the Senate and at this point we will launch into the reports from the several groups that have held meetings and hearings and discussions throughout the country.

The Chairman of the first panel is the distinguished Secretary of the Treasury, Mr. William Simon.

Bill, will you proceed with the work of your panel, please?

SECRETARY SIMON: Thank you, Mr. President.

Mr. President and leaders of our Congress, I am pleased to report on the financial conference held on September 20 to deal with the issue of inflation as it relates to the broad banking and finance area in our country.

There was one outstanding feature of our conference and I am sure it was true of the other confereces as well. That was the dedication and the realism that all of the participants brought to bear on the issues.

Everyone had a full appreciation of the complexity and the severity of the inflation problem that we face in the United States and in fact throughout the world. All recognized that there was no simple prescription guaranteed to cure all of our problems in a single application.

They were all fully aware of the multiple causes of our problem and the long-time period over which it had developed.

Correspondingly, although certainly not unanimously, they were all realistic about the cure. They know it is going to be a tough process, one that will require the discipline, the patients, the participation and the understanding of all of the American people.

I am pleased to introduce our congressional partners in the ten conference participants who were with me today to report the results of our conference to you, Mr. President, and your colleagues.

On my right, Senator Roth, Senator Javits, Senator Long. On my left, Congressman Patman, Congressman Reuss, and Congressman Stanton.

Representing the conference delegates on my right, this is Sylvia Porter, a syndicated financial columnist; Dr. Otto Eckstein, Harvard University, Dr. Grover Ensley, National Association of Mutual Savings Banks, and Dr. Bach, Stanford University and Mr. Robert Baldwin, Morgan Stanley.

Representing the Conference delegates on my left are Dr. Gabriel Hauge, the Manufacturers Hanover Trust; Bob Roosa, Brown Brothers Harriman; Dr. Charles Walker of Charls Walker Associates; Mr. W. J. Kennedy, North Carolina Mutual Life Insurance Company; and Mr. Walter Wriston, First National City Bank.

We will now report briefly on six of the major topics covered at this Conference. The first area is monetary and fiscal policy to deal with inflation. It will be discussed by Dr. Gabried Hauge.

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MR. HAUGE: Mr. President and Mr. Secretary and ladies and gentlemen. Covering the track record marked out by the Secretary in time allotted, perhaps it is going to lead to the first 3-minute mile in history. Fiscal policy comes to focus in the Federal budgets plan for spending, taxing and borrowing.

I have three points on that: First, a more candid budget is needed including off-budget agencies and the effective credit programs, to better judge the impact of Federal demand on money markets and hence on interest rates.

It is time to stop kidding ourselves that we can have a budget that like the new refrigerator model is bigger on the inside and smaller on the outside.

Two, expenditures for Fiscal Year '75 should be brought down to or below $3 billion to reduce the deficit, lighten the burden of borrowing and thus ease pressure on interest rates and to give a clear signal to the public that the Government really means business.

As to uncontrolables and the untouchable entitlement programs in the budget presumably what Presidents and Congresses have mandated, Presidents and Congresses can modify.

Three, the case was not made for a general tax increase or tax cut. Support was expressed for tax relief on behalf of lower-income receivers as part of a social contract to moderate wage demands and for a sizeable excise tax increase on gasoline and for tax changes to spur saving and investment.

Monetary policy plus fiscal policy constitute the necessities but not sufficient elements in this program. The Panel regards monetary policy as moving correctly in the direction of less restraint and lower interest rates. While views varied as to the right pace of such easing, the present Federal Reserve policy came off rather well in the discussion. Perhaps because of the impressive statement made to the Panel by Chairman Burns in that factorial manner of his which resembles nothing so much as the demeanor of an Old Testament prophet.

Recent easing of some interest rates was noted with approval, although it is clear that we will not get the inflation exponent out of interest rates until we get inflation out of the economy.

Regarding pay-price policy which I was asked to touch, our Panel showed virtually no interest in return to controls. The consensus seemed to be that if the controllers tried to build a better mouse trap, nature would breed a smarter mouse.

Support was expressed for an activity roll for the Council on Price and Wage Stability up to and including equiping it with some deterent powers to supplement jawboning.

I have a final word. Like other panels I suppose ours revealed that it as so many is made up of many, many client groups which for good reason enlist our support and loyalty as citizens. Government in this town conducts a kind of ministry of reconciliation among these groups and their purposes.

The critical need now is to aleviate the national purpose above narrower purposes in the battle against inflation and our responsibility as citizens is to make politically rewarding their indispensable act of leadership by our public officials. That we must and can do. Thank you.

(Applause)

SECRETARY SIMON: The next subject will be tax adjustment policy as it relates to meeting future capital requirements and productive requirements.

Dr. Grover Ensley.

MR. ENSLEY: Mr. President and Mr. Secretary and distinguished members of the Congress. Capital formation is a vital ingredient to non-inflationary economic growth and to maintaining and raising living standards.

Capital formation can be achieved only through savings. At the Financial Conference on Inflation last week concern was expressed over the short-fall in current and projected saving to meet our massive capital requirements. Today, the shortage of capital is most acute in housing, where new starts are less than half of minimum requirements.

Thrift institutions, which have accumulated the savings to finance the major part of housing in America are currently experiencing massive savings outflows. This disintermediation has resulted, in my judgment, from over-reliance on monetary policy and high interest rates to fight inflation in the absence too long of adequate fiscal restraint.

The Conference developed a number of proposals to increase saving in general and at thrift institutions in particular.

Two actions should be taken immediately for short-run results:

First, raise deposit insurance to $50,000 as provided in legislation already passed by the House of Representatives.

Second, provide a tax exemption or tax credit for a portion of interest earned on savings accounts.

This action would provide a meaningful incentive to save and probably would be less disruptive to the federal budget and capital markets than large direct subsidies for housing and mortgage lending.

Two other actions should be presented now to deal with longer-run problems.

First, the federal budget should be brought into balance or surplus, unless unemployment increases significantly. This would permit reduced monetary restraint and a further easing in short-term interests. If expenditures cannot be reduced sufficiently in the light of the need for programs, for employment of last resort, for example, then taxes should be increased to balance the budget.

Any tax changes in addition to raising the needed revenue and responding importantly to the inflationary impact on low income groups should be structured to one, encourage private saving and productive investment, and two, reduce demand for goods that are in critical short supply such as petroleum.

Second, broadened powers for mortgage-oriented thrift institutions provided in the Administration's Financial Institutions bill as well as a variable rate mortgage instrument proposed by the Hunt Commission. It was suggested that these actions be taken promptly.

Mr. President, these concrete actions are recommended to strengthen the nation's vital saving investment mechanism, to increase productivity and to help control inflation both in the short and longer run.

Thank you.

SECRETARY SIMON: Dr. Otto Eckstein will discuss regulation as it relates to meeting capital and productivity requirements.

MR. ECKSTEIN: Mr. President and members and delegates, the economy will suffer a recession which seems to be the price we have to pay to bring the recession under control, but there is also the issue whether we will use the opportunity to improve the performance of the economy to better reconcile high employment and price stability so that we remember that when recovery takes hold we will not have to avoid it because of premature bottlenecks and lack of productivity.

Our meeting gave strong support for a program to make our economy more productive, more competitive and more efficient. The coming economic program should contain a set of fundamental reforms that will improve our productivity performance and higher prices by strengthening competition.

In particular, we first recommend a thorough overhaul of our regulatory policies particularly in the fields of transportation and energy. The regulating agencies should stop imposing policies designed to stop price reduction and to create cartel-like price increases. Rules requiring round-about truck routes should be ended permanently. Capacity-limiting agreements cutting services and raising prices should be prohibited.

Second, we should repeal obsolete laws that raise costs and require industries to operate inefficiently. Many laws were adopted in the Depression and should have been taken off the books long ago. Candidates for restudy and elimination include the law requiring the use of high cost U.S. ships along our coasts, restrictive labor laws which raise costs and lower productivity and laws that we still have to limit the production of crude oil

Third, we should end the system of agricultural marketing orders, import quotas and other restrictions which limit the supply of food and raise its cost to our consumers.

Fourth, we should end the system of voluntary import quotas on industrial products so we will have the full benefit of international competition.

Fifth, rather than trap the economy once more in the price and wage controls, we should strengthen competition, let the market do it rather than the government. The Department of Justice and the Federal Trade Commission should use their ample anti-trust powers to make sure that prices will actually fall when demand is short of supply, and next year that certainly will be the general circumstance.

Mr. President, and Members of Congress, to get rid of these policies is difficult, we all recognize that. They benefit particular groups who are happy to keep them but they are a major cause to the inflation and they force fiscal and monetary policies to be extra tough.

It is the unemployed who pay the price for our past unwillingness to come to grips with these flaws in our economy; inflation cannot be stopped by unemployment alone.

We, therefore, urge you to recommend a comprehensive program of structural reform of our many regulatory policies -- apparently they are of a general campaign of productivity improvement.

SECRETARY SIMON: We will now have a report on international economic policy and inflation, Mr. Robert Roosa.

MR. ROOSA: Mr. President, delegates, participants, when we focused on the world-wide aspects of inflation, we also recognized as several have already this morning that effective action against inflation has to include our own cooperation in economic policy with other countries, and some of us felt that one prerequisite for that, Mr. President, would be your designation of an economic high command headed by the Secretary of the Treasury, as the nation's principal economic official and closely assisted by the Under-Secretary of State for Economic Affairs.

Time limits here don't permit going into details of all of the forces generating inflation across the world and as already noted, they have been overwhelmed by the sudden staggering increase in oil prices.

Worldwide inflation is soon going to be followed by worldwide disintegration unless those oil prices can come down. It seems to us that that kind of alternative could be achievable if we were to follow the announcement by France yesterday by acting much more convincingly to limit our dependence on imported foreign oil and then, if consuming and producing countries can agree, oil prices once lowered might subsequently and gradually be allowed to rise again, just as they could have risen without disastrous repercussions if the rise had been gradual over past years.

There are also many other priorities we considered. The United States must actively encourage the managing of foreign exchange rates by the leading countries partly to help limit the international transmission of inflation.

Because the worldwide inflation really started when expectations and consumption ran ahead of growth and productive capacity, the need now, as we have already had occasion to see, is to stimulate investment in added capacity throughout the world and to attract some part of the OPEC country earnings directly or indirectly into that investment.

This country should also promote, through the International Monetary Fund, a flow of relief funds to those countries which simply can't pay for needed oil at current prices even now.

Most oil importing countries, surely with increasing desperation, are also going to be trying to export more goods.

The OPEC countries can't digest many of those exports in 1975. But the United States might -- and I want to reinforce the suggestions Otto Eckstein has indicated -- deliberately encourage imports for the surest and quickest offset to inflation, which is more goods.

We can pay for them without straining our balance of payments for the present because more and more of the OPEC money is flowing in here. All of this in turn might neutralize any inflationary byproduct of relaxation of monetary restraint that so many participants in our meeting have urged to spur renewed expansion in production here and to enlarge employment opportunity.

More imports might inject some healthy competition into American pricing practices and be an even more effective check on price and wage increases than the government monitoring, which is about to begin.

In this perhaps unusual way, at least for a time, the United States could again become a balance wheel for the world economy.

That cannot only strengthen our own attack on inflation but it can also reestablish the traditional American leadership in support of free trade.

SECRETARY SIMON: Dr. Charles Walker will address financial institutions.

DR. WALKER: Mr. President, ladies and gentlemen, the technical complexity of this subject should not detract from its importance.

Discussion revolved primarily around the proposed Financial Institutions Act, and a federal income tax deduction or credit to individuals for part of their savings account interest.

For the fourth time within a decade, the nation's thrift institutions have been hit extremely hard by "disintermediation" -- customer withdrawal of deposits for purchase of higher yielding government, agency and other marketable securities.

Partly as a result, housing starts have dropped by one-half since 1972.

As a long-run action to help meet this problem, the Financial Institutions Act received considerable support. The Act's proponents argue that the broadened lending, investing and deposit powers gained by the thrift institutions, along with elimination of federal controls over rates paid to savers, would benefit the financial consumer by increasing competition.

The number of lending and deposit outlets would expand. Rates paid on consumer savings would rise. The cost of both consumer and mortgage loans would fall and their availability would increase.

Opponents of the Act maintain that housing would suffer as mortgage lending specialists are permitted to make consumer loans and other investments.

Proponents of the legislation counter by arguing that broadened deposit powers -- powers that would permit the "thrifts" to become "one-stop family financial centers" -- would make them grow faster.

As a result, housing may get less of their total "asset pie," but the faster growth in the pie itself would more than offset that percentage reduction. In addition, institutions which "cut their teeth" on mortgage lending are not about to turn their backs on it.

Furthermore, the "thrifts" could obtain more short-term assets, such as consumer automobile loans, which turn over quickly, as opposed to long-term mortgages with locked-in yields for many years.

They could, therefore, compete more effectively with commercial banks, which are largely short-term lenders, and the open market, in periods of high short-term interest rates. Disintermediation, although not eliminated, would be reduced.

Moreoever, the legislation would grant a tax subsidy to all mortgage lenders, not just the "thrifts". This would attract other lenders to housing -- especially those commercial banks which have not thus far gone into the mortgage market.

As to a tax deduction or credit on savings account interest, its proponents argue that the subsidy would benefit housing and the economy by increasing overall saving. Opponents argue that a "deduction from income" would be unfair, netting \$70 per \$100 for the rich man and only \$14 for the taxpayer in the lowest bracket.

Although a "credit against taxes due" would be fairer -- treating rich and poor taxpayers alike -- it might not have the "clout" to influence saving without a large short-fall in Treasury revenues.

In addition, some people argue that any such tax benefit would result in little increase in saving, provide a windfall for existing savers -- thereby stimulating spending to some extent -- and result primarily in a "swishing around" of savings from other uses.

If so, sales of U. S. Savings Bonds could be severely crimped and money might be drawn from the productive investment that flows through the stock and bond markets.

Finally, opponents of the tax deduction or credit note that any such preference, once in the law, is very hard to remove. Down the road, when conditions have changed, the subsidy could result in a massive flow of funds to banks and S&L's and a relative "starving" of other important capital markets -- markets that supply the wherewithal to build the modern plant and equipment necessary for jobs, growth and international competitiveness.

Again, Mr. President, the technical complexity of this subject should not detract from its importance.

SECRETARY SIMON: We will now have other suggestions to deal with inflation from Miss Sylvia Porter.

MISS PORTER: Mr. President, ladies and gentlemen, a point also made at the presummit conferences was that in the anti-inflation fight to date, the consumer has been lectured and patronized -- but not enlisted. This is an extraordinary oversight.

Thus a proposal that many participants supported was that the President himself should issue a call for national cooperation at the consumer level. This would be voluntary, but very definitely it would be cooperation to help consumers take steps on their own to ease their cost of living squeeze.

It was suggested, first, that work begin at once on preparations for the President's call and that representatives of the broadest range of consumer groups be called to Washington to be informed of the plans, to be asked for policy proposals and to indicate practicable ways the program should be carried out. The groups could be broken down so each would be small enough to be productive.

Second, that the help of professionals in the field of communications also should be enlisted.

Third, that the program should be identified with the White House, to give it stature and ensure its duration. But the program is to be implemented at the regional and local, not the national level.

Fourth, that after the details have been carefully worked out, the President himself should issue a major policy statement and kick off the momvement via a prime-time TV address.

Many illustrations were given to dramatize what might be done -- and the point was stressed that there are hundreds of others equally valuable or far superior.

For instance, energy conservation measures could be revived and maintained to kill forever the "burn-it-up" philosophy.

Victory gardens, whether on a community or individual family scale could help keep the lid on food prices as well as contribute importantly toward the individual American's feeling of participation. The community garden concept could be spectacularly expanded, even in densely populated cities.

The collection and sale by communities themselves of waste paper, cans, bottles, et cetera, could pay off handsomely in every way.

Educational pamphlets explaining in easy-to-follow language the many significant ways consumers can hold down their living costs could be inexpensively printed and circulated by organizations at the regional and local levels.

Mr. President, the participants supporting this proposal believe there is an unspoken cry of "what can I do" in the hearts of millions of Americans that the President can and should answer.

This sort of call for action has worked magnificently under far less urgent circumstances. It could have an electrifying effect today.

SECRETARY SIMON: Now we will have brief reports from our two Congressional Representatives.

First, the Honorable Henry Reuss.

CONGRESSMAN REUSS: Mr. President, Mr. Secretary, our panel received much advice. The bankers recommended cut the budget and cut the budget some more.

The thrift institutions recommended tax favors for thrift institutions.

The stockbrokers, understandably enough, wanted something done for stockbrokers.

My point is that we can't ask the poor and moderate-income people to bear the main brunt of inflation and recession -- outrageous prices, lost jobs, disbanded public programs.

Of course, we must have a policy of fiscal restraint but we ought to help those worst hurt by inflation. We need a massive program of public service jobs starting now and administered by somebody who believes in the program.

Those who want to talk about the work ethic have an obligation to provide work.

Of course, we need a policy of monetary

moderation, but let's insure that the limited supply of credit is channeled away from inflationary users and toward anti-inflationary users, productive investments, homes, small businesses, farms.

I know that your advisors, Mr. President, opposed credit allocation, but I know, too, that you won't close your mind to the advice to the contrary of Speaker Albert of the Democratic Caucus and of the Joint Economic Committee.

Of course, we need to prevent outsized wage increases from generating a new cost-push inflation, but the way to do that is to work out a social contract between the working people and their government involving not only restraint by business in salary increases and price behavior, but immediate tax relief for low- and moderate-income people balanced by plugging tax loopholes.

I am pleased to read in the papers that the White House is considering such a program, according to an anonymous aide. Please tell that anonymous aide that I hope he perseveres.

With a real bipartisan program we can start tomorrow licking inflation and prevent a depression, so let us close ranks.

SECRETARY SIMON: The Honorable J. William Stanton.

CONGRESSMAN STANTON: Mr. President, ladies and gentlemen: I was very pleased to be asked to participate in the mini-conferences on banking and finance. I looked at my responsibility as one to participate, to listen and to report to you, and Senator Mansfield, any ideals of consensus.

Let me state at the start there were two pieces of legislation that I felt were almost unanimously well received. One is pending law and one is pending action by the House Conferees.

The bill awaiting conference, Mr. President, conference action is referred to as H.R. 11221, what Dr. Ensley referred to earlier.

It is a bill that would increase federal insurance for deposits in financial institutions from $20,000 to $50,000.

I think this is a twofold fact, first, to give an increase in confidence to the American people and, second, to stop what the financial institutions refer to as disintermediation problems, which certainly do exist.

Mr. President, the item most mentioned last Friday as far as legislation is concerned is the proper use of the Budget Reform Act of 1974.

There was unanimous agreement that this budget committee, in conjunction with yourself, must present to the American people through Congress a budget that will curb inflation.

At the same time there was great recognition that certain segments of our society, primarily the poor and the elderly, must be taken into consideration in special hardship cases in this particular budget.

Third, Mr. President, as you know, our Banking and Currency Committee handles all housing legislation. The subject of housing cannot be separated from the subject of finance. Several suggestions heard here today, the Financial Institutions Act, Senator Scott's recommendation of a tax for savers, several others that were brought forth, and I presume they will be further covered in the housing section.

I would say in this regard, in light of what Speaker Albert had to say, further conferences are needed on this subject and I would reiterate with him that Members of Congress could join the Administration. As you bring these together, I think, this would be a great suggestion.

Finallv. Mr. President, there are three quick solutions -- observations that reflect my own view as of last Friday, first as stated by Sylvia Porter.

The ultimate and desired need to allow the consumers full participation in this battle on inflation.

It is absolutely a must and, as Sylvia Porter said, there is a crying out around America of "what can we do".

Let's make sure nobody benefits from our hardship.

Last Friday there was unanimous feeling that the problems of inflation are nonpartisan. The answers have to be bipartisan. While you may be pressured on national TV to new and innovative ideas, Mr. President, I would think that with the consensus that you might defer on that until such a time that you get the consensus of Congress.

When you do that, Mr. President, then go to the people on TV, knowing there is no political consideration in this all-important subject of their pocketbooks and their lives, and maybe even have Senator Mansfield and the Speaker beside you.

Finally, there was a thorough recognition at this conference on Friday that we will never solve the problems of inflation by simply solving the problems of increasing confidence in the monetary system.

We must increase confidence in the federal government and its related institutions, Charles Zwick of Florida put it this way: We need an immediate clear act of moral leadership on both the part of the Executive and the Legislative Branches of government. I think he said it all.

Thank you.

SECRETARY SIMON: The last Representative from Congress, we will have brief remarks from the Honorable Wright Patman.

CONGRESSMAN PATMAN: Mr. President, ladies and gentlemen: I will summarize a few points. There has been a lot of talk in these Conferences about the necessity of eliminating some of the sacred cows. There is no more bloated sacred cow than the Federal Reserve, the nation's number one economic policy maker. The Federal Reserve continues to operate in total secrecy and we have a ludicrous picture of the leading economists sitting around these tables still guessing what the Federal Reserve may have done 3 months ago and groping in total darkness about what the Federal agency may be doing today or might be doing tomorrow to the economy.

Economic situations in or outside the Government cannot be made sensibly so long as this Agency operates secretly -- secretly -- without public audits and without the accountability required by the Constitution of the United States and the laws.

The President must take up his constitutional responsibility and require the Federal Reserve to ease the up and down, roller-coaster policies on money supply. We need modern expansion of the money supply, stable long-term growth consistent with the real economic growth of the nation. I believe economists generally concede there have been serious errors in Reserve judgment, errors including the Open Market Committee that have fueled high-interest rates and the current inflation.

The Federal Reserve is a fantastically bad judge of the need of the economy and the establishment of a policy requiring stable money supplv browth within reasonable limits, coupled with a credit allocation that will take the Agency out of the area where it is poorly equipped to make policy and where decisions are better left to the people and their elected representatives. The widely-held desire to fight inflation has been seized by the long-standing enemies of social programs to cut spending for education, housing, help for the elderly and the poor, transit, rural developments and other public interest programs.

The public's understanding on the budget would be greatly enhanced if the President moved to remove fictional items which simply represent transferring among Federal agencies. Foremost in this area are $5 to $6 billion a year which is listed as an interest cost and yet the budget represents transfers between Treasury and Federal Reserve and back to the Treasury.

These are funds derived from the portfolio of $82 billion of securities held in the portfolio of the Federal Reserve's Open Market Committee in the New York Federal Reserve Bank. These bonds should be retired, cancelled. They have been paid for once, and if we don't cancel them they will be paid for again. That will be $82 billion, and they should be subtracted from the National Debt and the Federal Reserve be required to come to Congress for direct appropriations as the Constitution requires.

The resulting subtraction of the $5-$6 billion interest costs could bring the current budget below the magical $300 billion figure. That is the answer to that problem.

Tax relief and reform, of course, would be good. The need for a fresh team, the President needs to get rid of the holdovers who have contributed to a series of economic mistakes. This is needed to restore public confidence which remains at a very low level.

The housecleaning should include officials of the Federal Reserve.

Finally, we need an immediate program for public service jobs to lower unemployment -- Presidential directions -- a restructuring of financial institutions and regulations and, further, a National Development Bank. These policies will enable us to lower interest rates from their current historic highs, a 50-percent reduction in total interest rates would be justified in comparison with rates in the past that permitted this country to run and be economically handled.

It will enable us to stablize the economy, to start building housing and to meet basic human needs. If we justify our existence as a Summit Committee, we must recommend actually something being done that will dramatically reduce the interest rates. That is number one, I think. Thank you.

SECRETARY SIMON: Mr. President, our delegation will be delighted to respond to any questions from yourself, recognizing that we are running way over time and we had better play some catch-up.

I think perhaps we ought to dispense with this Panel for the questions of the floor but I will leave that to your discretion.

THE PRESIDENT: Secretary Simon, we had planned to have a limited period of questions from the floor or from any of the other participants such as the Speaker, Senator Mansfield and others.

I have one question I would like to ask Mr. Roosa. If I understand correctly, Mr. Roosa did praise and I share the praise for the action taken by the French to cut back their purchases of oil products overseas.. Then it seemed to me that Mr. Rossa was suggesting that a way to add to competition in the United States in energy sources was to increase imports into the United States.

Now, is that contradictory or didn't I understand it correctly?

MR. ROOSA: It is contradictory as I seem to have said it but not as I intended. I am really reverting to the problem that all of the present oil-importing countries face and that is where can they find markets for the exports that they are urgently trying to sell. It is our opportunity now both to provide wider markets for their products and to recognize that more goods are the best immediate offset to inflationary pressure here.

So far as the oil-import side is concerned, I did not propose that we take specific preclusive steps on the importing of oil but to really speed up, make much more emphatic and clear-cut the action that will underly the so-called Project Independence.

I think we want to work our way out of dependence on foreign oil and diversify the sources of energy and I think we would all agree to that. But during the meantime as the inflation pressure is still so strong here, we can get an incidental and accidental advantage in the fact that most of the proceeds of the oil earnings, OPEC countries are now starting to flow here.

That means we get that inflow across our frontiers in the balance of payments. It makes it possible for us, gives us the opportunity then to see that we let some of those funds in effect flow out to pay for the exports of other countries who are now desperately afraid they just can't close the circle.

This is one part of a process of recycling that I think can be furthered by the suggestions that Otto Eckstein mentioned.

THE PRESIDENT: Thank you very much, Mr. Roosa.

There is an opportunity, even though we are running somewhat behind for questions from the various participants.

Will you identify yourself please?

MR. WRIGHT: Mr. President, my name is John Winthrop Wright. I was a member of the Financial Conference. I am an investment advisor.

Mr. President, the Federal Reserve Board has both been condemned and praised and in my opinion for the wrong reasons in each case.

Now, I have not heard a word here about the enormous increase of the European dollars and I want to make sure that you know that the amount of dollars, American dollars on deposit with foreign banks is now as large as all of the dollars on deposit with American banks. That is $280 billion. Almost all of that, all but $40 billion, has been increased in the last five years.

Now, believe you me, nothing else could have caused the kind of world inflation we have -- those are dollars, and whether they are spent in the United States or not -- those dollars have caused the tremendous escalation of world prices which doubled world commodites in one year and which have caught us up in the conflagration.

Now, Mr. President, I believe it is clearly the responsibility of the Secretary of the Treasury and of the Federal Reserve Board to see that dollars are controlled whether they are deposited in a foreign bank, whether they are deposited and created in a foreign subsidiary owned by an American, or whether they are owned by the United States and I ask you, sir, to look into this yourself.

Thank you.

THE PRESIDENT: Thank you very much, sir.

Congressman Sam Stratton of New York.

CONGRESSMAN STRATON: Mr. President, I wanted to address my question to either Dr. Hauge or to the panel.

How can the panel dismiss so airly the suggestion of mandatory price controls when we see evidence on all sides that prices are not being based on a fair mark-up over cost but on some administered formula or what the traffic will bear?

Take, for example, the situation with anti-freeze today, which is not particularly in short supply. It retails -- it wholesales for $2.50. It is being sold in my district for $8 a gallon. I thought I was getting a bargain in Bethesda in buying it for $5 a gallon and it is retailing elsewhere from $6 to $12 a gallon. There is no way it seems to me, that we can control that kind of attempt to get what the traffic will bear without some kind of mandatory controls.

SENATOR JAVITS: I wish to call attention to one thing that the Congressman's views have just raised in my mind. There are a number of economic services now advising their clients to raise prices in anticipation of price controls.

I can think of nothing which is less patriotic or less cooperative than to follow that advice at this time. I think it bears strongly on what Sylvia Porter has urged the President to do, to issue a call for national discipline and national restraint and I hope very much the President will evidence his intentions to do that.

CONGRESSMAN STRATTON: Mr. President, could I get an answer to my question?

THE PRESIDENT: You asked Mr. Hauge or Mr. Simon to answer it.

Mr. Simon, the Secretary of the Treasury.

SECRETARY SIMON: I will like to call on Mr. Hauge. I will not begin a question. I want to go back to August 1971 when I was still back in the private world in the banking community. At that time, I had the conviction that wage and price controls were in order for our economy as I think probably a major portion of the financial community around the country did and through part of phase II I continued to feel quite positively about wage and price controls.

Then, I came down to Washington and in December of 1972 -- to participate in the administering of these controls. When I met with the other financial and economic men in the government, with the various people from all segments of industry in this country and became acutely aware of the inequities, the distortions, the hardships and indeed, the scarcities that were being created by these wage and price controls, I must admit that in a relatively short period of time, it was quite simple for me to change my mind.

I think that the salient fact is that what we have to do to beat inflation in this country, instead of looking for the so-called quick fix and the instant solutions to a problem that has developed over such a long period of time is to begin to attack the causes of the problem and not the results.

With that, I would like to turn it over to Dr. Hauge.

MR. HAUGE: In responding to the question from Congressman Stratton of my State of New York, I want to say first that I think I fairly reported from the panel there was very little disposition to return to what we though we had successfully gotten rid of a few months ago.

Secondly, that particular prices in particular markets would presumably be the jurisdiction of the Council on Wage and Price Stability that the panel showed a great deal of interest in. If there is something going on there not relating to markets and prices and of freeze, it ought to be flashed on the big screen and presumably would be, but I don't believe our panel felt going back to freezing something in terms of controls had enough to recommend it from our experience to look in that direction.

THE PRESIDENT: Thank you very much, Mr. Simon, and your panel.

May I conclude this panel by saying, I should give to Dr. Arthur Burns some equal time following the comments and observations of my good friend the Chairman of the House Banking and Currency Committee but over the years my observations would be both of them have had equal time on many occasions.

Let me make one further observation, and it stems from the comment made by Senator Javits of New York. I think it is most unfortunate for anyone to indicate that business or labor should increase either their prices or their wages in anticipation of any expected wage and price controls.

In the first place, there is no such legislation giving the President that authority, and it is not likely for such authority to be in existence in certainly the foreseeable future.

I do not intend to ask for it and it appears to me as I have talked with the leadership in the House and Senate, there is no anticipation that the Congress will grant such authority.

So, we get back to those unfounded comments by some that it would be selfishly desirable to seek to take some advantage in a non-competitive situation in order to avoid something that I don't anticipate will be available or on the statute books.

So, I say to you, let's do as Sylvia Porter has suggested and I am greatly impressed.

Let's each and every one of us join in this struggle and I am impressed with the recommendation that we can get a national effort in this regard.

At this point, we will take a very short break and the shorter the better, so the finance panel can leave their chairs on the rostrum and the next will be a panel which is composed of those from Labor -- they can occupy their seats for the next report which will be forthcoming very quickly.

(Brief recess.)

THE PRESIDENT: Will the members of the Labor Panel please take their seats at the table? Will the people in the audience please take their seats so that we can get started on the second segment.

Will the Summit please come to order.

The second report will be in the field of labor. We had a very excellent pre-summit meeting in that regard at the White House about a month ago. It was healthy, it was constructive, and at this point in order to kick off the report, I am honored and pleased to ask the distinguished Secretary of Labor, Dr. Peter Brennan, to make some observations.

SECRETARY BRENNAN: Thank you, Mr. President. Just over two weeks ago, 29 of the top labor leaders in the country, representing many millions of American workers, participated with their representatives in government in a vitally important discussion about the campaign against inflation.

They say that whenever two or more people convene in Washington to deliberate over something more important than the time of day, virtually anything can be accomplished -- anything, that is except a consensus. That principle did not quite hold up in our meeting on September 11.

There could be no doubt that everyone agreed on that day that the blame for our current dilemma cannot be assigned to American workers, that the wage increases they have won -- and earned -- are not the cause of inflation.

At the same time, I am sure that everyone also would agree that restraint is now in order, although there are bound to be legitimate differences of opinion as to the meaning of restraint.

A second point of consensus we reached, if we did not begin with it, was the importance of regular consultation between government and labor with respect to all major areas of policy concern. Considering the great difficulty we all share in trying to distinguish between causes and symptoms, I doubt that complete agreement will be reached as to the best courses of action.

However, it is my personal conviction that the most important step in devising remedies already has been taken: the recognition that we all share the same deep concern for the well-being of our country's wage earners and their families.

At the earlier labor summit, representatives of America's working men and women voiced their concerns over such issues as federal budget cuts and their possible impact on programs devoted to helping people; current monetary policies which were stifling construction, reducing jobs and putting housing out of people's reach; export policies, which they view as exporting jobs; public employment and improved unemployment insurance to help alleviate the victims of inflation and tight money; and improving productivity.

These were among the most critical issues addressed not only at the labor summit, but at various other summit meetings held within the last two weeks. With the perspective of further consideration, we welcome discussion of these and any other issues relevant to improving the nation's economy.

Thank you, Mr. President.

THE PRESIDENT: Thank you very much, Mr. Secretary. Before introducing our next distinguished guest, I would like to say that the Speaker of the House and I must leave at approximately 11:40 to participate in the dedication ceremonies for the LBJ Memorial in the District of Columbia.

Mrs. Johnson is here from Texas on this occasion and we are included in the program. So I hope and trust you will excuse us at that time.

I will be back at two o'clock for the resumption of the Summit for the afternoon session.

It is now my very great privilege and pleasure to call upon one of America's most distinguished labor statesmen, a man who has been in the labor movement but a great individual in his own right, Mr. George Meany of the AFL-CIO.

MR. MEANY: Thank you, Mr. President. I appreciate the opportunity to present our views here this morning. This has been a pretty good morning so far for me. I heard the news before I came here this morning that there was going to be no depression and that was very good news. That came from the currently operative White House Press Secretary and I think we are all glad to hear that.

I also heard some good news that there is going to be no agricultural travelling circus throughout the country. In a way, I was disappointed because I had hoped to get the concession for selling snake oil from Earl Butz.

Seriously, Mr. President, we are delighted to come here. However, we don't intend to limit, I am sure, the labor people don't intend to limit their advice and counsel to the problems of inflation alone. For as bad as inflation is, it is only a portion of America's economic problem.

In the final analysis, the view from the Summit must square with the hard facts of life at the supermarket checkout line, the unemployment line and the assembly line if we are to receive the public support to check inflation and to reverse this recession we are in.

Public support is directly dependent upon public confidence in their government, confidence in its fairness, confidence in its integrity and confidence those in the Summit can clearly see the bottom of the hill.

Inflation, particularly today, double-digit inflation is a grave problem for workers and their families. It eats away at buying power and erodes their living standards. But workers are equally scared by recession. Recession and rising unemployment spell economic disaster for the workers.

A job is the workers' only hedge against inflation. The average worker has no tax-free municipal bonds, no speculative real estate holdings, no warehouses in which to hoard huge inventories to sell at higher prices at some later date.

A paycheck is all that he has, and Government policies should not take that away from him. Workers today are skeptical. They have heard optimistic rhetoric before. They have been subjected on one-sided, unfair controls. They have seen their wages held in straitjackets while everything else they had to buy and the rents they had to pay went up, while their employers went ahead with their profits without restraint and without criticism.

They have read editorials urging them to be restrained in their wage demands and then on the financial pages, they have seen profit figures that are unbelievable. Frankly, workers are not going to be impressed by speeches at a Summit Meeting. They want action that is going to meet the problems of people -- high food prices, high fuel prices, high interest rates, high unemployment.

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I want to reemphasize a point that has been made many, many times by AFL-CIO representatives and other labor representatives, that we will cooperate with an equitable program to bring the economy into balance. I stress the word "equitable".

We will join with every segment of the American economy to take the necessary steps to fight inflation if policies are based on equity and fairness applied to all segments of the economy.

If we are faced with proposed one-sided measures like the ill-advised proposal of the delay of the federal pay raise, we will oppose them.

You have said, Mr. President, that belt-tightening is necessary. If that is so, then labor says, "Make the belt of the same number of notches for industry, for the bankers, as well as for the workers."

In all candor I must say that workers are not convinced by press statements continually telling us that things are going to get better.

We have had five and a half years of that and it is enough, with nothing to base these predictions on except hope. In fact, we were even assured just a few months ago in a very, very strong message from the White House that there will be no recession.

Well, Mr. President, we are in a recession now, and yet your advisors, Mr. President, seemingly want to use the same policies which for five and a half years have been taking America downhill.

They seem to say that the choice is either inflation or recession. Surely there must be some other better solution to this problem.

A policy that fights inflation by creating a depression is worse than no policy at all. Workers are fed up with the White House economic spokesman whose only response to proposals for change in direction is "they won't work".

Nothing they have tried in the past five and a half years has worked. Obviously, it is time to try something different.

Americans will be much more inclined to follow a leadership that has the integrity and candor to admit failure and it is willing to try some new approaches to our problem.

Obviously the easy way to fight inflation is to have a depression. That surely will bring prices down.

Really, at least some of us remember the last depression, and prices went way down, but if there is anything this summit should agree upon, it is that a depression is not a solution to our problem and in fact is precisely the direction in which the economy is headed because the policies of your advisors, Mr. President, are designed to combat excessive demand inflation.

Today's inflation does not fit that classic definition.

Broad-axe budget cutting will only increase unemployment. Tight money is now strangling housing and the Nation's economic growth. Higher interest rates are feeding high prices.

In 1973 alone, interest payments took $37.5 billion more from the economy than it had in 1972. Money that could best be used for plant expansion and for purchase of goods and services went instead to pay the cost of borrowing money.

Higher interest rates also hit the federal budget to the tune of an additional $5.3 billion for the cost of servicing the national debt alone.

So, we in organized labor are impressed and highly pleased by the almost unanimous conclusion of the economists in the first mini-summit in the White House, in favor of reduced interest rates and easing of tight money, and then we were very much distressed when this concusion was shot down within 24 hours by Mr. Simon and Mr. Greenspan.

We see little general economic benefit in a slight reduction in the prime interest rates. All interest rates, including home mortgages, must be reduced with mandatory allocations of credit to projects of greatest benefit to the entire economy.

It makes no sense to force the housing industry, utilities, public services and other socially useful projects into an interest-rate bidding war with gambling casinos, luxury beach condominiums and inventory hoarders.

Today's interest rates are usury and should be treated as such.

We in labor, of course, were gratified to hear Mr. Greenspan say that wages, according to his estimate, were not the cause of our present inflation.

We would remind him, however, that the Council of Economic Advisers was created to advise the President on ways of achieving the goals of the Full Employment Act of 1946.

Therefore, we are not pleased to hear him downsell programs which can only lead to more and more unemployment.

The job he holds was created to increase employment and not to cut it.

If anyone here truly believes that higher unemployment is a solution to inflation, let him be the first to volunteer for what is termed now in the new jargon in the White House as economic dislocation. That means "you lose your job".

This country needs more jobs and not fewer jobs. Jobs are created by a healthy economy, not by gimmicks like tax cuts for business or other schemes to transfer wealth from the less affluent to those who already have more than they need.

Let me turn now to three proposed suggestions as ways to fight inflation: wage restraint, wage guidelines, wage controls.

Workers have been very restrained and have patient considering how far and how fast they are falling behind.

This year's contract settlements, the large contract settlements, are still not matching the increased cost of living. Most of this year's major negotiations are already completed with little economic disruption.

Most new contracts place heavy emphasis on cost of living escalators, so the less the cost of living goes up, the less wages will go up.

Then how in good conscience can anyone ask workers for more restraint in the face of current profit figures and constantly increasing prices.

Incidentally, the Treasury Department could well spare us this mumbo-jumbo about profits really being lower than in 1965 because exactly the same thing is true about wages.

In fact, if wages were going up, 21 percent as profits, there would be considerable disturbances such as screaming along Pennsylvania Avenue.

Workers will listen and respond to present pleas for restraint when they see some restraints on oil companies and grocery chains. I don't mean in press releases, I mean in prices at the pumps and on the shelves.

Incidentally, Mr. President, I would like to say something about this oil situation.

Everybody says that the oil people are squeezing us and this is one of the major causes of our problem.

Well, a year ago everybody in America was all upset and uptight about the oil problem.

We cut the speed limits and then we had the gas pumps closed on the weekends and all of that sort of thing.

Well, I think the American people responded quite well, but the American people have some bad habits. We all have the habit of backing off and saying, "Well, everything is okay."

I can tell you, Mr. President, all of the restraints that were put on -- and the American people accepted -- last winter, they are gone. They are gone.

Fifty-five mile-an-hour signs don't really mean a thing. I spent six hours on the highways a couple of days ago between here and the Northeast and the 55 million thing doesn't mean anything.

So I think we have got to get back and I think one of the ways to meet these Arabs, to tell them we don't need quite as much of their oil next year as we took last year and maybe they will have a second look at this.

I think that we should get back -- I think whether it is John Sawhill or Bill Simon -- we should get back to where we were last winter, where we do have some restriction on pleasure driving, some restrictions that cut down the use of oil because what we did last year was good.

It not only was good for saving fuel, it saved lives.

But I am telling you, Mr. President, from my observation, it has gone because like all of us Americans, we are back, and we say, "What the hell, it is all over. Let us get back to our 70 and 75 miles an hour."

That was a little way off from what I was really talking about.

Now, getting back to guidelines, guidelines are not equitable because they will not work on prices or profits. I have heard a lot about mandatory price control. Mike Mansfield said this morning that we should have mandatory price controls. I have yet to hear a single economist and I have yet to hear my good friend, Hubert Humphrey, who is for price controls -- I have yet to hear any of my friends for price controls tell us how they are going to control prices.

We all know how to control wages. You don't have to waste any time about that at all. Just send the word out, send it out by an Act of Congress, send it out by amendments from the President of the United States, and wages will be controled almost immediately.

But how do you control prices? Do you control them by having IRS call them up on the telephone? No, you control them by the way you controlled them in World War II. That is the way you control prices -- by setting up a tremendous bureaucracy, and if you don't want a tremendous bureaucracy, then you are not going to control prices because that's how to control them.

Our organization has said and said, I am repeating this, back in February of 1966 and this is what we said in exact language: We will cooperate with the across-the-board controls if they are enforced equally on all prices, incomes, profits and rent and not just wages.

So in summary form, Mr. President, here are our suggestions: Lower interest rates and loosen up the monetary supply, impose mandatory allocation of credit to socially useful projects in the housing industry, industrial expansion, utilities and public services.

As an aside on this point of interest rates, I do not think it too unkind after listening to my friend Wright Patman here, to recall the testimony of Dr. Burns before the Senate Banking and Currency Committee on December 18, 1969 when he was up for confirmation as Chairman of the Federal Reserve.

On that occaion, Senator Proxmire asked his views on what he described as the very high interest rates which were in the words of Senator Proxmire, so cruel and burdensome to our people.

Dr. Burns replied and I quote from the record: "Senator, if interest rates remain at anything like their present level over the next few years" -- and I am not going to speak of the next fourteen years -- "I would consider myself and the Federal Reserve Board as a failure, if interest rates behave in that fashion."

Now, at that time, prime interest rates were 8-1/2 percent. Perhaps Dr. Burns considers himself and the Board by Alice-in-Wonderland language, a success because it is true that rates did not continue to behave in that fahhion. They went up to 12 percent.

We propose an expanded public service job program beyond that which is presently authorized, keyed to creating jobs when unemployment in local areas reached 5-1/2 percent. Anything less would cause unemployment to feed on itself. But public service jobs are no substitute, Mr. President, for jobs that a healthy, growing economy can create. And the goal of this Administration should be to create real employment, real full employment in the private sector.

Now, we advocate export controls on scarce commodities, including foodstuffs, scrap iron and copper, lumber, cotton, and fuels, as well as the export of United States capital for overseas investment. We should stop concentrating our thoughts on balancing the budget by cutting vital services to the poor, the disabled, the handicapped and the minorities.

We should start balancing the budget by actually asking the Congress to close loopholes in the present tax laws which allow the wealthy and the corporations, especially the international oil companies, to pay far less than their fair share of the tax burden.

Achievement of tax justice would give you the money, Mr. President, necessary to run the Government, provide the people with necessary services and get the balanced budget that you want.

We should abandon the unfair foreign trade bill that is now being currently supported by the Administration and the Congress. We should support trade legislation that will stop the export of American jobs, regulate the outflow of American capital and technology and regulate the flood of imports, and tax those corporations who now evade paying their United States income taxes.

We should support an excess-profits tax on the oil companies who cooperated -- and I say this advisedly -- who cooperated with the Arab Sheiks to manufacture the energy crisis and to create much of our current inflation.

On dealing with Communists in trade matters, let us put the needs of the American people ahead of the desires of the commisars and bring an end to unilateral concessions to the Soviet Union, such as the great wheat deal of a year or so ago.

What is needed, finally, Mr. President, are compassionate, sensible, and equitable policies, presented to the American people with honesty and candor. If the policies of this Administration meet that test, I am sure they will have the complete support of American labor and all of the American people. Thank you.

(Applause)

THE PRESIDENT: Thank you very much, Mr. George Meany, for those subtle observations and comments.

Our next speaker reporting for the Labor Panel is an old friend of mine from my home State, Mr. Leonard Woodcock. Leonard.

MR. WOODCOCK: Thank you, Mr. President, and ladies and gentlemen. I am pleased to have the opportunity to follow Mr. Meany and I cannot emphasize strongly enough the importance of the workers' point of view for, contrary to what many believe, the overwhelming majority of Americans are workers and their families.

We are asked what we think should be done about inflation. First, all of our suggestions reflect our fundamental concern that remedies for inflation must be equitable. For the first thing that must be done is to give first aid to those who have already taken the worst punishment. Candidates for immediate action are improved unemployment compensation in amount and duration, indexation of the minimum wage, and tax relief for low and middle-incomes compensated by tax increases for business and the rich.

In this connection I emphasize, sir, the patent unfairness of our Social Security tax system. Most workers pay 5.8 and 5.9 percent from the first dollar earned with all of their wages with no deductions. There are billions of working families in which both husband and wife have to work and each pays 5.8 percent of every dollar earned. After the ceiling of $13,200 has been reached, of course, this unfair tax stops, thus adding to the unfairness.

It is imperative that this unfairness be stopped and relief given to working men and women.

Secondly, I agree we are in a recession. The ability of our economy to meet the needs of our people is faltering badly. Action to get unused resources back into production to meet those needs is a profound moral imperative. Cold-blooded chopping of social programs is directly contrary to what is needed. We need more housing, more and better education, more health and recreation facilities, more public transport, more environmental protection and improvement, and not less.

So long as there are unemployed workers and unemployed resources, it is the job of the United States Government to put those people and resources to work, producing what Americans need. To those who suggest that these programs are inflationary, we say they are talking nonsense. Real demand has already been cut too much, first by the overall surplus of State, local and Federal government budgets, second by inflation, and lastly by the huge tax exported from us by the oil companies and the producing nations.

Cutting $5 or $10 billion worth of social programs out of the budget will not significantly reduce inflation, but it will certainly cause a great deal of human suffering. Nor would an increase of the same magnitude significantly increase inflation, but evilly spent it could certainly help rehabilitate the standard of living of millions of Americans.

Next, a government program that will put idle resources back to work must include a serious public employment program dedicated to meeting real social needs, a combination of increased government spending and credit allocation to get the housing industry moving.

Then we need expanded programs of public transportation, education and health, energy and manpower.

We need a serious look at the waste in our military budget -- obviously, the United States must have a strong modern national defense.

President Eisenhower warned the nation when he left office, against the political influence of the military industrial complex. His warnings should now require a thorough going review of waste in the defense budget.

The inability of our economy to foresee and adjust smoothly to the increasingly scarce and costly supply of natural resources is a fundamental factor in this inflation. No big corporation could exist if it failed to plan ahead, and yet we allow the whole economy to drift rudderless.

The time has come to do as other industrial democracies have done and create an economic planning board. This board could begin to develop institutions to monitor key sections, foresee problems, and help make adjustments before disasters occur.

May I say parenthetically, Mr. President, France could not engage upon cutting back its oil imports to the degree it is proposing if it did not have an economic plan by which to allocate those scarcer resources to its domestic economy.

Our economic system not only fails to foresee supply problems accurately, it also fails to relate prices to justifiable costs.

In the modern world of huge producers where decisions are made by administrative fiat and decisions, prices are more the result of market power than a reflection of necessary social costs. In this situation workers and consumers are steadily losing ground before the growing power of the corporate giants.

To help prevent abuse of this power we propose a permanent price/wage review board to discuss and confer and publish the facts, and with the subpoena power to carry out that mandate.

Next, we come to the problem of particular industries. There are four critical areas that are responsible for a major part of the current inflation -- health care, food, energy and high interest rates.

In health care, we need legislation that can provide a decent service to all Americans at minimum total cost to the nation. I believe an objective look at the health security program, an objective look would reveal that it would help both the fight against inflation and the fight for social justice.

Since the dismantling of our costly and inefficient system of suppressing agricultural production, we have had no policy at all. American production and exports are as essential to the stability of the world economy as they are to our own. We need a policy which will encourage maximum production while insulating American consumers from high world prices.

The damage being done by excessive monetary restraint is enormous. There have been a few straws in the wind suggesting that it may be easing. We sincerely hope so, but the effects of merely easing monetary policy in the traditional way are too slow and general.

Immediate positive programs to direct credit to the most critical areas are also necessary and we urge their implementation.

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May I conclude, sir, with a quote from a recent Nobel prize winning economist, Paul Samuelson, when he said to you, "President Ford, don't listen to your advisors who claim that bringing unemployment up to six percent and holding it there for a couple of years will restore the economy for the rest of the 1970's to a reasonable inflation rate."

THE PRESIDENT: Thank you very much, Leonard Woodcock of the UAW.

It is now my privilege and honor to introduce the next spokesman for the Labor panel, Murray W. Miller.

MR. MILLER: Mr. President and Members of Congress and Secretary Brennan, on September 11, we had the opportunity to meet with you in an exchange of ideas on the problems of inflation. In the 16 days since that meeting the price of almost everything the American consumer must buy has risen even higher. I think there should be a big banner flying over this meeting, in bold, big letters, and it should spell out, "We are in a state of emergency."

I addressed myself to that emergency on September 11, saying that we in labor believe what this country needs is an immediate price roll back where profits and prices are exorbatent. I stated that we in labor believed that the tight money policy immediately should be relaxed.

I was proud to be here that day as leaders of organized labor made suggestions, most of them sound and prudent. However, that night on the evening news the man who controls the nation's monetary system, the Chairman of the Federal Reserve Board, was quoted as saying he had heard nothing new and nothing had changed his mind.

Now, I do not like to be personal in my remarks, Mr. President, but things have become very personal and when we hear reports of the poor and the elderly turning to dog food and horsemeat while the Secretary of Agriculture tells them to eat less to fight inflation.

I have heard reports from some of the Mini-Summits on Inflation from around the country and we cannot accept what we are hearing. There were suggestions in Chicago, for example, that to whip inflation we might do away with the minimum wage, that we must relax the standards set down in the Occupational Safety and Health Act.

They must believe a loss of an arm or a leg will control inflation.

But let us get back to the proclamation of "Nothing new, nothing that changes the mind." How disheartening those words were to us who represent millions of consumers in this nation. Those words told us that our input was dismissed out of hand, that this country would continue to practice the old-time religion.

Those words represent a stagnation of thought which ignores the fact that the Mass is no longer said in

Latin. They dismiss out of hand that old-time religion will not attone for today's sins.

Yes, Mr. President, I think many of us who came on September 11 filled with hope were filled with anger when we heard that evening's news. But much like the terminal cancer patient, we come again in hope, the hope that the urgency of the matter can be brought into sharper focus, that the sensitives can be brought more in tune with the times and with the hope that those in high places of the Government will listen a little bit better this time than last.

I say this because out in the heartland of America, 200 million Americans are waiting for action. The anesthetic of rhetoric is no longer dulling the pain of inflation. Everyday the danger of high prices and profit greed move more dangerously close to the heart of our economy.

The time for diagnosis is over. It is now time to operate.

Oftentimes the patient in this case, the consumer, begins to realize his condition. I am in this category.

There is a conspiracy loose in this nation by those who unilaterally set prices, that conspiracy is based on the proposition that economic controls are inevitable and the price fixers are out to get all they can before controls are implemented.

If my belief is sound, prices will be fixed at the highest levels in history, with the wage earner forever foreclosed from achieving an equity between his purchasing power and those prices.

That is why I am coming down so hard on the proposition that we must immediately have roll-backs of exorbatent prices and profits and I respectfully suggest that the Executive and the Legislative Branches immediately cooperate on enabling the legislation to accomplish that end.

Well, that is one of the problems. There is another. That is our nation's fiscal policy. We in labor believe that our fiscal policy should be directed towards designated national goals. It is time to return the American monetary policy to the needs of the people and throw the private money-changers who ignore the national priorities out of the temple of our well-being.

Credit allocations should immediately be made in the housing industry with prices consumers can afford to stimulate the goal of adequate housing for America. Not only housing, but its satellite industries immediately would be stimulated in providing jobs for thousands and thousands.

The alternative to this is to sit by until unemployment reaches astronomical levels and then the Federal Treasury with stopgap and hand-out jobs.

Housing is but one area of national need. There are others which should be defined and for which credit allocations should be made at non-inflationary rates.

All of us are aware of the crisis in state unemployment compensation programs. In many states, the unemployment rate is so high that states are borrowing to meet their obligations to the jobless.

Doesn't that tell us that the time has come to operate? The diagnosis has already been made.

There is a way to help the various states with the problem and it is to use the U.S. monetary system to put those people back to work. All fiscal policy should be directed to that end.

Mr. President, we desperately need new direction which we confidently believe you can and will provide. But how can we reach a reasonable concensus when high Government spokesmen articulate Government policy as eating less and concern for stockbrokers while millions are jobless, and when we run up against the developers of those whose minds have become so arrogant and so monolithic they wouldn't be receptive to a new idea if it would insure their place in Heaven?

If in the opinion of your cabinet members and your economists we must toss millions of Americans on the scrap heap of unemployment to bring inflation under control, then I respectfully suggest, Mr. President, that you clean house and find advisors and economists who understand that a jobless American is a person and not just a statistic maneuver on an economic graph.

Even without a job, these people are live human beings.

Economists and advisors who do not understand that will never advise you well on inflation and instead perform a serious disservice to the cause of humanism.

Mr. President, you brought a breath of fresh air into this meeting when you announced attention to tax cuts for the poor and this announcement of Mr. Simon as your spokesman on more economic aid. However, we need more than a breath of fresh air. We need a veritable tornado of progressive ideas.

I find myself in a slight disagreement with Mr. Meany in his statements to the Steel Workers Convention when he suggested that Arthur Burns join the ranks of the unemployed if unemployment is the answer to inflation as Mr. Burns suggested. I don't believe Mr. Meany simply went far enough.

Like the Lord High Executioner, I have a larger list of those who won't be missed.

THE PRESIDENT: Thank you very much, Mr. Miller. We said at the outset several weeks ago that views and observations would come from the heart without any control or dictation, and I think it is obvious here today that this has been the case and I think this is a welcome bit of fresh air to have this frankness and candor on a matter of this magnitude.

(Applause)

I trust that the participants will excuse the Speaker and myself and at this point Mr. William Seidman of my staff will carry on for the remainder of the morning and I will be back this afternoon. Thank you very kindly.

(A standing vote of applause was given to the President.)

MR. SEIDMAN: We can now continue and may we please ask that the speakers try to stay within the limitation we have. We have had inflation in the time element of our schedule here today and we certainly would like to bring it back into place if we could possibly do so.

I will now call on Senator Schweiker.

SENATOR SCHWEIKER: Mr. Seidman and Secretary Brennan and panelists and fellow delegates: I appreciate this opportunity to summarize the recommendations of the Conference dealing with inflation and working Americans.

Mr. Seidman, working Americans, those Americans who run our factories and grow our food and pay our taxes; these working Americans have not caused inflation. They are victims of inflation and no cure for inflation can be effective if it is based on the premise that working Americans have somehow caused inflation. So we must agree at the outset that workers wages do not cause inflation. Administration economists have made that clear and wage stabilization will not cure inflation.

High wages did not cause inflation and high unemployment will not cure inflation. The basic American dream of home-ownership did not cause inflation and a tight money policy which makes adequate housing unavailable at any price will not cure inflation.

But, while working men have not caused inflation I am confident that they will support realistic remedies to fight inflation. If we ensure all sectors of our economy share equally the sacrifices as well as the benefits of a tough anti-inflation policy, I believe working Americans will support across the board government spending cuts to fight inflation and Congress should enact such cuts.

Working Americans will support tax reform to fight inflation, tax reform to close the special interest loopholes which deplete government revenues. Working Americans will support bold international initiatives to end devastating energy inflation and to end the Arab oil price gouging that is strangling our economy to death. I know they join with me in applauding you, Mr. President, in the recent steps that you have taken in this direction.

Working Americans will support a fair return for our nation's farmers but they will not sit still for murderous food inflation triggered by massive foreign give-aways which benefit greedy speculators while doing little for our farmers. Working Americans will support efforts to increase our national productivity, provided they, too, share in the return.

I am confident that working Americans will support a tough anti-inflation policy in each of these areas, and I believe such a policy must be adopted now this year before it is too late.

And to protect the quality of American life while these measures are being implemented, we must act immediately in two other areas.

First, we must establish a meaningful public service program, a program which will reverse soaring unemployment rates already over six percent in many of our cities, and we must ensure an adequate supply of money at reasonable rates for housing and other essential economic activities.

I have introduced legislation to create a two-tier credit system so tight money does not strangle our people or our economy. At present, home-buyers and those building critically needed facilities such as factories and hospitals must compete for credit with those building swimming pools and gambling casinos.

My bill would ensure adequate funds for priority national purposes at seven percent interest so we can hold our people and build the industrial capacity essential to prevent scarcity, high prices and new unemployment.

Let people who borrow for luxury items pay rates so high and let people who borrow for necessities borrow at rates they can afford to pay.

Today, inflation threatenes to devastate America and I propose to commit our money ~~and our~~ muscle and our know-how to rebuilding our own inflation-ravaged country. I am confident that working Americans will roll up their sleeves and support this effort and I am confident that it will work.

MR. SEIDMAN: Thank you, Senator Schweiker.

I call on Congressman Quie.

CONGRESSMAN QUIE: Thank you, Mr. Chairman.

I believe that the participants and the Labor Conference expressed well the statements that were made at that session. I believe it started out on a good note when it was agreement that labor was not the cause of inflation. That is in agreement with both Labor and Mr. Greenspan.

With that recognition and what was said this morning, that organized labor is willing to do their share to stop inflation, I think it has been set and will enable this country, both in government and in the private sectors of our economy, to address the problems that confront us.

We, as a nation, are like a person who lived a life that finds himself consumed by drugs, suffering from cancer and not knowing whether his life is going to be secure or not.

Now we must take more drastic actions than would have been the case had we recognized the role under which we were traveling.

We have also been caught by the robbery of the wherewithal to produce by other countries setting a higher rate on the most important part now of our production, that is the energy which comes from petroleum.

With this confronting us as a nation having to work with other nations as well, I believe the Congress itself must change its ways that it has followed for so many years -- setting a limit on expenditures but then appropriating beyond those expenditures. We make our decision on how we are going to cut back any expenditures and I believe it is necessary for us not to cut back on those who have suffered the most from inflation and ask them to suffer even more to cure inflation, but instead must only look at those places of fat that can be stricken from the expenditures and recognize that while an election is coming up and it is difficult for any politician to win an election if there is going to be any increase in taxes, recognize that taxes also are an important part to eliminate that portion of inflation that is caused by the Federal Government.

Unless we in Government can give some confidence to the political sectors of our economy, I don't believe we can expect them to share with us in our attempt to fight inflation and that is where we stand as people who now serve in Government.

SECRETARY SIMON: Thank you, Congressman Quie.

I apologize for getting a little out of order and I would like to call on Senator Cranston, now, if you would like to make a statement.

SENATOR CRANSTON: Mr. Simon, and fellow members: Last night one of the participants in this Summit Conference remarked that probably this would represent one of the most powerful, potent groups ever assembled under one roof. Certainly that would apply to Hilton roofs.

That reminded me of the occasion when John F. Kennedy invited the Nobel laureates of America to the White House and said they represented the most illustrious intellectual power ever there except when Thomas Jefferson dined alone in the White House.

One Californian told me that inflation is not all bad, that it has enabled every American to live in a more expensive neighborhood without moving.

(Laughter)

I strongly believe that we must balance the budget and at $297 billion and not $300 billion. $297 billion is the apparent necessary figure but I agree with labor and many others that we must not sacrifice programs essential to the people hardest hit by inflation.

I suggest as primary targets for substantial cuts the $30 billion that we spend to maintain half a million troops overseas in 30 countries at 2000 bases and the $5 billion we spend on military aid, most of it going to 56 dictators in 56 different countries.

Those expenditures are highly inflationary. They hurt the dollar like an adverse trade balance and as the dollars leave our country they divert money from programs neglected at home. They can be reduced without any reduction in national defense which depends upon our deterent capacity and upon the soundness of the dollar, a soundness threatened by that sort of expenditure.

I strongly concur also with the view that the Fed's tight money policy must be eased. Arthur Burns told us on the Budget Committee in the Senate that that policy might be eased if we balance the budget. It should be noted that the Fed contributed significantly to unbalancing the budget. First, its policies, as George Meany just noted, provoke the slowdown of reduced revenues and secondly, its policies added billions to the deficit by increasing the cost of financing the national debt.

Certainly, we need monetary restraint in the battle against inflation, but when restraint becomes a noose, it is time to let up a bit and let the patient breathe.

The Fed exercises vast power, yet it is virtually independent of the people and of their chosen representatives in the Congress and the White House. If it does not respond to the vast needs of Americans and to the advice of most of the participants in this summit conference and other experts elsewhere and ease its high money policy sufficiently, I will urge Congress to review its independent status.

I am glad that the President is considering a tax break for those in the lower brackets.

It can be more than offset by taxes, excess profits, closing loopholes and expanding the minimum income tax. We should have a reasonably high income tax for everyone with a high income and a reasonably low income for everyone with a low income.

The unfairness of present tax law is demonstrated again by Nelson Rockefeller's revelation that he paid no income tax at all in 1970 and a lower rate of taxes over ten consecutive years than the average American who is making $14,000 a year.

Tax reform can help pay for an expanded public service employment program for the unemployed and I am glad that the President accepts the need for such a program. But, let us not wait, as Arthur Burns suggests, until unemployment hits the six percent level that Roy Ash tells us is coming.

Let's anticipate and reduce the pain by launching a full-scale program right now. This program should be supplemented by other steps to promote jobs in energy, transportation, housing and other prime victims of high interest rates.

Senator Brooke will later today, hopefully, spell out one instant solution that he and I have proposed for many of our housing woes.

For those for whom there will be no jobs until the economy is turned around, there must be expanded unemployment compensation but the major emphasis must be on turning the economy around.

Let me finally emphasize the very great need for sound steps that will promote the productivity of labor, business, capital and government and that will promote competition and break monopoly.

MR. SEIDMAN: Due to the fact that we are a little behind schedule, we will dispense with the question period at this time.

There will be an opportunity for questions of this group a little later on.

We will take a short break while the agriculture group forms.

(Brief recess)

MR. SEIDMAN: Can we come to order, please?

We are now going to proceed with the report from the agriculture and food group.

It is my great pleasure to turn the meeting over to Secretary Butz.

SECRETARY BUTZ: Thank you very much, Bill.

I have already alerted the members of our panel that the heavy applause came to the short speakers. I hope they get the point.

We have a panel up here. We have five speakers with short statements. May I indicate who the members of the panel are, who will not be formal speakers -- Clarence Adamy, National Association of Food Chains; Bill McMillan, the American National Cattlemen's Association; Richard Lyng, American Meat Institute; Lane Palmer, Editor of the Farm Journal; Norman Weinthraub, International Brotherhood of Teamsters; Representative Paul Finley of the House Agriculture Committee; Representative Thomas Foley, House Agriculture Committee.

I guess that is our group on that side.

On the other side, we have Mr. Oakley Ray with the American Feed Manufacturers Association; Jim Hildreth, Manager of the Farm Foundation; Senator Henry Bellmon, Senate Agriculture Committee; Charles E. Rose is substituting for Bob Poage, who had to be at the dedication of the LBJ Grove.

We have heard all kinds of diagnoses this morning. It reminded me of a recommended cure.

A chap was being wheeled down the hospital corridor to the surgery room. One doctor turned to the other and said, "I tell you, surgery is not indicated in this case." The first doctor said, "It certainly is. I am the surgeon on this case. I have read all the charts; we will operate."

The first doctor said, "It is not necessary and I am sure I will be proven correct by the post-mortem."

We had a good meeting in Chicago. Our first summarizer on the causes of inflation and solutions is Bill Kuhfuss, President of the American Farm Bureau Federation, Park Ridge Illinois.

MR. KUHFUSS: Thank you, Mr. Secretary.

Inflation can and must be stopped. The actions needed will be painful, but they must be taken. The alternative is a continuing erosion of our economic strength and an ultimate deflation that would be a national disaster. We should be wise enough to apply the good judgment needed to cope with the problem.

The root cause of inflation is deficit spending by the federal government at a level which causes the supply of money and credit to expand faster than the supply of goods and services.

This is not to say that all price increases are the result of increases in the money supply -- or that price rises are caused by other factors do not complicate our basic problem.

Once an inflationary spiral is underway it is, of course, true that all price increases -- whatever their cause -- add impetus to the spiral by creating pressures for further increases in the money supply.

It is, nonetheless, true first, that a continuing inflation requires a continuing expansion of the money supply and, second, that large federal deficits make it impossible, as a practical matter, to keep the growth of the money supply in line with the growth of our economy.

The first thing that must be done is to convince the people of this country that their government is going to protect the value of the dollar from further erosion by bringing inflation under control.

This cannot be done by blaming inflation on greedy businessmen, powerful labor unions, monopoly power, bad weather, increased exports, higher oil prices, or higher food prices.

Rising prices are a symptom, and not the cause, of inflation. Price and wage controls are undesirable because they are ineffective, because they distort and disrupt economic relationships and, above all, because they divert attention from the things that must be done to control inflation.

The federal government must move quickly and effectively to put its financial house in order. This will require a high degree of cooperation between the Administration and the Congress.

Fortunately, we now have a vastly improved procedure for implementing this type of cooperation as a result of the recent passage of the Congressional Budget and Impoundment Control Act of 1974.

We must stop telling the people that most government expenditures are uncontrollable and that it really isn't practical to make any real cuts in the federal budget.

The budget can and must be cut. Every item in the budget is based on a legislative authorization, and the power of the Congress to pass legislation authorizing appropriations is balanced by an equal power to pass new legislation reducing the level of the authorized appropriations.

Of course, this will take time, but it can be done. In our opinion, the public at large is both deeply disturbed by double-digit inflation and ready to support courageous action to restore economic stability.

We in agriculture have been -- and are -- prepared to take our share of cuts in federal spending as a part of an across-the-board effort to eliminate deficit spending.

The federal government has been making large payments to supplement farm income. Farm Bureau has not sought these income payments and has supported legislative action to provide for their phase-out.

Currently, income payments have largely been suspended, with the notable exception of a new type of disaster payment.

The Congress should take advantage of this opportunity to terminate the legal authority for income payments to farmers and to replace the disaster payments with an expanded, actuarially sound crop insurance program.

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This is only one example of the actions that can be taken to reduce federal spending. There are many others throughout the budget.

What is needed is the will to face up to the need to reduce federal spending enough to bring inflationary pressures under control. Once it is clear that government spending is going to be cut enough to curb these pressures, the economy will begin to heal itself.

Inflationary expectations will disappear. Business and consumers will no longer think it necessary to buy ahead in anticipation of rising prices.

Labor unions should, and must, be more willing to accept wage settlements related to productivity.

Because the existing supply of money will more adequately meet the needs of the economy, pressures for excessive increases in the money supply will moderate and interest rates will fall.

This will facilitate the new investment that is needed to increase productivity throughout the economy.

SECRETARY BUTZ: Thank you, Bill Kuhfuss, Presdent of the American Farm Bureau Federation.

Next, to summarize the consequences of inflation on food and agriculture and what can be done in the private sector to mitigate that is Dean Larry Boger, Dean of Agriculture, Michigan State University.

Dean Boger.

MR. BOGER: Thank you, Mr. Secretary.

Bombs and dragons are among the cartoonists' favorite symbols of inflation. Big bombs and dragons would have to be used to portray the seriousness of inflation on food and farming. Every citizen is affected. No one can escape its force or porosity. Everyone -- I repeat, everyone -- is a part of the food system. We are all consumers, and whether the pocketbook is bombed or devoured by rising food prices makes little difference to a less than full stomach or a less than satisfied appetite.

But more than that, inflation can be a two-edged sword. For many, food and farming is a business, their livelihood, and inflation impacts them all--consumers, businessmen who labor and farm and businessmen who provide inputs or who manufacture, process or distribute food.

Here is but a small sample of inflation's effects on agriculture, on food and on farming as analyzed by 60 delegates at the Chicago conference.

First, the farmland is an attractive hedge against inflation for the nonfarm investor as well as the farmer, and together these demands force farmland prices up 25 percent last year. At current prices, many farmers could not afford to purchase the farm they own if they had to pay for it from earnings.

Higher land values will force farm prices to higher plateaus. Young farmers find it more difficult to get started. Estate tax laws become outmoded.

Secondly, farm operations are affected. With farm prices 13 percent lower and costs 14 percent higher than last year, there is a cost/price squeeze already severe in some sectors.

For many, the lofty earnings of 1973 have been washed out. Top-heavy production costs make the farmer's income especially vulnerable to whatever the cause.

To farmers, the natural hazards of drought, frost, flood disease, insects are ever present. Especially hard hit are the livestock, poultry and dairy procers, producers of certain fruits and vegetables. Small farmers and small-town businessmen are especially hard hit by inflation. They lack the volume to spread rising volumes or more costs to the customers. The demise of the small operator is hastened and the innovator is forced to retreat.

Farm prices and costs of food at the supermarket are related but cannot be equated. Food prices can continue to rise even if farm prices drop further.

Food processors and distributors like farmers are faced with rapid cost increases. Labor costs more. So does transportation, heat and packages. The cost of credit has risen dramatically. Depreciation rates on building and equipment are below levels necessary for replacement. It costs more to maintain inventories.

The adoption of new high-cost technology is delayed and what happens cost-wise in food marketing is important to consumers because $3.00 out of every $5.00 spent in a food store covers costs incurred beyond the farm gate.

For everyone in the food business, inflation has upset long-range planning. The volatility of farm prices down as well as up produces booms and busts. Relationships between cash and future markets are disrupted; output and productivity are reduced.

For consumers, rising food prices erose the financial security of the middle-class and drastically affects the diets and life-styles of the poor, the retired, and the widowed.

For some of these, there are no more holes for tightening left in their belts.

Because food is a necessity and its price so visible, the psychological impact of a rise in food prices is of greater significance than for many other products.

So much for the problems.

What about solutions? And specifically what can citizens and businessmen do on their own to help to turn things around?

Several things can be done. The delegates in Chicago agreed the tone must be set in the public sector by strong government commitment. Given the proper tone, here are some suggestions:

1. Increase productivity by improving the competitive economic climate and encouraging the adoption of new technology.

2. Reduce costs by improving container design, reducing the variety of products and the proliferation of new models and encouraging efficient practices from minimum tillage on the farm to automatic check-out in the grocery store.

3. Expand educational services to help the consumer get more nutrition per dollar, obtain better services and keep expectations in pace with

available resources and ability to produce.

4. Practice conservation in the use of fuel and fertilizer with higher allocations of both for food production.

5. Keep wage and salary increases in line with productivity gains.

6. Conserve capital and concentrate investments in areas that assure improve productivity.

Encourage the preparation of an inflationary impact statement for each new or expanded venture.

7. Re-examination of leases and contracts indexed to economic measures.

8. Adjust policies and practices in service institutions to reduce risks and improve proficiency.

To sum it up, America's capacity to produce and distribute food is one of its greatest assets.

In the world setting, food power is human power. Food power is economic power. Food power is political power. Let inflation destroy America's food power and much of America is destroyed.

SECRETARY BUTZ: Thank you very much, Dean Boger.

No discussion of food would be complete without a consumer point of view. For that, we have Mrs. Ellen Haas, President of the Maryland Citizens Consumer Council.

Mrs. Haas.

MS. HAAS: Thank you, Mr. Secretary.

My mission during that is allotted three minutes to summarize the consumer view. It might be interpreted as Mission Impossible. I don't think so.

The American economy belongs to the American people, not just to the power groups. However, the Chicago Conference included only four representatives of consumer organizations scattered among 65 or so conference delegates.

This limited voice is little more than tokenism. We may not have the size of labor or the money of business, but organized consumer groups have developed greatly over the past years. They include many people with expertise. Far too many of the consumer representatives recognized by other segments of Government were excluded from this conference.

It is an inexcusable distortion and a disservice to the country to have the Food and Agricultural Conference dominated by producers and corporate self-representatives.

Consumers, along with business and labor are part of the triad that determines market prices. Consumers must have an equal place at the table of decision-making. Otherwise, any efforts at reform or programs to fight inflation will fail.

The economic difficulties we have been facing both as consumers and as purchasers warrant a serious examination in a large systemic sense.

Today's inflation is a consequence of fundamental market imbalances between weak individual consumers and strong corporate producers. Consumers do not have the economic power to influence corporate decisions. The Food and Agriculture Summit Conference acknowledged but gave little reocgnition to the fact that this structural imbalance has led to the concentration of corporate economic power in the food industry and many other sectors as well.

Many delegates seemed unprepared or unwilling to face the fact that many of today's corporate decisions are not made in response to factors of competition or to the workings of supply and demand.

Many spokespersons at this Conference and at various pre-Summits have cited a long list of horribles that must be corrected before we can successfully solve the current inflation.

I fear undue emphasis on these defects in our economic system will merely be used in the excuse for a do-nothing policy relying solely on restrictive fiscal and monetary programs which failed three times in the 1950's and again following 1969.

Instead, the President should act against unrestrained economic power. Until such power is dissipated and those holding it are made more responsive to competitive market forces, Government must act to restrain it. We therefore must take two steps.

One, impose public restraints on the use of market power in the form of guideposts with the ultimate authority to delay or roll back prices. Two, we must improve competition in certain industries.

In the long run, it is unlikely that we can lower food prices, raise farm incomes and provide the nation with a steady supply of nutritious food unless we improve the structure of the food economy.

This means developing consumer power. No program to fight inflation and improve the economy can be effective unless it contains a national consumer policy, designed to bring consumer power to bear on economic decision-makers.

As the Joint Economic Committee has stated in its most recent report that is a part of everyone's packet this morning, it urges the systematic mobilization of consumers against the excessive prices.

I am quoting from the report: "Government should solicit the collaboration of responsible consumer groups and regard them as allies in wage-price policy."

The establishment of a national consumer policy incorporating the recommendations of Sylvia Porter earlier this morning can begin with the President. A good first step would be for him and leaders of Congress to meet with consumer representatives like the meetings held with Labor and business leaders to begin planning the development of such an important policy.

SECRETARY BUTZ: Thank you very much, Mrs. Helen Haas, President of the Maryland Citizens Consumer Council.

We now turn to the Members of the Congress selected by the leadership of the Congress to make presentations here. I don't know how the decision was made. This was all on the Senate Side, you people on the House side. Maybe it is because the Senate has a three-minute rule which I hope will be invoked here.

The first one of these is Senator Robert Dole, a distinguished member of the Senate Committee on Agriculture and Forestry and from the great Agricultural State of Kansas. Senator Dole.

SENATOR DOLE: Mr. President, Secretary Butz, other distinguished members of the panel, I might first say I join Mrs. Haas in hoping the President will meet soon with consumer groups. I think it is very important. Let me address myself to what I feel might be some of the views and some of the results of the Conference in Chicago.

The American farmers' capacity to produce food is this nation's greatest asset. I think everyone agrees on that.

Agriculture is America's number one industry, and unfortunately the prices consumers are paying for agricultural products are the number one most visible and most distressing symptoms of inflation.

It is an economic fundamental that you can't solve the problem by treating the symptom. Nor can you do a half-way job. We must stop the rise in the cost of food production if we are serious about stopping the rise in the cost of food products.

There are certain things we must do to beat inflation. And, there are other things we must not do. We must not make the wage and price controls mistake again.

And we must not set up government held or subsidized grain reserves. We know what this does to production incentives for farmers. Any reserve or surplus is a threat to farmers for those commodities would inhibit the orderly marketing that our farmers are now experiencing for the first time in 20 or 30 years.

We must not make the soybean mistake again by imposing export controls. If we try it across the board, it would drop farm prices here at home -- without doing a thing to bring farmers' costs down -- and if that weren't enough, it would accelerate the deterioration of our trade balance picture.

We must not let government continue to spend more than it can afford to spend. We have been talking about cutting federal spending for a long time. This year we took some action in the Senate, but not enough to satisfy me.

Agriculture is one area of our economy where productivity is no problem. As long as we provide our farmers the supplies they need, they will produce the food we need with ample left over for export demand.

And that brings me to a definite positive step government can take to stop inflation and that is to work harder to clean up the roadblock between farmers and with supplies farmers need. Top on the list of these needs is fertilizer without which we could see as much as a 20 percent drop in certain crops that depend on a ready supply.

Another positive approach to stopping inflation is to help develop export markets for our meat and poultry. There is good reason to believe that potential markets exist for beef and pork in other nations where prices for beef range from $10 to $25 per pound. Let's have our State and Commerce Departments look into this possibility which would add new incentives for production here at home. More production would mean better consumer prices.

So long as Congress continues to legislate in the dark, we are going to have run-away federal spending. We have programs on the books now which were passed into law a decade or so ago, and they will run us into bankruptcy if we don't get a handle on them. Many of these programs started off small, but they grow -- and they grow like Topsy -- out of anyone's control.

There is just no justification for federal spending on a given program to increase 40,000 percent in a dozen years and to have the Congress of the United States powerless to do anything about it.

I have proposed an inflationary impact law which would require that the new Congressional Budget Office review any and all proposed legislation before it is brought to the Floor and put a cost estimate on the bill that can tell Members not just what it will cost in the current fiscal year but what it is likely to cost five and ten years hence.

I know the people of Kansas don't go out and buy something without knowing how much it is going to cost or how long they will have to keep the payments up. I don't think the federal government should act any differently.

Like Americans generally, farmers are paying more for everything they buy. That includes everything from fuel to fertilizer, from pesticides to tractors, and yes, like everyone else, they are paying more for money in terms of higher interest rates. You cannot run a farm by the seat of your pants anymore. The average American farmer has an investment of a quarter of a million dollars in his operation. Like other businessmen, he has an overhead to worry about, often a payroll to meet, and a lot of bills to pay.

Inflation, compounded by serious shortages of the things he needs to do his job, is the farmer's biggest problem, but it isn't just his problem, but it is everybody's problem. Since it is a problem government did the most to create, it is a problem government must do the most to solve.

We hope this summit marks the beginning of that effort.

SECRETARY BUTZ: Thank you very much, Senator Robert Dole of Kansas. Senator Tower just told me why he had two Senators. The joint congressional leadership made the decision we had to have Republicans and Democrats.

Next is the Democratic member of the Senate, Senator "Dee" Huddleston from Kentucky, also a member of the Senate Agriculture Committee.

SENATOR HUDDLESTON: Thank you very much, Mr. Secretary. As I indicated in Chicago, I believe the current prospects in agriculture are grim and that there is no magic wand which can be waved over our grain fields to eliminate drought and frost loss and produce a Cinderella ending to the crop-production story.

I believe if Secretary Butz put his traveling circus on the road and included a rainmaker, it is not likely that we could very substantially affect the adverse weather that has brought our crop production down to such levels.

Furthermore, I believe there is little Government can do in the immediate future to lower food prices or provide massive relief efforts abroad. We know that our production of grain in this country is below estimates because of weather conditions, but this is a world-wide condition. World grain production is 25 million tons under last year. That is enough to feed 100 million hungry people.

World wheat production is 7 million tons under last year, 4 million tons under last year's consumption.

World feed grains, 17 million tons under last year. 23 million tons under consumption.

World rice production is 4.7 million tons under last year in spite of a record crop here in this country of over 11 million tons.

One axiom that I think can be stated from all of the attention that has been focused on the economy is that short supply of needed products exerts tremendous upward pressures on prices, and this has to be a major contributing factor to the inflationary spiral that we are in.

When you consider and you take into account the calculations of agricultural economists who say that the world grain consumption is growing by 1-4/10s million tons a year faster than world grain production, you can see what the long-run implications are to the production problems that we are having.

The farm food situation is a classic example of the price-cost squeeze. While the average American will spend about 17 cents out of every dollar on food, a figure which has remained fairly stable in recent years, he will be spending 15 to 17 percent more in 1974 than he spent in 1973. This does not mean that the American farmer is enjoying a boom because they are not.

The costs of production are up, for instance, fertilizer, farm machinery, feed, capital and farm production costs in 1973 increased by over $12 billion, about 25 percent over 1972 and were higher by $4 billion than the total cash receipts for farm marketings in 1972. During the January-June period of this year, prices paid by farmers for production items, interest, taxes and wage rates increased by a phenomenal 16 percent.

The farmer is in a somewhat unique position. He cannot, in order to pass along his increase costs, simply announce a price hike as for example General Motors has done, simply announce starting next year you will pay a certain amount for his product. Instead the farmer is mostly dependent upon what someone else wants to pay him for his crop even if he must incur losses as many farmers have recently done.

There are some things I think that can be approached that would provide perhaps some short-term relief and be helpful in the long-term. First of all, the activity of the consumer as it has been expressed. Restraint should be exercised by the housewife, and I recognize that a great deal of restraint is already being exercised involuntarily as more and more of our citizens find it impossible to stretch their paycheck to cover the needs for their family. But by careful shopping, those who have discretionary income can, when possible, substitute plentiful low-cost items for short high-priced items.

The Government must take some looks at some of the policies that affect production, because the solution to high food costs is better production. Greater security for the farmer so that he can recognize or have some assurances he will not be totally wiped out if he makes the investment in income and work for all-out production, more realistic price levels, loan insurance, should be addressed. A better allocation of income needs, fertilizers, machine parts, are all needed for all-out production. More attention to the ability to deliver these materials at the right time and to the right place.

More capital into production, with perhaps incentives to lending institutions that provide the kind of credit peculiar to farm operations. This might be in conjunction with the credit allocation programs that have already been suggested.

The Government needs to take an immediate study of the marketing, processing, packaging, delivery and retailing of food items to see if some of these steps can be improved and costs reduced that can be passed on to the consumer without impairing the income of the farmer.

Mr. Chairman, I would like to just say this: When the five first-term Senators including myself initiated the legislative action that suggested this Summit Conference, we did not presume at that time to offer solutions to our economic problems. We were almost in the position that Will Rogers was in when he announced to the nation that he had the solution to the German submarine problem -- just drain the Atlantic Ocean and when they asked him how he was going to do that, he said, "Don't bother me with details . I am an idea man."

Well, the Summit Conference idea was born, nourished through the various regional meetings held and brought to fruition by all of the various ideas that are being presented.

I would just like to express the very strong feeling that we have, that it is absolutely incumbent upon those in authority -- the Administration, the Congress, leaders of labor and industry, and the independent Federal agencies -- that a set of economic policies, a packaged plan of action evolve from this Conference that will bring the resources, the energies of this Government to bear against this number one problem, the economy of the United States.

SECRETARY BUTZ: Thank you very much, Senator Huddleston from Kentucky.

The time has expired. I know there are some questions but I think the best evidence we have of the fact that we need to do something about food prices is that you have just paid $10 for a lunch you are about to eat.

I turn it back to Chairman Seidman here.

MR. SEIDMAN: Thank you, Mr. Secretary. We will now adjourn until 2 o'clock.

(Adjourned at 12:30 p.m.)

AFTERNOON SESSION

2:00 p.m.

THE PRESIDENT: Let me thank all of you again for your participation this morning. Unfortunately, we ran longer than was scheduled or programmed. As a result, we will move the Federal panel to 8:30 tomorrow morning, Saturday morning, with the exception of Arthur Burns of the Federal Reserve Board, who cannot be here tomorrow but who is a member of the Federal panel.

Now, during the Noon hour it was decided that a bell would be rung at the end of three minutes for each speaker in order to keep the Conference on schedule, which of course will permit us more time for questions and answers which I think is a very important part of the overall summit meeting.

In addition, each of the sector reports has now been reduced in time from 45 minutes to 40 minutes in order to provide time at the end of the afternoon session to permit free discussion from the floor.

Mr. Seidman will be the individual ringing the bell. So, we count on him to be accurate and fair. The sequence of the panels for the afternoon session remains the same as on your original schedule. The Chair does exercise one prerogative. Since Dr. Burns was the subject of a comment or two this morning and since he won't be here tomorrow, even though he is a member of the Federal panel, I think he should be accorded his time or equal time.

So, Arthur, would you please exercise your rights at this time. Dr. Arthur Burns, Chairman of the Federal Reserve Board.

MR. BURNS: Thank you very much, Mr. President.

I am not going to take full advantage of the opportunity you are giving me. If I took equal time, you might have to listen to me and this fine audience might have to listen to me for a full hour or two.

But, I do want to take a few minutes and comment on the inflation problem and on the role of monetary policy.

I listened very carefully to every speaker this morning. I was encouraged by the fact that everyone showed full understanding of the gravity of the inflation problem that our nation is now facing. I learned one thing more, namely that the Federal Reserve will not necessarily win a popularity contest.

Now, the job of the Federal Reserve System is not to be popular. Our job is to see to it, to use all of our energy, all of the ability and knowledge that we can muster to help to protect the jobs of American workers and the integrity of their money.

Now, in doing our job we operate in an environment that is made by others, by the Congress, by trade unions, by business firms, by the general public. Now, there are facts of life that the Federal Reserve Board must take account of if it is to serve the public with good conscience, the Federal Reserve has to make some hard decisions if only because hard decisions are being avoided by others. I want to call your attention to some hard facts of life.

We are in the midst of an inflation which has been gathering force over the past decade and this inflation has now reached a stage where it is endangering our economic and political future. As a result of this inflation, first of all, our nation's capacity to produce has suffered a setback. Despite sluggish economic conditions for some months now, shortages of materials, components parts, and equipment remain acute in many of our essential industries.

Secondly, as a result of inflation, consumer purchasing power is being eroded. During the past year, the take-home pay of the typical worker has declined from four to five percent in what it will buy.

In the third place, as a result of the inflation, the real value of the savings deposits, pension reserves and life insurance policies of the American public has diminished.

Fourth, as a result of the inflation, corporate profits derived from domestic operations have eroded, a fact that is concealed by accounting techniques that were devised originally for inflation-free times.

Fifth, as a result of the inflation, financial markets have been experiencing strains and stresses. Interest rates have soared. Some financial and industrial firms have found it more difficult to refund maturing debt or to raise needed funds in the money and capital markets. The savings flow to thrift institutions has sharply diminished and stock prices have been badly depressed.

In short, as a result of the inflation, much of the planning that American business firms and households customarily do has been upset and the driving force of economic expansion has been blunted.

It should not be surprising, therefore, that the physical performance of the economy has stagnated in recent months, and that unemployment is now larger than it was last fall. We cannot realistically expect a resurgence of economic activity until confidence in our nation's economy is restored. The most important requirement for rebuilding confidence, I believe, is hard evidence that we are making progress in checking the disease of inflation.

Now, in view of the protracted character, the growing intensity of inflation, the Federal Reserve has been striving for some time to hold down the growth of money and credit.

Now, I received a good deal of advice this morning, all of which suggested that the monetary spigot should be opened up, let the money supply expand more rapidly so that interest rates could come down. If that advice were followed, the inflation would become much more intense and interest rates, as they always do, would go higher and higher and be a good deal above their present level.

Rapid monetary expansion in the present inflationary environment would add fuel to the fires of inflation and thus worsen our economic troubles.

Now we at the Federal Reserve have tried to apply the monetary breaks firmly enough to get results, but we have also been mindful of the need to allow the supply of money and credit to keep expanding moderately.

The overall supply of money and credit has continued to grow this year but at a slower pace than before.

However, the demand for money and credit has been much greater than the supply. As a result of the huge demand for borrowed funds, credit markets have become tight and interest rates have risen to an extraordinary high level.

These high interest rates have imposed a heavy burden on businesses and families across the nation. Home building in particular has been hard hit by the developments in the money market. Soaring interest rates, outflows of deposits from thrift institutions, and the consequent decline in availability of mortgage credit have greatly aggravated the condition of the homebuilding industry, which was already suffering from sharply rising construction costs, from erosion in the purchasing power of the consumer incomes, and from the overbuilding of the last two years.

It may now be, however, that tensions in financial markets are beginning to ease. With continued moderation in current demands for goods and services, shortages and imbalances in our factories and shops are diminishing.

The Federal Reserve in recent months has been successful, as I have already suggested, in limiting the growth of money and credit to reasonably appropriate dimensions.

We have, therefore, been able recently to take actions that have reduced somewhat the pressures exerted on the banking system. Short-term market interest rates have responded to this relaxation and have declined from their early July peaks.

Long-term market interest rates have stabilized, albeit at very high levels, and they can surely be expected to fall back once some progress is made in curbing inflation.

Mortgage interest rates and other institutionally determined rates traditionally lag behind market rates, and they, too, will respond to progress in curbing inflation.

The recent movements of interst rates are encouraging, but we cannot count on any very substantial reduction until borrowers and lenders in the market are convinced that the Federal Reserve is no longer pursuing a lonely struggle against inflation.

Monetary policy is much too blunt an instrument to be relied upon exclusively in what needs to be a national crusade to bring inflation under control.

It is of vital importance that fiscal policy actively join in the battle. Frugality in public expenditures and a budget that is tilted toward surpluses instead of deficits can make an enormous contribution to curbing inflation and to lowering interest rates.

A policy of monitoring wages and prices but relying on voluntary cooperation can also play a modest, but useful, role in curbing inflationary excesses.

I am hopeful that the newly established Council on Wage and Price Stability will help to point the way to anti-inflationary conduct on the part of business, labor, and the consuming public alike.

Programs that seek to enlarge our nation's productive capacity and to intensify the forces of competition can be very helpful in combating inflation over a longer period of time.

In this connection let me stress the need to devise effective measures for improving the productivity of our labor force which has been lagging badly of late.

Greater output potential and increased productivity per worker are essential to achieving a better life for all of our people.

In closing I want to assert once again and to assure you that the Federal Reserve will persevere in pursuing monetary policies that are necessary to curb our rampant inflation.

We also intend to keep the supply of money and credit moving upward so that the needs of the economy may be met.

Further, we fully recognize our responsibilities as the nation's lender of last resort and we will not hesitate to come to the assistance of financial institutions that are caught in a temporary liquidity squeeze.

I can assure you all that there will be no credit crunch in our country.

Thank you very much, Mr. President.

THE PRESIDENT: Thank you very, very much, Dr. Arthur Burns. We are all very grateful for your dedication, your knowledge, and we know, I am sure, whether we agree in every detail or not that what you do is in your opinion in the best interest of the country.

Now, to get into the schedule as originally contemplated, I call on Secretary of HUD, Mr. James T. Lynn to handle his panel's responsibilities.

Secretary Lynn.

SECRETARY LYNN: Thank you, sir.

Mr. President, distinguished leaders of the Congress and conference members: The housing and construction conference on inflation was held in Atlanta on September 12. Senators Talmadge, Brooke, Brock and Biden, and Congressman Barrett, Widnall, Conable and Ashley and I heard many recommendations.

Participating in the conference were delegates from the homebuilding and remodeling industries as well as the material suppliers for those industries; representatives of the non-residential construction industries, the financial agencies and money suppliers for both of these segments of our economy; organized labor, realtors and real estate brokers, and people representing those with special housing needs, rural America, the poor, the elderly, and the minority.

We also had representatives of the other sectors including academicians and environmentalists.

The speakers here today will highlight recommendations that came out of our conference. I stress "highlight".

I think our people recognize the desirability of having time for questions. Notwithstanding very short times that have been allowed for their formal presentations, I don't think we are going to need that bell, Bill.

First, Senator Brooke, who was at the conference, has a few remarks.

Senator Brooke.

SENATOR BROOKE: I thank you, Mr. Chairman.

Mr. President, my colleagues, ladies and gentlemen:

Mr. President, on September 12 representatives of the housing sector of the economy, consumers, workers, builders and bankers met in Atlanta to discuss inflation and its effect on housing and construction in America.

As one of the Congressional delegates to that meeting, I was impressed with the balanced and public-spirited views expressed by representatives of the housing sector, which we must recognize has been most severely impacted by the monetary policies adopted to fight inflation.

We should make no mistake about it: Our nation's housing industry is in a recession and heading for a depression.

In August, housing starts dropped to an annual rate of 1.1 million units, down from two million last year, and 2.4 million in 1972.

In the same month almost half a million construction workers were jobless, causing unemployment in the construction trades to reach a staggering 11.1 percent.

Mortgage interest rates now stand at over 10 percent. In most areas, mortgage money is not available at any price. 120,000 new housing units stand vacant because potential buyers cannot obtain mortgage financing.

In this crisis situation I do not believe that housing consumers and representatives of the housing and construction industries can be accused of special pleading if they tell you, Mr. President, that housing needs help and needs it now.

Every industry should bear its fair share of the fight against inflation, but no single industry should be asked to bear a disproportionate share of that burden.

Mr. President, I shall not attempt to summarize the results of our pre-summit conference in Atlanta, but I would like to take this opportunity to suggest two actions, two specific ations, which I believe we at the federal level can and should take to avert a real depression in the housing industry.

First, I believe that we should move immediately to implement the Housing and Community Development Act of 1974, which you signed into law in August.

That bill contains authority for the construction of over 500,000 units of housing for low- and moderate-income families -- that is 20 percent of our population -- the promise of a decent home at a price they can afford to pay remains a promise not a reality.

By stimulating low-income housing production, we will generate new business for the construction trades, but more importantly, we will keep the promise made in 1949 in the Housing Act, of a decent home for every American family.

Mr. President, I believe you should set a goal to be attained by April 1, 1975 of 50,000 federally assisted housing starts per month.

The Secretary of HUD should make a monthly report on the progress made toward the achievement of that goal.

Secondly, I believe that the federal government must intervene on a temporary basis to provide mortgage money to the average American family.

Senator Alan Cranston of California and I have introduced legislation which would use the borrowing power of the federal government to provide $10 billion in mortgage credit to the home buyer. $5 billion would be used for existing housing and $5 billion for new construction.

This bill could facilitate the purchase of up to 350,000 homes and provide close to 300,000 jobs in the construction trade.

The Senate Banking Committee voted on Tuesday to report this bill and I urge you to consider it as an emergency measure to aid the credit-short home mortgage market.

In conclusion, I believe objective analysis shows that our housing problem is especially critical. However, this problem is soluble with vision, with your effective leadership, and with the cooperation of the public and private sectors as demonstrated throughout this series of conferences.

We have laid a good foundation, Mr. President. Now we should begin to build. I, for one, am optimistic about the meetings we have had around the country and about this Conference that you have held here today to bring these people together.

To educate the American people on the severity of our problem in and of itself is a good start and I trust that we shall continue.

I thank you.

SECRETARY LYNN: Thank you, Senator Brock.

Now I believe Senator Proxmire has some remarks.

SENATOR PROXMIRE: Mr.President and members of the Panel. I am going to reiterate part of what Ed Brock has said because I think it is important to emphasize -- housing is in a serious all-out 17-karat depression. Home builders are going bankrupt and are in a desperate plight. Unemployment in construction is over 11 percent. Housing starts are down a million units from last year, public-assisted housing has been frozen, I believe wrongly, during a long 20-month period. There is an urgent national need for more housing. 70 percent of American families cannot afford to buy a new home.

There are several things we can do. The question and the trick, of course, and this Conference I think addresses it properly, is how we can do it while at the same time helping to fight inflation?

First, in order to fight inflation and help housing we should reduce the overall Federal budget by reducing the President's request by $10 billion. This would reduce pressure on the money market, tend to lower interest rates and stimulate housing. This should be done even though most of us agree this is no-demand inflation with too much money chasing too few goods.

Particularly interest rates are so troublesome for housing. Secondly, to help housing and fight inflation we should reorder our spending priorities and while cutting back on highly inflationary spending, we should allocate additional funds to housing.

This is not a contradictory suggestion. Putting idle construction workers to work to build needed housing is not inflationary. In fact, it would tend to reduce rents and housing costs by providing a greater supply of housing.

Third, we should make abundance of mortgage credit available to housing through the Cranston-Brooke Bill that Senator Brooke has just referred to.

Fourth, we should push the assisted-housing programs. Since the poor and middle-income groups remain desperate for housing, and even lowering interest rates won't help most of them to get housing.

Finally, we already allocate credit by limiting and directing lending by savings and loan institutions into home building but it is not working, it is not enough. We should consider requiring all financial institutions to make a certain proportion of their loans available to housing and mortgages.

These proposals I believe are one way to meet the condition of stagflation-inflation and recession at the same time. They would both fight inflation while putting idle men to work on idle resources to produce one of America's vital needs, housing.

Thank you, Mr. President. Thank you Mr. Chairman.

SECRETARY LYNN: Thank you. From the delegates to our Conference I would first like to introduce Mr. Lewis Cenker, President of the National Association of Home Builders. He and the next speaker will present the views and recommendations of the home building and remodeling industries and the lumber and building materials suppliers.

MR. CENKER: Thank you, Mr. President and distinguished members of the Panel.

In Atlanta 11 housing industry associations submitted a joint statement to the Conference saying the industry is fighting for survival. Housing starts were one-half below a year ago. Unemployment in the building trades is twice the national average. More than 500,000 workers are jobless and the numbers are increasing. Interest rates are nearly double a year ago. Moreover, money is almost nonexistent. More than 60 percent of American families cannot now afford to purchase a home.

Today our fearsome forecast bears repeating. The continuing contraction is becoming a collapse. Workers are being laid-off in lumber, plywood, plumbing, furniture and other manufacturing plants to join jobless building craftsmen. Continuation of these conditions can lead the entire economy into uncontrollable recession.

Recognizing this, other speakers have correctly called for remedial action. We insist that mortgage funds on more reasonable trems for families are needed quickly to raise production to annual levels of 1,800,000 units. Jobs in the private sector are anti-inflationary. That level would not meet the needs of the nation but we can move forward as the fight against inflation is being won.

To obtain these funds we should sedate the restless savings seeking higher and higher returns. Congress must enact a tax exemption on interest earned by savers. Then there will be genuine and substantial improvement in the savings flow into thrift institutions. At the same time or sooner, Congress and the Administration must act to put GNMA immediately into the secondary market purchase of conventional mortgages, using special-assistance funds already available but which serve less than 15 percent of mortgage activity.

85-1/3 percent of the financing of new homes today is in the conventional sector. Obviously to be of effective use such conventional mortgages should be purchased at a limit high enough to serve families seeking homes now in inventory.

Additionally, the growing liquidity crisis in construction and inventory lending affects nearly $40 billion in loans in high floating rates. Matured or coming due these pose a problem for the commercial banking system. It cannot afford all of the real estate it is about to own.

The Federal Reserve Board and other regulatory agencies must find a way to effect an orderly work-out process in this area.

In conclusion, we wish to declare before this distinguished group that the housing industry is ready to bear its share of the burden. It is now overburdened. If continued, this situation can lead only to disaster for housing producers and users alike.

Thank you.

SECRETARY LYNN: I would like to call on Mr. Colvin, President of the National Forest Products Association.

MR. COLVIN: Mr. President and Members of Congress, nobody disagrees that inflation is domestic enemy Number 1. Yet, is it really the number one enemy of an American who is out of a job? With no money you can't buy anything, no matter what it costs. Unemployment is at least domestic enemy Number 2.

Home building and its allied industries like lumber and plywood are in the grip of a depression. A half million are already unemployed in construction. As of Tuesday, we had 33 plywood plants shut down. Mill prices have dropped 41 percent from last year. This is a crisis headed for catastrophe.

The basic cause is the unavailability and punishing cost of mortgage money. A tight money policy is dangerous when in the name of fighting inflation, the act you are doing helps feed inflation.

We must not continue to turn home building on and off like a spigot. When plants shut down, skilled workers are lost, often forever. The capacity to produce may not be there when housing does boom again. Then shortages will drive up prices and angry home builders will denounce us again. Ultimately the consumer will pay in higher prices and, Mr. President, that is inflation.

The orderly process of building houses is not inflationary. Not building an adequate number of houses is as inflationary as a crop failure. We fully support the proposal just put forth by Mr. Singer and more fully detailed in the National Forest Products Association statement and the joint statement in Atlanta.

We need action now, today, and we hope, Mr. President, that you and the Congress will provide that action.

Thank you so much for permitting me to be here.

SECRETARY LYNN: Now, to present the views and recommendations of the Financial panels which dealt with both the home building and non-residential construction industries, I would like to call on Mr. Walter Williams, President of the Mortgage Bankers Association of America.

Seated with Mr. Williams are Mr. George Preston, President of the U.S. League of Savings Associations and Mr. George Whyel, President-elect of the American Bankers Association.

MR. WILLIAMS: Mr. President and distinguished panelists, as Secretary Lynn said, this draft was drafted by Mr. Preston and Mr. Whyel and myself, being a report of the Atlanta meeting as far as our three organizations were concerned on housing finance.

The route causes of our national housing problem are, one, inflation, and two, the rigidity in our current institutional arrangements for financing houses. We have summarized the consensus of proposals made in Atlanta in the following eight points.

Number one, immediate steps for fiscal restraint were strongly supported. Federal spending must be limited to the $300 billion level. To achieve fiscal balance an increase in taxes may be necessary.

Number two, we encourage the continuation of restrictive balanced monetary and credit policies so long as necessary despite their unfavorable impact on the housing and thrift industries.

Number three, State usury statutes that preclude lending to home building at existing interest rates are causing serious disruptions in an increasing number of States. Federal exemption for FHA and VA mortgages from State statutes are needed now.

Number four, our economy is capital short and capital can be created by increased savings. A tax exclusion on the first portion in interest earned on savings accounts would help correct this fundamental weakness. A $1000 exclusion for example would provide the savings which would generate 408,000 new homes, provide 850,000 jobs in the construction and supply areas, boost GNP $48.5 billion and increase Treasury revenues by a net $1 billion.

Tax incentives to save more and spend less will make a significant contribution to breaking the back of inflation and hault spiraling interest rates.

Number five, the amount of deposit insurance on savings should be increased from $20,000 to $50,000.

Number six, FHA should be adequately staffed and funded and made an independent federal agency.

Number seven, efforts to develop a variable rate mortgage instrument equitable to both lender and borrower should be supported.

Number eight, an optional mortgage tax credit for residential lenders would increase competition.

and improve the flow of funds for housing.

Finally, Mr. President, we cannot afford to delay in providing immediate and dramatic help to home finance and housing. Our dedication throughout the years to home ownership has been an important source of strength to our nation. We must also avoid the substantial risks of accelerated financial failure in certain segments of the building industry. Therefore, we would urge you and your advisors to act immediately to restore the health of the housing sector and construction industry.

Thank you.

SECRETARY LYNN: I would next like to call on Mr. Joseph Doherty, President of the National Association of Realtors.

MR. DOHERTY: Thank you, Mr. Secretary.

Mr. President, distinguished Members of the Congress and of the Executive Branch and participants in the Congress here, during the pre-summit meeting in Atlanta, the representatives from the Office of Management and Budget projected on the screen a chart which showed that the Federal budget has been in deficit for 14 of the last 15 years. We believe that the first place to attack this severe problem of inflation is to reduce federal spending sharply with an across the board cut, allowing due consideration for the need for the Administration to apply discretionary judgment in the cases of extreme hardship.

We realize that this proposal runs counter to the expressed judgments of some of our leading economists but we believe the time has come to give the balanced budget a real test.

I am sure that you will agree that one year out of 15 is not a real test.

We realize this is a painful remedy but we cannot reduce inflation without experiencing pain. We believe that a reduction in Federal spending should be accomplished by a complete easing of the tight monetary policy that has forced housing to bear a share of the burden of inflation.

We will look to you, Mr. President, to use your influence to urge the Federal Reserve Board to ease monetary policy. We believe that these two actions will be followed by a reduction in interest rates and a return of deposits to the thrift institutions which are our primary sources of mortgage funding for real estate.

Finally, Mr. President and panelists, whatever solutions are applied to the relief of the housing industry, I urge that you recognize the need for applying substantial relief to the existing housing market. There is a direct relationship between the sale of existing homes and the purchase of new homes. It is not generally understood that two and a half to three times as many existing homes are sold and in this country, for every new home that is sold, and millions of Americans have been unable to sell their homes or to buy homes in this depressed housing market.

In 1973, HUD recommended that the existing housing stock be used to the fullest extent by government and that existing homes should not be discarded -- it would encourage severe damage to the housing economy.

Thank you very much.

SECRETARY LYNN: Thank you, Mr. Doherty.

Our next speaker, Mr. President, will be Mr. Saul Horowitz, President of the Associated General Contractors. Mr. Horowitz will present the views of the non-residential construction industries.

Seated with Mr. Horowitz is Mr. Archibold Rogers, President of the American Institute of Architects.

MR. HOROWITZ: Thank you, Mr. Secretary, and I hope you will save me from a three-minute rule and four-minute segment.

Mr. President and distinguished members of the Congress and fellow delegates: The $80 million non-residential construction industry has more than its share of problems, but at the Atlanta pre-Summit, sixteen associations asked that you open your mind and not your pocketbook. Today we renew that request.

We, like the rest of the nation, view inflation as the principal threat to our way of life and we urge you to employ all available fiscal and monetary tools to dampen its effects. What we ask is that you distribute the burden equitably over the entire country and require sacrifices from all who can make them.

We urge an on-going public review of national priorities to accomplish this. If our standard of living must be temporarily reduced, so be it, but let us get on with the job.

There are some specific ways to help our industry and its four million employees -- ways that do not spell out handouts. The construction industry has no single home in our government. We recommend the creation of an Office of Construction in the Department of Commerce. We need a controlling mechanism which will assure a steady flow of dollars as well as help provide the stastistical data, research, construction materials and trained manpower including a full complement of minority journeymen and contractors, to do the job of readying America for the 21st Century.

Most of the panel participants are opposed to wage and price controls but we welcome the monitoring aspect of the Council on Wage and Price Stability. All we ask additionally is a separate construction panel on the council to concern itself and be able to deal with our collective bargaining agreements and pricing structure.

In that connection, labor relations in our industry shows signs of becoming more orderly as we turn more and more to wider area bargaining. But every American will support our view that there must be a direct linkage between wages and productivity.

Government laws and regulations add an inordinant cost to our final product. In spite of protestations to the contrary, the antiquated Davis-Bacon Act frequently forces the taxpayer to pay more than he should whenever the Federal Government buys construction.

Although a few on our panel disagree, notably the mechanical and electrical subcontractor associations, most of us are convinced that it must be suspended and then repealed.

Safety in our industry is a way of life but it is ridiculous to apply manufacturing standards to the construction site. We urge a separate set of realistic on-site construction standards that fit our work and that do not aim so high a standard as to override long-established local design and building codes.

We plead that you publicize the cost when environmental militants and tedious government review procedures unnecessarily delay needed projects without causing a material change in their design.

The logarithmic increase in the cost of the Alaska Pipeline is a well known case in point.

Standardized design of nuclear power plants is a must if we are to achieve "project independence" and remain solvent.

We encourage the use of tax incentives to put the American exporter of design services and construction on a par with his foreign competitors.

We turn to our suppliers and plead with them to quote firm prices to us so that we in turn can continue to offer firm non-escalating bids to you.

Additionally, we ask you to support our efforts to speed the flow of payments on federal, state and local projects and reduce the inflationary borrowings to which contractors must submit in order to finance those who fail to pay them on time.

To keep up with America's fiscal needs will require thoughtful planning for land use and growth to the end of creating a more efficient settlement pattern, but regulation for regulation's sake is a luxury which we can no longer afford.

Mr. President, I close by reading pertinent portions of a letter sent to you this week by the $60 billion annual volume trade association which I am privileged to serve as president.

These views are joined by many of the tractor associations for whom I speak today.

I quote: "Corrective action will require sacrifice by all and we are prepared to accept even more than our fair share. As evidence of our commitment, we propose a substantial reduction of all new federally financed or subsidized non-residential construction. Construction employers will work harder, longer and for less, but we cannot do it alone. We are counting on your vigorous leadership, Mr. President, to obtain similar commitments from all other segments of the economy."

Thank you.

SECRETARY LYNN: Thank you, Mr. Horowitz.

Our next speaker, Mr. President, is Mr. Carl Holman, President of the National Urban Coalition.

Mr. Holman will reflect the views and recommendations of those people with special housing needs, that is, those who live in our rural areas, the poor, aging and hadicapped, as well as the minorities.

MR. HOLMAN: Thank you, Mr. Secretary.

Mr. President and Members of Congress and Conference members: The special housing needs panel is in strong agreement with you, Mr. President, that when it comes to bearing the brunt of inflation, the poor have already suffered enough.

Forced to make cruel and sometimes impossible choices between food, fuel, health care and shelter for their families, understanding little of the interplay of international economic forces, many of those we represent frankly fear that beyond inflation there looms recession.

For too many of them that is not a prospect, that is reality.

Unless inflation is addressed in the context both of the present crisis and of the pervasive long standing problems of the poor, the minorities, the elderly and the unprotected working class, we are likely to find ourselves, as we too often have in the housing field, attempting to solve one problem while aggravating others.

Our group saw housing as a critically ailing sector of the economy with little prospect of improvement unless the combined government and private action breaks the cycle of scarce and excessively high credit, growing industry-wide unemployment, stagnation and business failures.

Since we represent a very large number of those who suffer painful micro-economic pressures, our delegates have less enthusiasm than others about such efforts as deeply cutting the fiscal year '75 budget.

Some doubted really significant cuts could be made, and others were uncertain whether the cuts would get at the root of the problem.

Most agreed that cuts should properly come in a record peacetime defense budget rather than in human needs expenditures.

All in all, the feeling appeared to be that if we really mean that everybody's sacred cows are to be put on short rations, the cows whose ribs are already showing deserve the bigger helping.

A smaller number wanted revenues increased so that crucial domestic programs could be maintained, and to do this they suggested raising taxes on those able to afford them, closing loopholes and being prepared to move from jawboning to guidelines, to strengthen controls, if inflation proves unresponsive to other measures.

There was agreement on the importance of restructuring the housing industry to better meet the national need for new and used housing especially for the poor minorities and low-income and moderate-income groups and the elderly.

Some urged long-term credit control as well as measures for increasing productivity in the housing market and reducing costs.

The group agreed on the following: immediate implementation and full funding of the provisions of the Housing and Community Development Act of 1974, including expenditures of all of the available funds for Sections 235, 236, 202, Section 8 and conventional public housing programs; immediate funding and use of the special set-aside authority for public housing for Indians, provision of low direct interest loans for construction and market funds from the cities, states and the federal government, as well as tax credits to financial institutions that invest in low- and moderate-income housing.

Tying the job-creating public service employment program wherever possible to providing new and rehabilitated housing is next, and finally many agreed that with food and other living costs rising in some areas 183 percent faster than welfare and retirement benefits, this may be the very time to begin to undertake serious realistic and equitable reshaping of our demeaning welfare system and of our state, local and federal tax structures.

SECRETARY LYNN: Thank you, Mr. Holman. Now, Mr. President, on the labor side, I would like to call on Mr. Robert Georgine, President of the AFL-CIO Building and Construction Trades Department. Mr. Georgine.

MR. GEORGINE: Thank you, Mr. Secretary.

Mr. President and distinguished members of Congress, the construction industry is being brought to its knees. Housing has collapsed. Utilities have been compelled to drastically cut back on vitally needed expansion programs. Commercial construction is dropping off dramatically because of a shortage of money, high interest rates and stagnation of the economy.

The August figures show that unemployment in the construction industry totalled 480,000, an overall rate of 11.1 percent nation-wide. Construction employment rates nation-wide could reach 15 to 20 percent in the next six months.

Today in some areas of the country, construction unemployment is now reaching 50 percent. The purchasing power of the wage-earners has declined about 5.3 percent over the past year and 7 percent over the past two years.

The main troubles in housing can been seen in the record of the last twenty-five years. As reported by the National Association of Home Builders, on-site labor costs have been reduced by more than 50 percent while the cost of land and the cost of borrowing money has increased by more than 100 percent as a share of the purchase price.

OMB is planning to further reduce federal expenditures for construction in the nature of $4 to $5 billion as part of its game plan to fight inflation.

It seems to me that confronted with a rising tide of unemployment which threatens to engulf the construction industry, we cannot accept the Administration's premise that new programs for support for increased appropriations cannot be adopted.

We cannot leave solutions for curing rising unemployment to the proposal for creating public service low-paid jobs.

First, we call upon the Administration to release monies already appropriated by Congress or held in trust funds that the Administration has impounded in the first place. Highway, Environmental Protection Agency, airport monies are, if released, sufficient to alleviate much of the unemployment in the construction industry.

Second, we call upon the Federal Reserve Board to take necessary action to reduce interest rates so that states, counties, municipalities, utilities and so on, can float bonds at non-exorbitant rates to raise monies for needed capital expenditures and improvements.

This action alone would generate tens of millions of dollars of non-Federal construction without any expenditure of Federal funds.

Third, steps should be taken in the housing field as outlined in our proposal to Secretary Lynn.

Fourth, Project Independence should be pursued on a crash basis.

Fifth, we need a rational structured system so that due process procedure can be developed which would see to it that environmental and planning requirements were given full consideration while at the same time according due regard to the necessity for reaching for a final decision without undue delay.

Currently, tens of millions of dollars of potential construction, both public and private, are either stymied or halted by environmental litigation with no possibility for early resolution.

The classic example is the Alaskan pipeline which, but for the passage of Federal law mandating immediate construction, would still be in litigation today with no possibility for legal resolution in a decade. This situation needs to be remedied by the Congress.

We cannot continue to invoke the same old discredited nostrums of balancing the budget, curbing banks on the money supply, increasing interest rates and halting necessary construction programs.

I strongly urge that in the efforts to balance the budget, we not include cutbacks in public construction which would, I think, lead to disastrous consequences. Thank you very much.

SECRETARY LYNN: Thank you, Mr. Georgine.

Our next and final speaker, Mr. President, representing the environmental viewpoint, is Mr. Louis Clapper, Conservation Director of the National Wildlife Federation.

MR. CLAPPER: Thank you, Mr. Secretary.

Mr. President and members of Congress and ladies and gentlemen: With some validity, concern was expressed in the Conference about construction delays resulting from environmental regulations and also debated was the relationship of sound multiple uses of sustained forest practices to the production of building materials.

However, my primary interest here today is to lay to rest the allegations of those who attribute inflation to the economic impact of environmental investments.

We agree entirely with the Council on Environmental Quality and Environmental Protection Agency in their assessments that expenditures for air and water pollution control programs account for at most one-half of one percent of the current rate of inflation. Further expenditures in these areas in 1973 amounted to only one percent of our gross national product.

We seriously question that a cutback of $5 billion in the Federal budget will have a material effect upon curing inflation. However we believe that any delays or cutbacks in grants for water pollution control or in suspensions of air quality standards would be short-sighted, short-term approaches which do not recognize the material benefits of these programs in improved public health, in prevention of damage to resources and other direct contributions to a sound economy.

Energy is becoming increasingly expensive. To help combat this serious problem of inflation, we urge that the Federal Government adopt a sound and reasonable national energy policy that will lessen demands for energy.

Such a policy must include provisions for energy conservation, for massive research into abundant and clean sources of energy and realistic planning which matches up projected supplies against projected demands, developing only those non-renewable resources which are needed.

These measures will help us more nearly achieve self-sufficiency in energy and cushion inflation.

Surveys show that the public still is interested in conserving a clean environment, despite the energy situation and despite inflation. We hope, Mr. President, and trust that our policymakers at all levels will be responsive to these public viewpoints. Thank you.

SECRETARY LYNN: Thank you, Mr. Clapper. I believe the Panel is ready for taking some questions.

THE PRESIDENT: Thank you very much, Secretary Lynn, and those associated with you speaking for the Housing and Construction Panel.

In order to get as much participation from the audience or other members of the Panel, I will forego any questions. I would solicit at this point questions from the audience. Those who wish to ask a question, will you please step to the microphones on the floor of the Summit Meeting.

Gentlemen behind number 3.

MR. FUTRELL: I am william Futrell, Secretary of the Sierra Club. It has been exciting to hear three out of four Panels today stress energy conservation as a tool in the combat and campaign against inflation -- Dean Boger from agriculture, Mr. Meany from the labor sector and Mr. Clapper of the environmentalists.

Yet on Monday at the Project Independence hearings in Atlanta, we heard a senior official of the Federal Energy Administration say the blueprint would focus on consumer conservation and not industry conservation.

My question to those interested in energy-economy triangle is what is the roll of conservation measures in the campaign against the inflation? Will you press for industry energy conservation as well as consumer conservation?

THE PRESIDENT: Mr. Secretary, would you respond to that, please.

SECRETARY SIMON: Mr. President, energy conservation is probably one of the most important things that we can do on many fronts -- the inflationary front as well. We all know what the effect of high oil prices has done to exacerbate our inflation problem in this country. Anything we can do to cut down which we most certainly can, which I said so often -- 6 percent of world's population using 35 percent of the world's energy there is a lot of waste in that consumption.

I did not hear the comment that the focus of our conservation measures would be toward the consumer but I do take exception with that because industry most certainly is going to have to bear the proportional burden. By proportional I would suggest probably a little bit more than the consumer because they use a lot more than the consumer so this has to be a balanced attack, and an attack that is going to reduce our dependence on foreign supplies to the extent that we rely on them today.

This is going to help our inflation problem, our balance of payments and we can all do a lot better in this country by serving in this area.

MR. FUTRELL: Thank you, Mr. Secretary. Environmental and consumer groups want to work with the Administration in combating inflation without sacrificing social and environmental goals.

THE PRESIDENT: The lady at number 4.

MS. DOLBAIRE: I am Cushing Dolbaire of the Rural Housing Alliance. One welcome theme beginning with your opening remarks this morning is we must deal with the problems of poor people who have borne the brunt of inflation. Yet, there are no representatives of poor people's organizations in the room today and only about half-a-dozen of us at the meeting in Atlanta on housing are concerned with the problems of low-income families, conservatively estimated at 13 million households. I really have two questions addressed to housing and to the other subjects we are considering today.

First, how can poor people and poor people's organizations be effectively included in the continuing process of battling inflation? Secondly, what process or mechinisms can be established to monitor the impact of inflation to correct inequities and to see solutions are working as intended?

THE PRESIDENT: Secretary Lynn has volunteered to answer those two questions.

SECRETARY LYNN: Thank you, Mr. President.

THE PRESIDENT: There is nothing like having a good Cabinet officer.

SECRETARY LYNN: Thank you, sir.

I think there is no disagreement at all about two things: One, that the poor do bear a totally disproportionate brunt of inflation and, number two, that as we fashion remedies for inflation that we bear point number one and do everything we can to achieve equity in our overall structures of our approach to battling inflation.

I think that we have a government where there are places where the poor are thought of constantly in the decision-making process as to what the impact will be on them and what we can do to help.

In the Department of Housing and Urban Development I heard today we are cranking up our Housing and Community Development Act of 1974 just as soon as possible and I would like to say here and now we are dedicated to doing that and I surely hope to beat, by a good deal, that January 1 deadline in getting it cranked up.

Number two, we are, as you know, in addition to the programs we have, as previously indicated earlier, we have 400,000-plus units of authorization for lower income families hard at work trying to see whether we can come up with even better ways.

The experiments across the country with direct cash assistance -- we don't know at this point whether they will be better or not, but we don't want to leave any stone unturned to see if there is a better way of getting poor people better housing.

On monitoring, I think the best monitoring tool there can be is an open door on the part of Cabinet members, agency members, and the rest so when people feel it is not working right they can come in and tell us when it isn't and also for us to go out and actively seek that advice.

THE PRESIDENT: The young lady at number three microphone.

MS. DeCROW: I am Karen DeCrow, President of the National Organization for Women.

The housing mini-conference on inflation lists 71 participants. One was a female. Although myth has it that a woman's place is in the home, this apparently is not the case at the economic summit.

I would like to know how this panel can possibly represent a full inquiry into the housing problem when it consists 100 percent of men and 53 percent of the persons living in housing are women.

SECRETARY LYNN: I would have to say that what you are really commenting on is the sad, sad past we have had in the rate at which we have given women equal opportunity and equal status in this country.

As we are trying to come up with a way to keeping the panels to manageable size, the one thing we decided to do was get as many organizations represented exactly in our fields, in the housing field.

It was with my own dismay that I found with the exception, I believe, of Miss Dolbaire, I did not have one of the organizations that was directly involved in housing that was headed by women.

I think we have to do a lot better on that. I think we are finally getting somewhere.

I was extremely pleased in Housing and Community Development Act we now have explicit provisions for discrimination against women, discrimination based on sex when it comes to housing and housing credit, but what you are certainly saying is that we still have a long way to go and I agree with you.

MS. DeCROW: I would like to offer the services of the National Organization for Women to help both the federal government and all these organizations with their affirmative action.

SECRETARY LYNN: We will meet soon.

THE PRESIDENT: The last question comes from a former colleague of mine, Congressman Brock Adams of the State of Washington.

CONGRESSMAN ADAMS: Thank you, Mr. President.

My question is directed to Dr. Burns and it deals with the specific problem of lowering the interest rates through the use of variable reserves of the Federal Reserve System.

Assuming those of us who are on the Congressional budget committees are successful in persuading our colleagues to balance the 1976 budget, which we are willing to try to say to you we are willing to do, will you and your colleagues on the Federal Reserve Board use your powers under Regulation Q to drop the overall interest rates paid on all instruments to reduce the cost of interest money paid?

Secondly, having done that, will you use your power to control the reserves required by the banks to channel credit to the housing industry so that they can receive money at a lower interest rate than the more speculative parts of our economy?

DR. BURNS: Mr. Adams and Mr. President, let me say, first of all, that if the ceiling on large certificates of deposits, if the ceiling interest rate were significantly lower at the present time, our banks would be unable to take care of the huge credit demands that are placed upon them.

We would run into a credit crunch very quickly and much of the business of this country would come to a halt.

This cannot be done safely at the present time.

Now, as to the idea of a variable reserve requirement, it has some merits and also presents many difficulties, one of which is that the Federal Reserve's ability to control the money supply would be severely limited.

I have heard some criticisms about our way of controlling the money supply. Our ability to carry out any policy would be injured if that were done.

I see the objective that you seek. As you probably know, the Federal Advisory Council about two weeks ago made a report to the Federal Reserve Board giving its views on guidelines to banks over the country that they can and should follow in allocating credit.

The Federal Reserve Board has endorsed these guidelines and the letter has gone out from my office to every member bank advising that those guidelines be taken seriously and perhaps -- I am not sure of the point -- a letter may have gone out to every non-member bank as well.

I will make sure to check on that when I get back to my office.

CONGRESSMAN ADAMS: Thank you, Dr. Burns.

If we are to reduce the federal expenditures and not go through the various programs the gentlemen here have suggested of allocating into them, we must have it from the private sector if we are to balance the budget through the Federal Reserve System.

I think it is essential to make the new budget process work.

Thank you, Mr. President.

SECRETARY LYNN: I should rectify a terrible oversight in my conversation with Ms. DeCrow.

We did have another participant by the name of Rose Wiley. Rose Wiley is the chairperson of the National Tenants Organization and gave a very effective presentation on behalf of that organization.

Mr. President.

THE PRESIDENT: Thank you very much, Secretary Lynn.

Your associates on the panel, the individuals who asked questions, this portion of the summit is concluded.

We will take a five-minute break. We will return with the natural resources and recreation presentation under Interior Secretary Morton.

(Brief recess)

THE PRESIDENT: Will everyone please take their seats?

If everyone will take their seats in 30 seconds, we will begin the panel on natural resources and recreation.

The summit will come to order and the proceedings will begin with the presentation by the Chairman of the panel on natural resources and recreation.

At this time it is my privilege and pleasure to call on the Secretary of the Interior, Rogers Morton.

SECRETARY MORTON: Thank you very much, Mr. President.

In the interest of time, we will not try to attempt in the beginning here to summarize the diverse opinions and recommendations that were developed in our pre-summit meeting in Dallas about ten days ago.

Mr. President, I have brought 19 of the 70 members of our delegation in Dallas to the table.

Of the 70 members, of course, are also here with us. Starting on my right, I will introduce them.

First, Mr. Rettie, Executive Director of the National Recreation and Park Association. Next to him is Senator Cliff Hansen who joined us in this conference. Next is Mr. E. D. Leisenring, President of Westmoreland Coal Company. Mr. John Partridge, Chairman of the Columbia Gas System, Inc., Wilmington, Delaware. Senator Haskell has not arrived. Professor Paul MacAvoy of MIT, Senator Gaylord Nelson of Wisconsin, who helped us chair the meeting in Dallas, Mr. Ian MacGregor, Chairman of AMAX, Inc.; Senator Fannin of Arizona is next to him, a ranking member of the Interior Committee of the Senate.

Starting over on my left is Mr. Alex Radin, General Manager of the American Public Power Association. Mr. Spencer Smith, Executive Director of the Citizens Committee on Natural Resources, Mr. George Weyerhaeuser, President of the Weyerhaeuser Company, Congressman John Anderson of Illinois, Dave True of True Oil Company of Casper, Wyoming, Congressman "Bizz" Johnson of California, Mrs. Carol Foreman, Executive Director of the Consumer Federation of America, Michael McCloskey, Executive Director of the Sierra Club, Congressman Roy Taylor of North Carolina, and Chuck Luce, Chairman of Consolidated Edison.

Mr. President, we divided our group in Dallas into five working groups and we are today going to have seven speakers from the panel. I would first like to call on Mr. Dave True of True Oil Company who will present the views of the oil and gas group.

MR. TRUE: Thank you, Mr. Secretary.

Mr. President, it is indeed quite an honor for a small drilling contractor and oil producer from Casper, Wyoming, to be among this distinguished group here today.

The groundwork for the present cost of energy was laid 20 years ago when the Federal Government started regulating the price of natural gas at the well-head and implemented by previous administrations, controlling of price of oil through manipulations of the oil import control program.

This industry was already in Phase III when other prices were frozen over three years ago. This caused energy market dislocations and resulted in the inefficient uses of energy.

Energy is indeed a unique industry. It is the very foundation of every country's economy, standard of living and the price of all other goods.

The only long-term protection against inflation of energy costs is the decontrol of gas and oil prices to allow the marketplace to allocate the most efficient use of all forms of energy.

It is possible in the process of course, that some who cannot afford the form of energy that they require may need some tax or some other help, but decontrol is the only way that the financing of future expansion to provide energy at reasonable cost can be assured.

Then we talk about the high cost of imported oil and the even higher cost of imported natural gas, I remind you, Mr. President, these prices were not and indeed could not have been charged during the period ending in about 1970 when these United States were self-sufficient in energy.

We have two suggestions to make in dealing with the OPEC, a cartel which the economists assure me has lasted longer than any other in history.

First, let's attempt to deal with individual members in the hopes of creating competition between them.

Two, let us provide a sizeable and a readily available storage of crude and crude oil products in this country for use in an emergency.

A personal observation: The day that my small company could find, produce and sell $5 oil passed very rapidly. Part of the increasing costs that we have experienced have been due to regulations by the EPA, OSHA, the OEO and so forth.

I do not complain or criticize their lofty goals. I urge we examine the timing and I urge we quantify the costs and the benefits of these programs.

Conservation of energy must be broken down into two categories, first, to reduce demand. I think we need a national commitment to reduce demand and that can come through the education of all of us consumers and of all industry.

We must train ourselves to the more efficient use of energy. In the second item of conservation, we must conserve our known oil reserves now in the United States estimated to be 400 billion barrels. We must keep up the rate of availability of these reserves. We must encourage secondary and tertiary recovery methods and slow the abandonment of stripper wells.

To sum up, Mr. President, the future solution to the prevention of inflation for energy fuels lies in the formation of a national energy policy to be administered by a single agency, to establish a uniform and long-term tax policy, to establish policy on imports, to encourage the conversion of coal, shale and so forth to oil and gas, and to encourage the use of renewable resources such as solar, thermal, hydro and so forth and also the more abundant use of coal and nuclear power which is more available than oil and gas.

Thank you.

SECRETARY MORTON: Thank you, Mr. true. We will now go to the group that dealt with minerals and materials and we will ask Mr. Ian MacGregor, Chairman of AMAX to speak for that group.

MR. MacGREGOR: Thank you, Mr. Chairman.

Mr. President, distinguished members of this conference The extractive mineral industries are but a small sector in terms of dollars, but provide the essential ingredients of every part of our U.S. economy: agriculture, construction and manufacturing. It is staffed by a small but highly skilled and very productive labor force.

It is capital intensive, frequently requring the investment over $100,000 per employee.

Congress recognized the pivotal role the mineral industries play, both in national defense and in industril production when it enacted the Mineral Policies Act of 1970 to foster the support and continued development of a strong domestic minerals industry.

But following the winding down of the Viet Nam War and the inflated world demand caused by that war, mineral prices dropped sharply in the late 1960's and expansion of the industry was inhibited.

The resurgence of demand in the early seventies and the regulation of prices in the U.S. continued the suppression of new capacity so that, today, most of our mineral industries are operating well beyond 90 percent of capacity.

Specifically, our panel recognized and generally agreed on the **following** points which have an important bearing on inflationary pressures.

First, **conservation**. The U. S. has been a **prolific** user of both energy and mineral resources and we must focus on ways to conserve our use of all minerals. Recycling which has long been practiced by the metals industry must be encouraged and expanded.

Secondly, production of energy and other minerals must be expanded.

Capital formation for such expansion must be encouraged. It has been recognized for 60 years by Congress that such capital formation mechanisms should be built into the tax structure. They must be continued and examined carefully as to whether they should be enlarged.

The atomic energy program should be supported and speeded up in every possible way.

Third, there should be reexamination of the impact of the environmental and pollution goals on mineral production. After two centuries of industrial activity without reference to the environment, we now have a task of achieving growing industrial activity while maintaining the finest standards for the environment.

No one really quarrels with this goal. What does concern our industry is we are trying to accomplish the goal in too short a time at too high a cost and perhaps seeking standards that really go beyond prudent needs.

The capital cost of pollution and environmental control falls disporportionately highly on the extractive industries. The extractive industries find that currently as much as a quarter of their capital expenditures out of the scarce capital available to them are going into environmental requirements.

Fourth, there was general agreement that the goals of Project Independence should be supported by maximizing the use of domestic oil, gas, uranium and especially coal.

Every effort should be made to encourage the expansion of the mining and the use of coal as a primary source of energy. A short-range goal of doubling coal production would reduce our needs to imported petroleum by about 2-1/2 million barrels of petroleum a year, with a consequent reduction in the adverse pressures on our balance of payments.

Such a goal represents the realizeable objective at quite modest capital cost compared with almost any other alternative.

Thank you.

SECRETARY MORTON: Thank you, Ian.

I would like to call on Senator Fannin for some remarks. He attended our full meeting in Dallas and we are delighted he shared the responsibility of chairing that meeting.

SENATOR FANNIN: Thank you, Mr. President. Mr. Secretary, distinguished panelists, members of the Conference, I appreicate this privilege of being with you here todyá.

Mr. President, my commendations to you for leading the war against inflation. The people will respond to your nationwide personal call for action. Those in Government at all levels must help lead the way. Those here today have pledged to do so.

Mr. President, we are failing to use and develop our abundant natural resources. This failure is highly inflationary.

With national dedication we can overcome this problem. Our opportunities fall into four categories.

First, more efficient use and conservation of all materials and energy, with particular attention to the development of ways to prevent waste across society in the personal, commercial, industrial and governmental sectors. This means rewriting some of our restrictive and now costly legislation.

Second, rapidly increasing utilization of our readily available energy and material resources. Here, we can be most successful by applying increased capital directly to production and stretching out or reducing some of our environmental programs.

Applying a report of over 20 percent of available capital to purification and reclamation is too much especially when capital itself is in short supply.

Mr. President, increased utilization of federally-owned resources has the added virtue of supplying additional large sums of money to the Treasury. Congress can help by moderation of future energy and mining legislation. We are now threatened further with bottlenecks in coal, off-shore bottlenecks and nuclear power plants.

Now third, we must have a standard program of research and development of our more exotic and longer term materials and energy resources, geothermal energy, coal liquifaction and gasification and especially the efficient application of solar energy must have special attention.

For example, supplemental utilization of solar energy is ready for immediate application. Mr. President, I feel we can accomplish our goals if we unbind energy, finance expanded research in appropriate areas and provide the spur of a free and open market.

For example, Congress must deregulate the natural gas before this session ends.

Fourth, it is alleged that our distribution and marketing system is much in need of overhaul. Artificial freight rates and tax rates on transportation and our distorted import and export policies may be hampering both industry and consumer alike. We need immediate investigation of these charges followed by prompt bi-partisan Congressional and Executive action if they prove valid.

In conclusion, Mr. President, I think we can agree that the efficient production, distribution and use of our still abundant materials and resources are basic to beating inflation in an industrial society. Under your vital leadership this will be accomplished. As you have said the effort will not result in a quick, easy or casualty-free victory but with national dedication we can follow this road to greater self-sufficiency, a strong economy and victory over inflation.

SECRETARY MORTON: Mr. President, I am sure Mrs. Foreman felt overwhelmed when we were in Dallas at our meeting by the number of people from industry and other areas and felt somewhat insignificant in terms of numbers as far as consumer representation is concerned. But, let me tell you there was nothing insignificant about

Carol Foreman and her vigorous representation of the consumer as she participated in the group activities there in our debate.

I would like to call on her now, speaking for the Consumer Federation of America.

MRS. FOREMAN: Thank you.

I hope that you don't believe this nice introduction is going to get you off from a complaint.

I appreciate the opportunity to speak here for the largest and most underrepresented group of people in the country, all those people standing in the line paying the bills, the consumer.

We are pleased that some representatives of consumers have been included in this meeting and precursor meeting but we feel we have to make the point very, very strongly that the American economy belongs to the people, not just the panel group. To put a handfull of representatives of the people in a meeting dominated by producers is decidedly not an exercise in democracy. To a great extent, these meetings have been dominated by the people who always had access to the inner councils of government and access to power. We would hope that in the future any sort of meeting of this kind would include at least a 50 percent representation by consumers.

I guess my greatest surprise is that I was invited to go to Dallas to a meeting that was supposed to be concerned with how to stop inflation. When I got there I found out everybody wanted to talk not about how to stop inflation and reduce prices but how to increase prices of oil, of natural gas and of electricity. Contrary to the general view at that meeting, I advocate a lowering of prices in all of these areas.

I would like to suggest some of the things that consumers think could be done to get there. First, roll back domestic crude oil prices to $4.73 a barrel. It is agreed that oil prices have been largely responsible for about 25 percent of the increase in the total price rises in 1974.

You went last week, Mr. President, and urged the OPEC nations to reduce their oil prices. We would like to see you use that jawbone of price restraint on producers of domestic crude oil. We would like you to ask Exxon and Mobile and Texaco to roll back their prices and their profits.

Your support of legislation to roll back domestic crude oil prices would help fight inflation. We don't think it would cause shortages. Such spokesmen as the National Petroleum Council have said this price is enough to provide incentive for intensified exploration for oil and gas. It appears that the present lack of production is more due to lack of equipment than a lack of incentives.

Two, we oppose Congressional efforts to deregulate natural gas at the well head. Such action could increase consumer bills for natural gas by $9 billion a year. Producers say it would increase supply but they have not been willing to make any guarantee that supplies would increase or that they would invest their increased profits in exploration for new sources of natural gas.

We urge a conservation program and we think a good start for a conservation program would be a federal law that prohibits the manufacture of any automobile over a certain size or horsepower. We hope that you will act to increase competition, to step up anti-monopoly activity and we urge the creation of a federal oil and gas corporation to help improve competition in this area.

Now, these actions, contrary to most of those you are going to hear from in this group, would reduce prices. To reduce the already terrible toll of inflation we would urge you to reduce taxes for lower income Americans and raise them for higher income Americans. All of these actions will affect the corporate interests gathered here.

But, if we have to sacrifice to fight inflation, the consumers think we all ought to sacrifice together.

Thank you.

SECRETARY MORTON: Thank you very much, Mrs. Foreman. I think I was very right. You have been a vigorous representative of consumers, and as one, I appreciate it.

We were very fortunate in the panel, Mr. President, at the meeting in Dallas, to have Senator Gaylord Nelson with us and he participated fully in the meeting.

I would like to ask him for his remarks.

SENATOR NELSON: Mr. President, Secretary Morton, I will omit some of my remarks as repititious, having been repeated by some before.

Mr. President, the 300 percent increase in the price of international oil is the single greatest danger to our economy. In the U.S. one-third of our present inflation is due to the increase in the price of energy and will cost American public $55 billion this year.

Probably the most effective immediate impact on inflation can be accomplished by taking major steps to reduce the nation's wastefully ravenous appetite for energy. Careful studies show that we unnecessarily waste 30 percent of all the energy we use. A major conservation effort would produce a significant impact in both short and long run.

There is a broad public understanding of the urgency of the situation and willingness to cooperate. However, only the great prestige of the presidency can unite the country behind an energy conservation program. Industry and the general public need to understand the program, be assured it is meaningful, and have confidence that we are all joined in a common effort. I would respectfully suggest that the President speak tc the country with a message which says that uncontrolled inflation is a great threat to the security of the country -- as great as World War II -- and that the same kind of national cooperation will be required to meet the threat.

We have just begun to explore the means and meet odds of reducing waste and cutting consumption of energy. Some approaches will require legislation, others voluntary cooperation. Among the many, many approaches, we should begin now a program to cut our energy growth rate in half. This is feasible and would save 336 million gallons of oil equivalent per day by 1980.

Two, establish a national energy-efficient housing standard and provide incentive for owners to improve existing structures. Up to 20 percent of the fuel used for heating, more than 42 million gallons of oil per day, could be saved by modifying existing structures. Over 25 percent of the nation's 70 million homes do not meet mimimum insulation standards.

Three, establish a requirement that within an appropriate period of time which would not have to be very far away, the automobiles shall achieve 25 miles on a gallon of gas. In 1973 we used 212 million gallons of gasoline a day, more than 77 billion gallons a year. If every car got 25 miles per gallon we would save almost 40 billion gallons of gasoline a year.

Four, offer incentives to industry to manufacture more energy-efficient products and replace old inefficient machinery with efficient models.

By the year 2000 the Ford Foundation Energy Policy Project estimates we can save over 22 percent of our currently projected industrial energy demand. For every barrel of oil we save that represents a barrel we do not have to import or take out of the ground. Conservation is an immediate weapon to use in our national fight against inflation.

SECRETARY MORTON: Thank you, Senator Nelson. On our group for coal and electrical generation we were lucky to have Mr. Charles Luce, Chairman of Consolidated Edison. He will speak for that group now. Chuck.

MR. LUCE: Thank you, Mr. Secretary. Mr. President, our work group discussed ways in which coal and electricity prices could be held down and the supply of coal and electricity increased. We didn't take votes on specific recommendations and you won't be surprised that there were quite a few differences of opinion. I think it is fair to say however, that most of us agreed that the basic cause of inflation is that as a society we are consuming too much and saving too little. To bring inflation under control, whether in energy or other sectors of the economy, we must change some of our values and our social priorities. More and bigger no longer can be regarded as necessarily better.

Seven specific recommendations our group discussed were these:

First, eliminate waste of energy. Senator Nelson has gone into the specifics that we discussed. Like many, we emphasized the great potential from increasing the average mileage obtained by our automobiles. Statistics that we developed were that a 50-percent increase in average gas mileage, which is an achievable goal within a relatively few years, would save oil equivalent to more than one-third the United States' total 1974 imports.

The second recommendation that we made is that which you have heard here before from other members of this Dallas group, to publicize Project Independence with initial emphasis on increased coal production and offshore exploration for oil and gas.

The only sure method we think of developing successfully with the cartel of oil exporting countries is to develop rapidly our own large resources of coal, uranium, untapped oil and underdeveloped hydropower, especially coal.

Third, we must adopt policies that will make it possible to accumulate huge amounts of capital needed to finance Project Independence. The utility industry already is in a credit crunch, a desperately serious one.

For lack of capital for financing new construction utilities for the last six months, each month have announced decisions to postpone construction of new plants, the immediate effect being the loss of thousands of construction jobs, more than a thousand in our own company in New York, but the longer range, say in the next six to eight-year result being to lay the foundation for brown-outs, for the lack of energy to power industry to produce the goods and fight the inflation.

Immediate changes are needed so that Americans again will invest in utility securities, appropriate relief, accounting and tax changes to increase capital available for new construction and tax and banking law changes to encourage more savings by individuals. In addition, a Federal bond guaranty program or a loan program such as the RFC program mentioned this morning as a possibility by Senator Mansfield, who should, I personally believe, be seriously considered.

Our fourth point that we agreed on is that laws for protection of the environment must not be cast aside in this fight against inflation but we must recognize that these laws will contribute to the high cost of energy, as much as 25 percent of the cost of electricity. Federal water and air quality laws should be amended by the Congress to clearly allow regulations to take into account, in addition to environmental factors, the cost to consumers and the national security implication of new environmental standards and to adjust compliance timetables to what the national economy can afford.

I am happy that EPA Administrator Russell Train in recent months within the constraints, very serious statutory constraints, that he is operating under, is seeking to introduce some flexibility into these environmental regulations.

The fifth point we raised is that delays in construction of new power facilities are unnecessarily increasing their cost by as much as 30 percent or more. They must be reduced by streamlining licensing procedures, limiting the broad scope of judicial review and encouraging productivity of construction labor.

Much of that will require action by Congress. In New York City a power plant that 50 years ago could be built in 13 to 15 months now will require at least five years. That is really moving backward in the last helf century as far as productivity is concerned.

I have two other points, but I have been held down, having to do with coal prices. There was a difference of opinion as to whether they were too high.

Finally we all agreed that more research and development by Government and private entities is essential to develop better sources of enercy. Thank you.

SECRETARY MORTON: Thank you, Mr. Luce, very much.

Mr. President, we were fortunate to have Mike McCloskey, Executive Director of the Sierra Club, with us. He participated in most of the group meetings that we had but he will speak today for the group that was dealing with recreation and environment. Mike.

MR. McCLOSKEY: Thank you, Mr. Secretary. Mr. President, we believe that effective steps must be undertaken to fight inflation but environmental programs are not responsible for our current rate of inflation. As Mr. Clapper pointed out, studies by the Council on Environmenal Quality show that pollution control programs account for, at most, one-half of one percent of the current rate and they add materially to our health and well-being. For instance, once our air is cleaned up to meet the goals of the Clean Air Act we will enjoy benefits worth $15 to $20 billion each year. If we look at auto emission controls alone, a recent National Academy of Science report estimated annual costs in the range of one-half to $5 million while benefits range from 2-1/2 to $10 million. These are just market benefits which may not be the most significant ones.

All our Federal expenditures to curb pollution and protect our natural resources amount to only 1.7 percent of our Federal budget. Cutting these programs would have little effect on inflation and would jeopardize efforts to keep our environment healthful and our public lands safe and productive. In fact, we recommended increasing Federal investment in park land particularly near urban areas.

Rising prices and energy shortages are turning more people to such areas, especially low-income families, and the price of land for this purpose will never be less. To help fight inflation we recommend a national conservation effort, a war on waste. Every time we stop wasting a unit of energy for instance, we not only reduce the demand but also increase the supply, thus simultaneously contributing to both of the key routes to reducing inflation.

We must curb our appetite for resources whose supply is finite and not exhaust them prematurely.

Specifically, we recommend first legislation to encourage redesign of automobiles to improve fuel efficiency as other panelists have mentioned.

Two, a tax on the consumption of energy such as a Btu tax to encourage efficient consumption but I would hope, with its regressiveness, a set-by tax adjustment for people of limited income.

Three, better land use planning to combat the inefficiency of urban sprawl.

Four, research on means to increase recycling of materials and to improve the durability of goods.

Five, dropping those public work projects which have poor benefit-cost ratios many of which are environmentally disruptive. With less wasted resources our reserves will last longer. Thank you, Mr. Chairman.

SECRETARY MORTON: Thank you very much, Mr. McCloskey.

Mr. President, this concludes our spokesmen for our Panels. We have been joined by Senator Bartlett. We will be delighted to hear from him for three minutes.

SENATOR BARTLETT: Thank you, Mr. Secretary. Mr. President, distinguished colleagues, ladies and gentlemen. As one of the original five bi-partisan sponsors of Senate current Resolution 363 calling for a Summit Conference, I am most gratified with the progress to date.

While numerous problems do exist in our economy, the number one concern, of course, is inflation. A vivid example of the problem is a person making $20,000 per year at age 30 with an inflation rate of until retirement at age 65, of 12-1/2 percent which was the inflation rate during the first quarter of '74, would have to make over

$1 million per year at retirement to enjoy the same standard of living that he enjoyed when 30.

Some people contend that inflation can be reduced through price controls on oil and its products. Between 1951 and 1971, because of Government price controls and programs, real electricity prices fell 43 percent, refined petroleum prices were down 17 percent, and coal prices dropped 15 percent. As a result, domestic demand soared and domestic supplies of energy didn't keep pace.

Foreign oil, at first cheap, later expensive, replaced much American oil and gas. The increased domestic demand and the decreased domestic supply resulting from Government controls and programs caused inflation.

A free market price for all domestic energy will reduce inflation and eliminate shortages.

The domestic supply of energy is the life-blood of our economy. Energy is the great multiplier of our gross national product.

Because our domestic energy industry is anemic, it should not be a surprise to anyone that our economy is also anemic and will continue to be so unless we have a sufficiency of domestic energy. No one should be surprised that the cartel OPEC nations has worked. By peddling around with the construction of the Alaska pipeline, by both Houses of Congress voting to roll back the price of domestic crude oil to approximately half of the imported price, and by various legislative threats to the energy companies both large and small, which would impair their efforts to increase domestic energy supplies, our nation has strengthened to resolve the OPEC cartel.

We have continued to send messages to OPEC that we are really not very concerned about our domestic energy shortage. But the biggest threat to the OPEC cartel would be a sound energy policy to which this nation would be fully committed. I encourage the Summit Conference to support the creation of a three-member energy advisory council patterned after the Act creating the Council of Economic Advisers.

Senator Hollings of South Carolina has advanced legislation to create such a council which should be helpful. Mr. President, I know you support the amendment to decontrol the price of new gas. This Summit Conference must likewise give its supprot.

I will conclude by saying by failure to create a sound energy policy the Government has decreased the supply, increased the demand for energy, stimulated inflation and depressed our economy.

The Summit Conference's best anti-recession, anti-inflation and antidote is the free market price for domestic energy.

SECRETARY MORTON: Thank you, Senator Bartlett.

Mr. President, this concludes the speakers from our group. I would like to point out that the thread that goes through every one of our opinions, and there were many, is that we need conservation across the board of energy and materials and minerals.

The other thread which I think is evident by what has been said is that we need to do everything we possibly can to increase domestic supplies.

THE PRESIDENT: Secretary Morton, we are now at the point of questions from the audience. We are somewhat limited in time. Unless there are questions we will move on to the next. The gent here.

QUESTION: I don't quite understand the economics of electricity. It would appear to me that if you control, have a program to reduce the utilization of electricity, that the capital investment is already fixed on the electricity that is being used today, that any cutback in electricity, say, by users, would also reduce the gross income of the utility companies and as a result force the price up.

I would like to put this to the Panel. That in considering a program of conservation of certain of our energy sources, that in effect we do not increase prices as a result of less utilization because the major cost in utilization of electricity, of natural gas where the fixed investment has been put, actually then by not using it would increase prices. I would like to put that as a question.

THE PRESIDENT: Perhaps Chuck Luce could respond to the question.

MR. LUCE: Yes, in the short-run, your fixed costs remain the same and therefore if you are selling less of your product you have to distribute those fixed costs over a lesser number of sales and so you have a force upward on your cost per unit. But, since you don't have to burn fuel, and fuel is by far the largest component of the electric bill, the consumer actually gets a somewhat lower bill though not as much lower as his consumption would indicate that it should be.

Now, in the long-run, we can begin to program the construction of less production facilities and reduce the pressure on capital markets when we become assured that this conservation program is here to stay.

So, in the long-run, the consumer will benefit even more.

THE PRESIDENT: The next question, the gentleman at the microphone number 3.

QUESTION: I am Jim Burkhart of the Ohio Youth Advocate Committee. I would like to comment and ask you a specific question. I find it is most distressing that the young people of this country have not been represented here at this economic summit.

Even though,decisions made by the summit meeting will have direct effect upon our lives in the future. There seem to be no young people on any of the panels or represented here at this meeting. As you can see, I am just an observer who was able to attend, by the authority of the White House. I am just sort of curious whether you know why this is that young people are not being involved in this program and whether you have any idea, any suggestion as to how they could become involved and whether you would take any action to allow them to become meaningfully involved in policy decisions which affect their lives.

Thank you.

THE PRESIDENT: Secretary Morton will respond.

SECRETARY MORTON: Thank you, Mr. President.

I think you have a very good point. Let me say how we are trying to involve more young people. Perhaps we have been negligent in trying to construct here an economic panel along the lines in the economy that exists, power, fuel, recreation environment and all the rest. What we are trying to do in the departments across the government is to involve more young people in the summer intern programs, bringing them right in at the top level of the decision-making process and policy development process.

We are encouraging the White House fellow program and every other aspect of government as far as participation of young people is concerned. The purpose of this meeting was, one, to analyze and to make some specific recommendations from some specific areas of the economy.

It was not set up as sort of a broad advisory panel. Certainly, in Interior we are doing everything in our advisory area to involve young people.

THE PRESIDENT: Mr. Secretary, it is my understanding you have a member of the panel, Mr. Rettie, who has some observations and comments. He is connected with the National Recreation and Park Association.

Mr. Rettie.

MR. RETTIE: Thank you, Mr. President.

I only want to remind the panel again here and you, sir, that not only are we a nation of workers but we are a nation that has another part of our life besides our work, a nation that draws an increasingly important part of our life satisfactions and, indeed, our life style, a large part of our nation industry now relates to our recreation and our leasure activities. That leasure can either be part of the problem or it can be part of the answer.

Americans are today responding to inflation by taking a larger share of their recreation closer to home. It is going to shift an enormous burden on the recreation and park industries in our urban and suburban areas to meet the needs of people closer to home probably involving some early substantial shift in investment strategy that can be backed up by the Federal Land and Water Conservation Fund.

The recreation and park industry, both public and private, is behind this fight on inflation and we will share the job with you and the rest of the country in getting it whipped.

THE PRESIDENT: Thank you very much, Mr. Rettie.

I apologize, but we are behind schedule and I think we have to move along. The panel on Natural Resources and Recreation will conclude now.

We will take a five-minute recess.

The other panel under Secretary Weinberger will please move in and take over the seats occupied by the present panel. I thank this panel for its cooperation and participation.

THE PRESIDENT: We will proceed with the portion which is led by Health, Education and Welfare under Secretary Weinberger.

This should be a stimulating and perhaps controversial part. Perhaps it would be helpful to continue the format of frank and candid observations.

So, without further ado, I will ask the Secretary of HEW, Caspar Weinberger, to please take over.

SECRETARY WEINBERGER: Mr. President and distinguished Members of the Congress, ladies and gentlemen: I am pleased to report on our conference on inflation which we held on September 19 and 20 to obtain recommendations in the four broad areas consistent with the mission of our Department.

I know that you, Mr. President, are keenly aware that Health, Education and Welfare serves the needs of our people who are most severely hurt by inflation: the poor, elderly, disabled and handicapped and children and youth.

Our conference focused specifically, among other things, on the impact of inflation on all of these groups and I hope the conference report will help us understand far better the particularly hard problems that they face and why I feel so strongly that our federal efforts in these areas must be put behind our most effective programs and must be focused first and foremost on those who are most in need.

In all areas, 167 delegates representing consumers, institutions, associations, elderly, poor, youth, handicapped, labor and many other sectors discussed inflation and its effect or the ways it will hurt.

I am sure, as you and your staff study the report you will find, as I did, many proposals which can be supported and others which cannot, even though the views being presented today represent the views of the delegates to that conference.

Mr. President, we have attempted to transmit to you in the report and in our overview today as time will allow all of the views expressed, fairly and without comment.

To achieve this objective, we used as reporters delegates who were selected because of their knowledge and their reputation for fairness. They were charged with the idea of trying to summarize all of the discussions accurately and fairly and to given comments from all participants.

Comments were then solicited at the end of the meeting to insure the fidelity of their reporting. Each of the four reporters will summarize for you today the disucssions at our session.

Mr. President, the full and free discussions of our conference, I believe, bear out the high hopes you expressed when we convened this conference.

We found the more open the discussion the better the result and our discussions have been free and open.

Mr. President, I would like to introduce the members of the panel who will represent the 167 delegates at the conference.

Starting over there on the far left is Miss Bertha Adkins, Chairman of the Federal Council on Aging, and next to her is Dr. Michael Zubkoff, who represents the Paramedical College at Vanderbilt University. Next to him is Walter Smart of the National Federation of Settlements and Neighborhood Centers. Next to him is Harry Walker who represents the National Association of State Units on Aging Education; Miss Ruth Clusen, representing the League of Women Voters; Mr. Robert Haveman, Director of the Institute for Research on Poverty of the University of Wisconsin and Solomon Harge, representing the Consumer Protection Association; Dr. Roger Heyns of the American Council on Education, and Dr. Alexander McMahon of the American Hospital Association.

Then we have Senator Stafford of Vermont and Senator Kennedy of Massachusetts, who are also very distinguished members of our panel.

On the otherside is: Representative Howard Quie of Minnesota and Representative Sam Devine of Ohio, who helped to bring in their participation.

Working down that other side is Melvin Glasser of the National Council of Social Workers. Next to him is Mr. James Harris of NEA, the National Education Association, and next to him is Dr. Mitchell Ginsberg, the Dean of Columbia School of Social Work, and Marvin Caplan of the Leadership Conference on Civil Rights, and Dr. James Price of the American Academy of Family Physicians, Michael Timpane of the Rand Corporation, Philip Rutledge of the National League of Cities, and David Williamson of the National Paraplegic Foundation.

That is the group, Mr. President, and I would now like to call on the first reporters who will talk about the impact of inflation on all of these groups. The first is Mrs. Adkins.

MRS. ADKINS: Mr. President and Members of the Congress and delegates: The impact sessions on the poor, elderly, handicapped, disabled and children and youth were in unanimous agreement that these vulnerable sectors of society feel an unequal burden in an inflationary period and are less able to make sacrifices than others.

For the most part, these groups of low incomes, below the poverty level, and are living on fixed incomes and expend a greater proportion of their budget than does the general population on essential goods which have shown the highest rates of inflation: food, shelter, household expenses and house care.

They need help to maintain a decent standard of living through this very difficult period.

The delegates from all of the impact sessions believe that the federal budget is not the source of inflation and should not be cut, especially in the areas of social services in the fight against inflation.

Improvements should be made in the planning and coordination within and among federal, state and local governments and the private and voluntary sectors in provision of social services to all groups.

This will cut down substantially on bureaucratic procedures which consume time and money and could be better used in providing direct services.

Attention should be given to the income tax reforms for all groups and property tax relief specifically for those groups like the elderly on a fixed income.

Some of the specific recommendations made by each of the sessions are, in the elderly, the social security system should provide Consumer Price Index adjustments on a quarterly basis rather than an annual basis.

Improvements in the program should come out of general revenues as opposed to higher payroll taxes, and improvement should be made in retirement income protection for those persons under 65 who are ill, disabled or cannot obtain employment.

Private pension plans should include cost-of-living increases. Funds allocated for Section 202, housing for the elderly, should be made avaiable.

In addition, more employment opportunities should be made available to the elderly through an authorization for Title IX of the Old Americans Act and the Comprehensive Manpower and Training Act.

The sections on the poor and public service employment should be substantially increased to provide jobs that are socially usable, to include job training and to pay a livable wage.

The unemployment insurance program should be tied to the cost of living and integrated with other income support programs.

Savings could be made by giving cash in lieu of stamps to those eligible for the food stamp program.

National standards of eligibility and a national floor for the aged, families with dependent children program all should be instituted.

Also, the Administration should adopt policies which would decrease the interest rate for consumer purchases such as housing.

In the handicapped and disabled section, the delegates thought that price guidelines should be established for goods and services unique to handicapped such as wheelchairs, braces and so on, so that costs are limited to inflation and not exploitation.

Reductions should not be made in research because this is an investment in prevention of disabilities and represent cost savings.

Emphasis should be given to early screening and diagnosis. The definition of handicapped, used for eligiblity under social security in the supplemental security income program should be re-examined to make sure it is equitable.

Full attention should be given to correction of environmental barriers such as transportation and architectural barriers which impede mobility of the handicapped.

On children and youth, the delegates felt that meeting the needs of youth and children is the nation's best investment in its future. Health programs, education and essential social and rehabilitation of children will repay the nation's investment in children many times over.

Prevention of disease, disability and dependency is a good investment and a cost-effective investment in simple economic terms.

Assistance cannot be delivered to children alone and we must work on the total family in the areas of health, education and so on.

Mr. President, we have given you many ideas in the report which you have and we hope you will give the full attention to it.

Thank you.

SECRETARY WEINBERGER: The next speaker is Michael Zubkoff of Vanderbilt University.

MR. ZUBKOFF: Mr. President and Members of Congress and delegates:

As you know, health expenditures and medical care costs have risen rapidly in recent years, and costs have increased up to 18 percent in recent months.

It is generally recognized that the health sector is both a hostage and a cause of inflation.

Inherent structural defects in our consumer-cost system were identified, for example, cost-plus reimbursement for hospitals do not encourage cost containment.

Two, insufficient competition exists within the health industry.

Three, full insurance coverage reduces cost consciousness on the part of consumers.

Four, consumers lack the knowledge to enable them to become aggressive and informed in health care. Such characteristics lead to substantial waste in terms of unnecessary hospitalization, excessive prescription of drugs, over-expansion of facilities and the over-utilization of various services.

At the same time some of our citizens are unable even to gain access to health services, either for financial response or due to maldistribution of resources.

The underlying theme of debate that took place was one that the Federal commitment to health care must not be reduced and the health care system in the United States requires structural reform.

Three, existing incentives and regulatory mechanisms are inadequate.

Four, underlying all of the discussions was a basic disagreement as to the appropriate role for governmental intervention. Support was expressed for a variety of approaches, from the more-marked rates of medical intervention, that is controlling capacity and rates.

While the conferees identified numerous problems and developed recommendations for action, there was a lack of wide-spread consensus. The following recommendations reflect the views of a substantial number of the conferees, with the understanding that strong dissenting opinions were often expressed.

Number one, strengthen rather than reduce or eliminate health in human resources programs and, B, the increased unemployment and strong anti-inflationary policies will increase the need for such services.

Two, immediately establish a national program of on-going evaluating public disclosure of the contribution of health care to inflation.

Three, proceed with the development of a national health insurance program, recognizing a potential inflationary impact if changes in supply and the reorganization of health care delivery are not simultaneously instituted.

Four, encourage the use of ambulatory care and increase the emphasis on preventive medicine to restructuring of insurance benefit packages and through development of prepaid group practices.

Five, change the statutory definition of health maintenance organizations to allow for more flexibility in assembling benefit packages.

Six, Increase the supply of certain primary providers and simultaneously encouraging third-party reimbursement for the services of non-physician providers.

Seven, promptly develop and institute flexible regulations for health maintenance organizations and professional standards review organizations.

Eight, restructure reimbursement methods to encourage incentives, for example, reimbursement for hospitals.

Nine, encourage programs at the State and local levels.

Ten, initiate consumer education activities to increase the public's knowledge of the health care system.

As a final note, despite Administration assurances to the contrary, many of the conferees were fearful that the Conference was designed to create the illusion of support for policies that will result in reduced Federal commitment to health programs. Thus, many conferees will await with considerable apprehension the results of the final policy deliverations.

SECRETARY WEINBERGER: To report the views discussed in the sections on education, we have Michel Timpane of the Rand Corporation.

MR. TIMPANE: Mr. President and members of Congress and delegates:

The Education conferees had planned to begin their presentation on the same note upon which the Health conferees ended theirs. But by the substance of your remarks earlier today and those of the leaders of Congress, I dare say that the apprehension of many is now eased somewhat.

By way of diagnosis, those concerned with education thought that inflation was not the nation's only compelling problem, and wish to note the other problems such as urban crisis, race and income differences persist, while newer problems such as the environment increase in intensity.

The current inflation results from supply bottlenecks in non-education sectors. The conferees found no important respects in which educational expenditures contributed in any substantial way to the present inflation.

To the contrary, education is in the long-run strongly anti-inflationary and its contributed to increased productivity and improved technologies. Likewise, education's current options are not fueling inflation. Higher education has been through a recent retrenchment and elementary and secondary education wage increases have moderated and declining enrollments have led rightly or wrongly to reduced employment opportunities for teachers.

These factors exist in both public and private institutions.

By way of prescription, first there was general agreement that tax increases ought to be considered as a serious alternative to budget decreases in addressing inflation, especially since repeated tax cuts had contributed to the growing Federal deficit.

Secondly, Federal budget cutting in education would impact most heavily upon those who have already suffered most from rising inflation and unemployment. The economically disadvantaged, the handicapped, ethnic minorities and adults especially women, seeking new and improved skills and jobs.

Within American education, it is precisely the Federal programs of the past 10 years that have stimulated health for the poor and the minorities with their education and with their opportunities for employment in the educational system. Under educational cutbacks they will suffer most from lost programs and lost jobs.

Third, several conferences suggested that the education community should support realistic well-enforced wage-price controls, but others, notably the representatives of the American Federation of Teachers who spoke for the AFL-CIO expressed "unalterable opposition to such policies," based on their adverse effect on real wages during Phase III.

Fourth, the conferees wish to emphasize that the supply characteristics of education are favorable for producing growth without new inflation. Education has unused or underused resources that contribute to the nation's output.

Enrollments will be declining in elementary and secondary schools through the remainder of the decade and higher education enrollments may also decline substantially during the 1980's, especially because of a lack of demand for college-trained persons.

At the same time, we are already losing hundreds of billions of dollars in the annual production because education has failed to develop some citizens skills, and so we should take up such cases as education to improve education in secondary education as well as the call you made, Mr. President, that workers be involved in higher education for their benefit and the benefit of higher education.

Finally, the education conferees reemphasize, as others have, that it is in the institutions of education that the research that we so badly need to further develop the nation's capacity, to cope with production problems, is to be found.

Finally, most of the conferees subscribed with the assention of the National Education Association for the reasons which I noted at the outset, to the notion that the inevitable impact of inflation which has already occurred and the potential inequities of present policy alternatives must be given primary consideration in choosing the means for fighting inflation.

SECRETARY WEINBERGER: Thank you, Mr. President. The recommendations and discussions of the groups who considered income security and social services will be reported to you by Philip Rutledge of cities.

MR. RUTLEDGE: Thank you very much, Mr. Secretary. Mr. President and members of the Congress and delegates: I will try to give a very brief report on very rich and varied discussions. The discussions in the panels on income security and social services centered around one basic thema.

Since the poor, the minorities, the elderly and the handicapped are the most vulnerable to the ravages of inflation and anti-inflation policies, they should be protected and helped most by their government.

Our top priority of Federal policy should be to prevent those who already suffer most from becoming the major casualties of either inflation itself or the war against inflation. There was major agreement that it was more correct to say that inflation increaes government spending for income security and social services rather than that government spending in these areas increases inflation.

The conferees felt strongly that income security and social service programs should not be singled out at this time for special consideration and budget cuts.

The consensus was clearly that any effect that a budget cut would have on the economy would be in the wrong direction to make worse the conditions of those already less well off.

There were a number of recommendations, a major one being that the income support system must be strengthened and expanded as protection against inflation and counter-inflation measures.

There are gaps now in the income support system which leave some persons in need who are not eligible for any of the income support programs that currently exist, particularly the working poor and those who are covered. Many of the programs in operation are inadequate.

The Administration was urged by many to take another look at other forms of income support such as the negative income tax, children's allowance, or family allowance which would have as eligibility requirements simply income level and family situations.

It was further recommended that new consideration be given to replacing most current in-kind assistance such as food stamps and others with direct cash payments.

In addition to these long-range recommendations, and there were others that are contained in the longer report, the following immediate improvements were among those strongly endorsed.

First, all income security programs including aid to families with dependent children should have a minimum floor and be pegged to consumer price index to protect the poor against the loss of purchasing power.

Neither the aid to families with dependent children program nor the present state supplementation portions of the supplemental income program have this feature.

Secondly, there should be reforms at the lower end of the income tax field to assist the poor. Among the recommendations were recommendations for a tax rebate to incomes up to $6,000 or $7,000 a year.

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Another recommendation was that tax credits be given to families for caring for dependent children, the elderly and handicapped in the homes in order to reduce the high cost of institutionality.

A third recommendation was that every effort should be made to increase participation in existing food stamp and supplemental security food program while we are attempting to improve them.

The present participation in food stamps is about 35 percent, and for SSI it is not much more than 50 percent.

There were a number of other suggestions made but the conferees felt strongly, if as a requirement to fight inflation the federal budget had to be brought in balance, then the following alternatives would be subject to drastic budget revisions, that income taxes should be based on ability to pay and all identifiable tax loopholes and tax subsidies, wasteful subsidies should be eliminated.

Interest rates should be cut and an investigation into the administration of prices should be made.

Some have felt that certain industries have been taking advantage of a difficult situation.

Many delegates strongly endorsed a large-scale public service employment program. Others had reservations, but the majority felt it would be very helpful.

Lastly, Mr. Secretary, it was urged that all government departments, HEW and the Defense Department and others as well as the private sector, vigorously examine their budgets and their policies to be sure that they are conserving our precious resources.

Thank you very much, Mr. Secretary.

SECRETARY WEINBERGER: Thank you, Bill.

Before we go on, Mr. President, I would like to ask Sol Harge, Executive Director of the Consumer Protection Association, if he would comment briefly from the consumer's point of view.

MR. HARGE: Thank you, Mr. Secretary.

Mr. President, I must preface my remarks by saying that before I got involved with consumer protection, I was a very bright-eyed bushy-tailed young man.

I came in feeling there ought not be government intervention with business. I felt business should be left alone to do its thing. But, since I have been in the business for quite some time now, I have changed my mind very drastically.

I feel very strongly the self-regulatory system has not worked in the past, it is not working now, and will not work in the future.

Many consumers are having nightly nightmares. We have consumers having an every-day living crisis. The victims are the poor, the minorities, the elderly, the handicapped and middle income.

They need a quick fix in living income. They have been caught between the squeeze and the freeze.

Mr. President, consumers want something to happen now to ease their economic plight.

Mr. President, there is a feeling of hopelessness and helplessness because they have lost confidence in the government and some elected government officials.

There is doubtfulness that the palace guards that you may be surrounding yourself with, Mr. President, will lack the kind of objectivity and compassion for people.

You know, Mr. President, sometimes when we get objectives worth weighing the balances and advantages and disadvantages, we have to make decisions based on those alternatives to us.

If we have people lacking that objectivity, we cannot make the kinds of decisions that should be made.

As the expression goes -- "Garbage in, garbage out."

Mr. President, the victims cannot pay for the increasing utility costs. Every day I am working with individuals who receive fixed incomes and limited grants and limited budgets.

For example, a family of four had a budget of $115 and they have to pay rent and utilities. There is no way, Mr. President, that an individual who has this limited income can exist for any period of time.

What is happening, Mr. President, is that many of these families uproot their families, move from one location to another, change their name to have the utilities turned on so they can have warmth and comfort.

When the landlord or the utilities catch up with them, again they uproot and go somewhere else until finally they can't get utilities at all.

When they read the papers, Mr. President, they see where the utility companies are getting favorable treatment to some extent.

I want to preface these remarks by saying some of us understand the word "profit". It is not a dirty word. We understand there is a cost of doing business so we don't want to give the impression we don't understand.

We also understand the pressures you have from business, labor and various other sectors, but this is the way consumers look at it because we have basic consumers who are economic illiterates.

We really don't understand about how the crops got burned out or rained out or imports and exports -- the only thing we do understand is that we are paying a tremendous buck and we don't understand why.

Mr. President, there needs to be a feeling now to restore confidence in consumers. They need to restore their confidence in the President and in their elected officials.

Finally, when a consumer goes into the store and pays 51¢ for five pounds of sugar and now he goes into thestore and it is $1.99 or $2.39; why?

He cannot completely understand that increase in cost.

A wheelchaired person who paid $225 for a wheelchair now pays $500 for that same wheelchair.

Are these prices justified, or are they exploitation, Mr. President?

Mr. President, I feel there should be an investigation into the subject of administered prices.

We feel there are some issues that are being arbitrary and exploited.

Mr. President, finally, inflation afflicts us all, but the working poor has suffered enough. It is time for someone else to bite the bullet.

SECRETARY WEINBERGER: Thank you, Sol.

We are now honored to have the legislative viewpoint presented.

First will be Congressman Albert Quie of Minnesota.

CONGRESSMAN QUIE: Thank you, Mr. President.

Mr. President, as we listened to the four Rapporteurs, I think they have fairly represented the very lively discussions during the HEW Conference on Inflation.

I would like to share here three of the observations and three of the conclusions I personally came to as a result of my own experience in that Conference.

My first observation is that each segment of society is convinced that it is much more the victim of inflation than one of its causes. Therefore, most don't believe they have a personal responsibility to be a part of that solution.

Second, I observed a general suspicion toward government which many carried into the HEW Conference -- and I can't say I blame them.

But some individuals reflected outright hostility. They felt they were "being used." This attitude, while understandable to some degree, often detracts from free and open discussion.

This preconceived distrust only builds barriers to constructive decision-making. Many are becoming experts at interest group advocacy but inflation plus our need for problem solving calls us to develop the capacity for reconciliation.

Third, the case was dramatically made for a greater national sensitivity to the human problems of those within the HEW constituency. I hope everyone, in government and outside, hears the message that came out of this particular mini-summit.

Inflation does hurt us all. It is a problem that no one can escape from. But some elements of society suffer more relative to others. There is little room to measure relative suffering among the poor, the disabled and the educationally disadvantaged. Their suffering is absolute.

Now for three conclusions: First, holding back federal expenditures will not, by itself, solve inflation. But, a non-inflationary budget is a high priority with me and with most of my colleagues in the Congress.

Second, some aspects of the budget affect inflation more than others. Those who suffer the most from inflation should not be asked to suffer more in order to solve inflation.

As total expenditures for social service programs increase -- and they will increase -- preference should be given to those in greatest need. To do this, better evaluation is necessary and the effectiveness of the programs must be increased.

Finally, this kind of national foru is good. I have listened and I have learned. We should continue to expand this idea of free and frank exchange.

Although Washington has slowly accumulated unquestioned power, it has not accumulated unquestioned wisdom. We in the government must listen to you. When you perceive a consensus, you must also provide leadership.

SECRETARY WEINBERGER: Mr. President, Senator Edward Kennedy of Massachusetts made a valuable contribution to our conference and we are glad to havehim here today.

Senator Kennedy.

SENATOR KENNEDY: Thank you very much, Mr. Secretary.

First of all, Mr. President, I want to commend you for your active chairmanship of these active meetings.

I think it is a real indication of your own firm commitment of doing something about the number one problem we are facing in this country today, which is the economy.

My colleagues have pointed out quite accurately that the problems in the economy today are affecting most dramatically the older people, thepoor, the uneducated, the poor whites, the poor blacks, the poor browns in this case.

They are being impacted for three very important reasons: First of all, they are being impacted because of the increase in the cost of food, the increase in the cost of inflation.

This is taking a greater percentage of their budget.

The second reason is because we have been cutting back in the programs in the Congress in areas that most directly affect them and which have been also overseen by the Department of HEW.

Thirdly, they are impacted to the greatest extent because they bear the burdens of increasing unemployment and the problems of recession.

When we talk about cutting back on the budget, the fact remains, Mr. President, that of the $305 billion, as your experts understand, two-thirds of that is in non-controllable items.

Only one-third of that can actually be affected by Congressional action. Of that one-third, two-thirds of that is in the military. Only one-third is being affected by the types of programs we are talking about today.

So, any kind of restraint in terms of federal spending has to be spread across the Defense Department as well as in HEW.

When we consider what the needs are in terms of those who are being impacted to the greatest extent, we understand that we have been bringing too much of this burden on the people who are impacted by health and education and by welfare.

I think the ordinary citizen understands, Mr. President, what our panelists understood and that is that layoffs are not going to be the answer to inflation.

Higher interest rates are not going to be the answer to inflation; recession is not going to be the answer to inflation.

What we must do is mobilize the productive capacity of the American workers. What we need are more homes, not less, but we need more jobs, not less and better health care and education and not inferior.

In the short-term, I think we have to follow the policy which you have suggested to the Congress, voluntary restraints. If that is not going to work, I think mandatory controls are going to be necessary.

I think secondly we are going to have to provide some real tax relief for the poor and I commend your economic advisors, who have been talking about this in recent times.

Thirdly, I think we need a substantial program for public service unemployment in the nature of 500,000 new jobs.

Finally, I think we have to be sensitive to the additional burdens that the economy is going to place on the poor and the disadvantaged.

Economics without justice is false economy. Economics, hand in hand with equity and fairness, is what we are asking, and with that kind of a program you are going to get the full help and support, I am sure, of all the panelists and the organizations they represent.

SECRETARY WEINBERGER: Thank you.

We have Congressman Sam Devine and Senator Stafford with us, also. If they would like to make a brief contribution -- very brief -- we would be delighted to have it before we go to your questions.

Senator Stafford.

SENATOR STAFFORD: Thank you very much, Mr. Secretary.

My very brief contribution, Mr. Chairman, and Mr. President, as others have said, is that inflation hits the poor, the elderly, the children on AFDC the hardest and after sitting through the hearings, it seems to me budget cutting in the budget of HEW or clients of HEW is virtually impossible and it could only occur if more efficient delivery systems can be devised to get the services to the clients of HEW more efficiently with less red tape and at less cost.

I don't see any other way to cut the budget in this area, Mr. President.

SECRETARY WEINBERGER: Congressman Devine of Ohio.

CONGRESSMAN DEVINE: Thank you, Mr. Secretary.

Mr. President, I think the nation should feel comfortable to see our new President actively and publicly participating in meetings the nation's number one problem along with those in the front-trenches seeking solutions to the problem of inflation.

In the morning session, the leadership of the House, which has had control of the Legislative Branch for 40 of the 45 years, trotted out the old, tired experiments of the early 1930's which they suggest would solve the inflation problems of today by complete government control and supervision.

I think we really need new solutions.

Mr. President, particularly in our session of the summit, we ran into a common problem of human nature.

Everyone wants to exercise economy in every program except their own -- sort of being for economy if you take the "me" out of it.

Priorities and rearrangement thereof are discussed at length as long as each participant is permitted to retain his or her particular area of interest above all others.

It could be described as a conflict between possible need and greed.

Those of us in the Congress must learn to act responsibly. Those big spenders that vote yes for every conceivable program and then lack the courage to enact the additional tax legislation to pay for their excesses must really bear a large share of the guilt for our inflation.

There are those of us in the Congress who feel the proper approach in seeking solutions to inflation is have the federal government set an example by reducing government spending, balance the budget and living within anticipated revenues.

In the need versus greed concept, we should review the programs loaded with good intentions but eaten up by administrative costs, thus depriving those unable to care for themselves of the sorely needed help.

Food stamps are going to many above the poverty level -- students and others who were never really intended to be included.

While there is a large percentage of eligible persons not getting help because of a lack of entitlement or they have too much pride to participate, we have wrestled with food stamps for strikers and on and on.

We must reevaluate and make our resources available to those helplessly in need and continue the giant handout of funds we don't have, borrow at high rates and compete with the free enterprise system.

We must, Mr. President, I repeat. set an example here at the federal government level.

SECRETARY WEINBERGER: Mr. President, ladies and gentlemen, we are now ready for your questions.

THE PRESIDENT: Will those who have any questions of members of the panel step forward to the PA system.

MR. COHEN: I am Wilbur Cohen. I am from a distinguished institution called the University of Michigan.

I have a comment since the President is here. Since he has to make a decision shortly with regard to national health insurance policy, I believe the recommendations we made in our panel for changes in the delivery system are of great moment.

Health costs have been not only one of the most rapidly rising costs in recent periods, but ever since World War II.

This looks like it is going to go on for a long, long time because of demand against short supply.

We would like very much, Mr. President, if you would consider very carefully the recommendations made for the change in the delivery system which could be a part of national health insurance and thus would help, we hope, to restrain or constrain the costs in the medical field.

Secondly, we would like to bring to your attention that there is already a bill passed by the Senate and on to a bill passed by the House which is pending in conference between the House Ways and Means Committee and the Senate Committee and H.R. 3153 that would provide a $700 million tax credit to people whose incomes are below $4,000.

If you are considering that as we understand from the press, there is already a bill passed by both Houses pending in conference which would make it possible for you to achieve those results almost instantly if the conferees would meet on your recommendations.

Third, we want to say there has been a period of agreement between Mr. Weinberger's staff and most of the people in the public welfare field for a new thrust in the field of social services for children, the aged and these other groups.

We would hope that it would be possible that you would support that legislation at this time in Congress, which would help very materially those people who have been brought out at this meeting who are very dependent at this period of inflation.

THE PRESIDENT: Thank you, Mr. Cohen, former Secretary of HEW.

It is nice to see you here today.

The young lady at PA number 1.

MRS. REYNOLDS: Mr. President, my name is Mrs. William Reynolds and I represent the National School Transportation Association -- the yellow buses.

I would like to ask what I believe is a very positive question. Would you and your Cabinet Members, as you consider fighting inflation, consider the feasibility of utilizing the nation's 300,000 school buses as supplementary transportation in their communities for the elderly, the adult handicapped and others who cannot utilize local transit systems?

The capital outlay has already been made and these buses are utilized about four hours to five hours a day and have many hours of non-use that could help the needy and, as we said, the elderly and the handicapped.

THE PRESIDENT: I would suggest that that precise recommendation be submitted to the Secretary of Transportation who will be appearing on the following panel.

I would think that that possibility is one that would fall within their jurisdiction.

MRS. REYNOLDS: Thank you, and I will do so.

THE PRESIDENT: Mr. Williamson.

MR. HODES: I am Richard Hodes of the National Legislative Conference.

Mr. President, I would ask if an issue which did not arise sufficiently during the mini-Summit we had last week but one we are concerned with in the states which is that the government recognize we have fifty other governments that are partners in the delivery of social services in this country and that those partners at the present time very often are seriously constrained by program guidelines and categorical funding to the extent there is so little flexibility allowed social services in the states is very often impaired.

So, it would be extraordinarily helpful if the concept of the social service revenue sharing were broadened beyond what it was in recent years so that those states that do have social service funding and can appropriately demonstrate the capacity to deliver those services would have the opportunity to have greater flexibility to emphasize the needs in their particular states to serve the needs in their particular communities.

My own state of Florida has a very large senior citizen population which need services considerably greater perhaps than the public employment sector needs that might exist in a more industrialized community.

I might suggest if we had greater flexibility in the operation and utilization of social service funding that the states considerably expand the capacities of those services to help the people of this nation without necessarily increasing or excessively increasing the budget at the present time.

THE PRESIDENT: Mr. David Williamson of the

Paraplegic Association, did you make a comment?

MR. WILLIAMSON: Yes, I did, Mr. President. I wish to make two comments.

Although we talk in terms of the fixed incomes of our nation's physically handicapped and the elderly, I think it is important thatwe realize with much talk about the oil industry, excess costs and things of this nature, last year when we had an energy shortage, many people because of the freeze on gas were unable to park their cars and use public transportation.

The handicapped do not have that opportunity or alternative. I would suggest in future policy that when we do talk in terms of energy and its utilization that we do keep this in mind because the handicapped have no alternative but their own private vehicles.

The second point, having been a handicapped individual for over twenty-odd years, I would like to thank you, Mr. President and other members of Congress. While on the one hand we don't exactly enjoy being handicapped, if I had a choice and have to be handicapped, I would rather be handicapped in America than anywhere else.

THE PRESIDENT: Thank you very much.

Unfortunately, this part of the program has gone on for a bit more than an hour than any of the others this afternoon. I regret that we will have to terminate here and take a five-minute break.

We have one more panel reporting, the one on transportation.

In five minutes we will resume.

(Brief recess)

MR. SEIDMAN: Will everyone be seated, please?

We would like to get started. The President has been called out for a moment but he will be back shortly. As you know, in this town the shortest most precious thing is presidential time. I think we have had a fair share of it today.

I would like to call on Secretary Brinegar to start the transportation section, please.

SECRETARY BRINEGAR: Thank you, Mr. Seidman.

The transportation sector is not always as efficinet as the world would like but today we will try to do our best to have a fast and efficient presentation of our conference.

The transportation sector's conference was held in Los Angeles on September 19 and 20. It was attended by 70 leaders from all sectors of transportation, rail, airlines, trucks, waterways, ocean shipping and mass transit. These 70 people which represented a good cross-section of management, labor and transportation users are responsible for moving most of the nation's people and goods.

In addition, the meeting was attended by the chairmen of the three transportation regulatory agencies: chairmen of the Interstate Commerce Commission, the Civil Aeronautics Board and the Federal Maritime Commission. Joining me as co-host of the transportation sector conference were Senator Jennings Randolph of West Virginia; Senator Alan Cranston of California; Representative Robert E. Jones of Alabama; John D. Dingell of Michigan; Congressman Don Clausen of California and Congressman Victor Veysey of California.

The meeting was spirited and informative and I am sure all the conference meetings were. We had agreements and we had disagreements. I hope that the spokesmen, as their contributions, will bring out the agreements and disagreements.

The delegates who have joined me at the table today, on my far right, next to Senator Cranston, are Rafe Pomerance, Director of the Urban Environment Conference; next to him are Mr. Benjamin Biaggini, President of Southern Pacific Railway; Mr. James Smith, President of American Waterways Operators, Inc.; Mr. William Bresnahan, President of the American Trucking Association; Mr. James Barker, President of Moore-McCormack Lines and Mr. Joseph Ballew of the Western Conference of Teamsters.

On my far left, next to Congressman Veysey, Mr. William Ronan of the Port Authority of New York and New Jersey; Mr. Edward Carlson, President of United Airlines and Mr. C. L. Dennis, President of the Brotherhood of Railway, Airline and Steamship Clerks, Freight Handlers, Express and Station Employees.

I could have saved thirty seconds by shortening that.

And next to him, Mr. A.E. Leitherer, President of the National Industrial Traffic League and Mr. J. L. Kerrigan, President of Greyhound Lines.

I would first like to start by asking Senator Jennings Randolph for a few brief comments.

SENATOR RANDOLPH: Mr. President, Mr. Secretary, without effective transportation to move products and people, our country is paralyzed. Fuel is the life blood of transportation. We must have affirmative action now, not later, to cope with perilous inflation not only in the transportation industry, but in all segments of our society. An immediate step is for you, for whom I have great admiration, Mr. President, to launch an energy conservation crusade.

You, Mr. President, I think can appropriately issue a formal proclamation to revitalize energy conservation within the Federal Government and asking for the full cooperation of industry and all citizens.

Therefore, Mr. President, I recommend that you initiate this effort early next week. The Congress, and I emphasize the Congress, should promptly enact energy conservation measures that are pending before it. We can save five million barrels of oil a day with a sensible conservation program. It is my firm conviction that the American people will respond affirmatively to vigorous and advisable government leadership.

Ladies and gentlemen of the Conference, the key word should be "action", action now.

Thank you very much.

SECRETARY BRINEGAR: Thank you Senator.

Now Congressman John Dingell of Michigan.

CONGRESSMAN DINGELL: Mr. Secretary, Mr. President, I wish to commend you for this conference. It is my hope that from it will come fruitful success in our war on inflation. The United States, like every other nation in the world, is in the midst of an international inflationary crisis and there is a horrifying upward spiral in the cost of goods and services. Although the United States fairs better than most nations in the world the hard fact is that the cost of living increases in this country threaten our whole economic structure.

The solution to the problem, I believe, lies only partly in the hands of our people and our government and I believe that the crisis being international in character must be approached on an international basis.

Turning specifically to the problems affecting transportation, we must begin with appreciation that the paramount inflationary problem in this area is the exorbitant increase in fuel, particularly oil prices.

I participated with great interest in the transportation inflation summit in Los Angeles recently and many potential remedies were discussed. Clearly, a reduction in exponential increases in fuel oil prices achieved with the OPEC countries is urgent. Our local efforts to increase fuel production, to shift to alternative fuel sources, to conserve energy and to develop new sources and supplies of fossil and exotic fuels is vital but it will not alone accomplish our problem.

American Flag international carriers both air and water are faced with the grossest foreign discrimination on all fronts, government and otherwise.

Those burdens not previously met by our government must be met with great vigor if our transportation system is to survive. Demand for cuts in government expenditures and activities do not offer assurance to reduce inflation and must be done with great care to avoid affecting essential programs whose cutting would threaten future productivity and efficiency of American industry.

A number of other steps must be taken to avoid inflation-induced decline in our transportation system. The Federal regulatory structure must be made to respond quickly to the needs of efficient transportation. Every major mode of transportation is afflicted with severe economic problems and shows signs of present or potential grave economic decline. As in other industries, government activity inhibiting growth and efficiency must be removed. Efficient transportation requires simplification but not elimination of your regulatory system. Federal finance and other assistance will continue to be needed to rehabilitate and to restructure our transportation industry.

Urgent attention is needed for mass transit. The current shotgun approach to money and credit is having a destructive effect on all parts of our economy and especially so in transportation.

America has used in the past regulatory devices to assure that private capital and private credit was available in important areas like transportation and housing. These methods are not being used today and as a result the transportation system is suffering along with the rest of the economy. A continuing review of the efficiency and effectiveness of all of our regulatory processes is necessary and is an essential part of good and productive governmen t.

However, there appears to be no evidence or justification for the belief that emasculation of environmental controls which contribute less than one percent to the increase in the cost of transportation or the rest of the economy is either necessary or desirable at this time.

Congress has moved to provide mechanisms for necessary improvements in our national transportation system. The surface transportation act pending before the House of Representatives, whose report I have in my hand and whose support I strongly commend to you, Mr. President, the Amtrack legislation periodically moved forward by the Congress, the urban mass transit legislation, rail reorganization act for the Northeast, and a number of other measures are proof of the ability and the willingness of the Congress to take innovative steps in consultation and cooperation with the Executive Branch to restructure and revitalize our nation's transportation system in these inflationary and radically changing times.

Innovation is necessary to place resources where theyare most desperately needed. Arbitrary cuts in essential programs in disregard of the future of the nation may appear to assist in the war on inflation but they will gravely impair our national productivity and the long-term viability of this nation.

I believe with the Legislative and Executive Branches of our government working together productively and harmoniously, together with the support of our citizens, this nation can overcome our national inflationary crisis.

SECRETARY BRINEGAR: Thank you, Congressman.

The final Congressional delegate, Congressman Clausen of California.

CONGRESSMAN CLAUSEN: Mr. Secretary, Mr. President, and my fellow participants in this conference, a coordinated integrated and balanced national transportation policy with its flexibility and mobility potential can uniquely provide the needed dimension toward the establishment of a more balanced and productive national growth policy.

Mr. President, you and the Congress can cooperate in the development of a selected public works and transportation investment policy consistent with a balanced budget that could be linked with a private sector urban and rural development bank effort dedicated to the accomplishmen t of this balanced national growth objective.

I will detail the specifics later. A revitalized and restructured transportation system can play a key role in the fight against inflation. I yield two minutes to my colleague from California, Mr. Vesey.

CONGRESSMAN VESEY: I thank my colleague for yielding to me.

Mr. Secretary, Mr. President, I want to congratulate you for holding this conference and for showing us and the people of America your own personal concern and involvement by staying right here with us all day today and carrying forward to some solutions.

Mr. President, we have serious economic problems which are dependent and long established and further restoration of the symptoms is totally counter-productive. We need a change in direction here in Washington, a change to a course of consensus with which the Executive Branch and the Congress can cooperate and which the people can pursue even over a long pull, and even involving some belt-tightening.

As I see it, this course will be a narrow one, a winding one between the hazards of uncontrolled inflation and the hazard of depression.

Now transportation is a major cost component in all goods and services. It must be effective and reliable. When we met in Los Angeles to my chagrin, we found that the Southern California rapid transit district was in its sixth week of a total shut-down strike which is still unresolved and therefore, I would say to you that that was causing excess consumption of fuel and clogging freeways and burdening the working man and we must find a mediating mechanism to resolve labor disputes before they go on to such length.

Mr. President, the transportation industry is saying that government must use restraint in the size of government. We must shed the habit of annual unbalanced spending. We must regulate less, we must encourage business more, we must coordinate our efforts better, and we must consider the economic impact of our decision.

There are no quick remedies but we must lay aside the partisanship which I was sorry to see erupt a little bit earlier today. But, as we work longer on these problems there will be less and less of that and we must seek for consensus.

I am sure we will contain spiraling prices. We will increase productivity which is the answer for inflation and we will produce sufficient goods for all.

Thank you.

SECRETARY BRINEGAR: Congressman, thank you.

I would like now to turn to the members of the panel from the outside and I would ask them, of course, to be brief. I am reminded that at 8:30 tonight there is a dance in this room of 2000 people who are not part of our group unless we are still here.

Starting for the railroad industry, on my right is Mr. Ben Biaggini of the Southern Pacific Company.

MR. BIAGGINI: Thank you very much, Mr. Secretary.

Mr. President, Members of the Congress, and delegates, as a primary victim of inflation, the railroad industry welcomes the opportunity to participate in this summit conference. We join the view that the Federal budget must be brought in balance with a further objective of achieving a surplus in fiscal year 1976.

All elements of government spending should be examined and reduced. We join the opposition to wage and price controls. Wage controls should not be necessary as enlightened labor and management should be able to reach a non-inflationary agreement on wages and working conditions that are not in the interest, provided government sets the proper example and indicates some sympathy for the industry's multiple government generated problems.

The railroad industry already has the strict test of price controls yet it supports the principle of freedom of pricing across the board in industry, generally. It needs relief from economic regulation so that it can price its services to be competitive in the transportation market. The railroads of this country by their very nature are a valuable anti-inflation tool. They provide essential low cost transportation to all segments of our industrial, commercial and agricultural society.

However, they need to be put on a sound financial basis once again to be able to do their job in an efficient and timely manner.

The railroads do far less to harm or disturb the environment than do most other forms of transportation. Yet, they are continually required to make non-productive expenditures in the name of water and air pollution control, noise abatement, and the public health.

National policy on these matters should be re-examined and cost-benefit ratios should be determined and considered before such expenditures are ordered by a wide range of national and local agencies.

Railroads have been seriously affected by rapidly escalating prices. Not only for fuel, which has increased about 150 percent in the past year, but also for materials and supplies used in construction and maintenance. Also, a severe scarcity of many materials and components has developed as suppliers have been forced out of business by environmental regulation or by OSHA requirements or as manufacturers shift into the more profitable product lines.

It would be desirable to extend the Defense Production Act priorities to the railroads to enable them to carry out their essential duties. Because of its low rate of return, the railroad industry can no longer raise capital funds through the sale of equity securities. Internally generated funds, expensive borrowing at high rates of interest, and extensive leases are the only sources of funds available to the industry.

Federal loan guarantees for plant and equipment expenditures would expand the amount of credit available at low government risk and would assist industries in assuming a viable posture in the anti-inflation battle.

Permanent gains in our standard of living and stability in our monetary structure can only come from improvement in productivity. Government, labor and business must recognize this and cooperate on broad range efforts to improve productivity across our entire society. The nation as a whole must adopt a conservation ethic with respect to everything, energy, consumer goods, capital goods, services, our natural resources, saving and conserving should be popular; waste must be avoided.

Changes in the Federal tax structure to promote saving and subsequent investment in plants and equipment and in housing are highly desirable. Items eligible for review and revision are the tax on capital gains, increases in the investment tax credit, rapid amortization for new plants and equipment, increased taxes on fuels and luxury itens, tax exclusion for some amount of interest and dividends and increase in the personal exemptions to help the low income taxpayer.

The emphasis from Washington should be on governing, not producing or regulating. The government should concentrate on creating the economic environment in which private business and industry will be able to fund projects essential to the national interest.

The sad plight of much of the railroad industry today can be traced to almost a century of regulation at all levels of government. It is to be hoped that this example will dampen any enthusiasm that may exist for more regulation as an inflation cure and further that we are in the dawn of a new and exciting day in the anticipation of less regulation so that the railroad industry can prosper in the future.

Thank you, Mr. Secretary.

SECRETARY BRINEGAR: Thank you, Ben.

I see that the railroads have clearly eaten into the time of truckers, but they are good friends and competitors. Speaking for the Truckers of America, I would like to ask Mr. Bill Bresnahan, President of the American Trucking Association to speak.

MR. BRESNAHAN: Thank you, Mr. Secretary.

Hello. Mr. President.

In view of the fact that I have only three minutes, I will endorse much of what Mr. Biaggini said about the problems of inflation as it affects the trucking industry.

I have a comment on another issue that I don't think is relevant to the inflation question. I am referring to some proposals seemingly endorsed by the economists at their second meeting in New York on September 23, 1974, and from some other sources.

Some of these proposals would tear the heart out of the Interstate Commerce Act and do damage to the best transportation system in the world and the only transportation system that is still in private hands. It is claimed there will be billions of dollars saved. We reject completelv that unsubstantiated claim. In fact, deregulation would increase the cost of shipments if carriers were permitted to charge anything they chose.

There is too much transportation now that is performed at the low-cost level. It is claimed that it is too difficult to enter the trucking business but in fiscal 1973, the Interstate Commerce Commission considered 5,240 applications for operating authority. Of this number, 4,299 were approved. That is more than 80 percent. It is claimed that there is too much empty truck mileage. Yet, the latest figures show that all regulated motor common carriers of general freight had only 4.1 percent empty miles.

Most of these complaints about empty back-hauls come from haulers of agricultural products which are exempt from regulation. They would like to haul regulated commodities on their return trips and thus achieve the best of both worlds. But, you have to remember that one fellow's back-haul is another fellow's front haul and robbing Peter to pay Paul makes no more sense now than it ever did. Peter, the regulated carrier, would be left with the empty haul and his obligation to serve all shippers large and small. Paul would be free to haul the freight on a pick and choose basis without any statutory obligations at all. All privilege and no responsibility.

It has been claimed that there would be more competition if transportation were placed on the anti-trust laws instead of the Interstate Commerce Act. We suggest that it would make more sense to place the industry generally under something like the Interstate Commerce Act.

In most of the other major industries, there are five or six giants as you all know, who control the field. On the other hand, there are about 18,000 transportation companies of all kinds under the Interstate Commerce Act including 11,380 trucking companies with gross revenues under $300,000 a year.

We need more competition in transportation like Custer needed more Indians.

In conclusion, and on a more positive note, we worked with the railroads and the water carriers in support of the 1973 legislation which hopefully will restore a viable and healthy railroad system in the Northeast.

We have also worked together in support of the still pending surface transportation act which would help the railroads tremendously and would do nothing to help the trucking industry. We have done these things in the name of enlightened self-interest, to stay the dead hand of nationalization but we cannot remain silent in the face of deregulation proposals which we consider ill-advised, irrelevant to the inflation issue and destructively counter-productive.

SECRETARY BRINEGAR: Thank you, Mr. Bresnahan.

Now, turning to the consumer side of the transportation, somewhat of a different view, I would like to ask Ray Pomerance who represents the consumers of urban transportation.

MR. POMERANCE: Thank you, Mr. Secretary.

Mr. President, members of Congress and fellow delegates, I appreciate the opportunity to come before you today to represent the Urban Environment Conference on matters of inflation, environment and transportation.

First, I would like to state my belief that inflation and unemployment must receive equal attention in deciding national policy. A humane economic program must help the unemployed.

Second, I would like to comment on the relationship between human needs and environmental protection. Environmental laws have been designed to protect the health, welfare and natural resources of our people. For example, clean air and pollution standards directly affect public health. Strict enforcement of auto emission standards may save four thousand urban lives andfour million sick days per year.

Steel workers who work on the top of coke often die from lung cancer at 10 to 20 times the normal rate. Nearby pesticide plant workers exposed to arsenic have 17 times the expected death rate from cancer.

I have two major recommendations in transportation policy which I believe will protect the environment and lower prices for consumers. The first is to reduce and redirect certain transportation funding and the second is to modernize surface transportation regulations.

Both of these changes will, I believe, contribute to the fight against inflation. The Federal budget can be reduced and redirected in part to the transportation sector over the next few years. The modernization of transportation regulations can produce lower cost and save consumers several billion dollars a year by causing increased efficiency and more competition in the transportation industry.

I believe that we must reduce the substantial Federal outlays for barge canal construction. We should avoid any further interstate highway construction and have the Congress authorize those funds to be used for construction of less-expensive and energy efficient mass transit projects.

The Highway Trust Fund will by law continue until 1977. During this period let us use that money for urban and rural transit needs which will help conserve energy and serve all Americans particularly the old, the young and the poor. The cost for the construction and maintenance of barge canals, perhaps some $6 to $10 billion over the next eight years, should be fully placed on users of waterways rather than the taxpayer who now foots the entire bill.

When we use the Federal budget to help get the economy going let us use it where our needs are greater. Housing is a basic human need. Redirection of spending to increase housing starts would be a tremendous step forward.

Regarding regulatory reform, numerous economists, consumers and environmental and shipper groups have advocated changes in surface transportation regulatory policy. If Congress and the Interstate Commerce Commission will force carriers to compete to a greater degree, we could expect substantial savings to the consumer, The taskforce on rail productivity in a recent report to the Council of Economic Advisers said that the antiquated state of the railroad industry and the waste it caused by over-regulation of the interstate freight industry will cost the American consumer in excess of $10 billion per year.

Mr. President, if we are going to reduce inflation and cope with human needs we can start by redirecting the spending of transportation dollars and by reforming transportation regulations. Thank you very much.

SECRETARY BRINEGAR: Thank you, Mr. Pomerance.

Now, representing the industrial users of transportation, Mr. Leitherer, President of the National Industrial Traffic League.

MR. LEITHERER: Mr. President, Mr. Secretary, members of Congress, fellow delegates. I would like to stress severalpoints made in the Los Angeles meeting which the consumers of transportation service believe are of utmost importance to help stem the inflationary tide. One is increased productivity and improved performance.

This area would include improved service time in transit shipments, The excessive delays encountered today require larger inventories and translate into higher costs and decreased productivity per unit output. There have been technological improvements in transportation techniques in many areas but it has not kept pace with the unit output cost.

Two, consolidation and relocation of rail facilities. Eliminate all rail facilities which railroads contend are unproductive, whose continued operation in the carriers' view hold small promise of fair return on investment, We are sympathetic to the carriers problem where it can be shown that continued maintenance and operation of such facilities are a burden upon the carrier and that discontinuance would not adversely affect the public interest,

We advocate a expedited procedure to resolve the issues of abandoning unprofitable trackage and other facilities with proper safe-guards to protect public interest.

Three, tax structure. A more realistic means of measuring taxes affecting our trans-port system must be found. There are many refine-ments in tax applications that militate against the transport system with resultant inequities that overburden carriers net revenue capability.

Four, circuitous routes and restrictive permits and certificates of convenience and necessity. The recent energy crisis has clearly delineated the excessive circuitous route mileage sponsored by restrictive methods in granting certificates or permits.

The suggestion should be reevaluated in the light of present circumstances. The Commission, I note, has begun doing some. Our energy problem, thought softening in intensity, is still with us and will be until we have been self-sufficient in production. For this reason alone, excessive route mileage should be drastically curtailed or eliminated completely.

We believe motor carriers should be permitted to eliminate limitations and restrictions in their present certificates and permits. These provisions should also extend to the regulated water carrier industry.

The Commission should be directed to administer all provisions of the Act so as to achieve the objective of less restrictive and more efficient service. Railroads should be permitted to become certificated truckers if it is in their interest to move freight by truck rather than by rail between points serviced by the railroad and without kay point restrictions.

Part of the justification for issuance of new certificates or permits should be cost and rate information. A program which embraces the concept of greater competition in transportation in current existence, offers the opportunity to make more efficient use of big plants. The solution to carrier problems is not continuing general freight rate increases which only perpetuate the inflationary spiral but rather much needed regulatory reform and imaginative legislative approaches. Thank you.

SECRETARY BRINEGAR: Thank you, Mr. Leitherer.

Finally, speaking for our sector, Mr. Edward Carlson, President of United Airlines.

MR. CARLSON: Thank you, Mr. Secretary.

Mr. President, I am appearing today as a spokesman for the scheduled airline industry. We strongly favor a balanced budget in Fiscal 1975 with Federal expenditures of no more than $300 billion.

We know this will be a very difficult job to accomplish. For those elected to public office it would take much political courage but somebody must lead the way and we believe the time is now. We believe the budget must be kept in balance for several years to prove to all citizens that this country can live within its means while we get inflation under control. We suggest a requirement be established for a cost-impact statement similar to the environmental impact statement now required.

No business can continually live beyond its income nor in the opinion of many, can the United States continue to live beyond its means. We believe that a surplus rather than a deficit would be applauded by many thoughtful, concerned citizens. Monetary policy has been constructive in fighting inflation but its use must be tempered by the need to avoid a severe recession.

Specifically we believe that interest rates should be reduced. We join with Senator Randolph and others who have spoken today in urging great emphasis on energy conservation. We in the airline industry are worried. Public support for energy conservation is slipping.

We believe a consistent and creative program to convince Americans to conserve energy in all phases of life is needed now. We favor new emphasis on a voluntary program to abide by specified limits, hold down heat, light, sir conditioning use and reduce wasteful energy practices in all phases of life.

We oppose mandatory controls on wages and prices but we favor Government monitoring of wages, prices and productivity because we believe productivity improvement is a major contribution which individual companies and labor unions can make in this battle against inflation. We need to promote an understanding of productivity and its effect on cost, prices, profit.

It does not mean more work for less pay per employee. It means maximizing the ingenuity of the free enterprise system in this country to provide products and services more efficiently and at a profit. In monitoring economic activity we believe the Council on Wage and Price Stability should devote special attention to those industries such as the airlines where wage increases have exceeded national averages. We support the need of constantly strengthening environmental programs yet however desirable, environmental protection programs may often be costly.

We must make sure that they pass reasonable cost-benefit relationship tests. We believe it is in the national interest that United States air carriers maintain a strong competitive position in markets beyond our own borders.

Currently, the United States international airlines serving these markets face severe hardships arising from excess competition and discriminatory practices by foreign governments.

The tremendous escalation of fuel prices in the past year has brought them to a crisis point. We hope a satisfactory solution can be found quickly to preserve international service by U.S. carriers. They represent a vital extention of our economy around the world and provide an essential favorable input into our balance of payments.

We believe that the government should retain price controls on domestic crude oil and to extend controls to areas of domestic crude products not now under price control.

In conclusion, many concerned citizens have faith in the strength and resilience of America and the ingenuity of our leaders.

In different times President Roosevelt said it well: "The only thing we have to fear is fear itself."

This country is too strong, too tough to be beaten by this common enemy of ours. While answers to specific issues may be hard to identify, a common continuing commitment of leaders in government, labor and business to beat back inflation will prevail if we are willing to make that commitment.

It can't be done by business, labor, any one political party, the Congress or the Executive Branch alone. It must truly be a parternship effort.

Mr. President, the airline industry and I am sure all who have preceded us today applaud you and the Congress for allowing us to meet with you today in this economic conference.

I am sure you will have the maximum amount of cooperation from many in attendance today.

Thank you, Mr. President.

SECRETARY BRINEGAR: Thank you, Mr. Carlson.

Mr. President, it has been a long day. We have just finished our three-minute speeches which averaged four minutes apiece, which tells you someting about the transportation industry.

I would like to thank you for your patience and close attention to this sometimes complex subject in the nation's transportation system.

I would start on the questions by answering the first one myself, the school bus issue.

Yes, we would very much like to let the nation's school buses used in public transportation if that means more efficient use of resources.

We have sponsored some experiments in our Department but I can report that most of the problems that we have are in state and local regulations that make it very difficult to use school buses in alternate transportation.

This is not an unknown problem in the transportation field. There are some design and safety problems, but I think in the years ahead we should learn how to use all of our buses in common-type service.

THE PRESIDENT: Thank you very much, Mr. Secretary.

We are somewhat limited by time. Are there any questions?

SECRETARY BRINEGAR: I think we wore them out.

THE PRESIDENT: There is one gentleman over here. The last shall not be least.

MR. MARX: My name is Joseph Marx. It is very important, Mr. President, for you to recognize that through the efforts of the U.S. Labor Party working people across this country know that the so-called Arab oil crisis is a rigid plan, part and parcel of a program by Nelson Rockefeller to destroy the working people, to deindustrialize advanced sectors of the world.

This means the death of billions of people. This also means, Mr. President, that it is not surprising that if they are expendable you are not also expendable, that part of this Conference represents the fact that it tends to propose solutions which have economic proposals that are not the economic proposals for the working class and will be used to "Watergate" you and in all likelihood end up in the same state as Mr. Nixon, your own death as well as the death of working people.

THE PRESIDENT: Thank you very much.

Unless there are any other questions, we will conclude.

Let me thank all of you who have stayed and persistently contributed.

It has been a pleasure for me to participate.

I thank you again and look forward to seeing you tomorrow at 8:30.

Thank you very much.

END (5:50 P.M. EDST)

CONFERENCE ON INFLATION
INTERNATIONAL BALLROOM
WASHINGTON HILTON HOTEL
WASHINGTON, D. C.

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MR. SEIDMAN: Will the delegates please be seated.

Good morning. As most of you have heard, the President's wife is ill and he will be delayed in arriving today.

I am sure all of us feel and pray that everything will turn out satisfactorily.

We are going to start this morning with the federal panel, the group that got squeezed out yesterday because of our tight schedule.

I am very pleased to present the President's Advisor on Science and Technology, Dr. H. Guyford Stever.

MR. STEVER: Thank you, Mr. Chairman.

Distinguished participants, the meeting on Science and Technology and the Economy was directed to identifying priorities for the reduction of inflationary trends through, first, removing the barriers to effective use of existing technology and, second, introducing new technology.

Three specific areas appear to offer the greatest potential leverage for lowering inflation. These are manufacturing materials and energy, health services, agriculture and food.

Technological progress has been responsible for the productivity gains and improvement in the supply and quality of goods and has helped make the U.S. a leader in both standard of living and quality of life.

Economic power, economic growth without inflation will remain highly dependent on technology and its applications.

Although we have done very well, indeed, in the past, there are some specific actions which can accelerate the application of science and technology.

In the manufacturing sector there are opportunities for improving productivity. Examples from our studies are the wide use of information handling for production scheduling, inventory control, cash management, and especially the application of new processes which reduce costs by using less capital, energy and materials.

Repeated several times in yesterday's conference discussions were calls for frugality and saving, for conservation of energy and materials and increase in their domestic supply.

The need for research and technology to achieve these objectives was stressed. Some such activities are already started and they are going to increase.

In supporting these efforts, I have repeatedly emphasized the corresponding opportunities from increased use of conservation technology, conservation meaning both efficiency and frugality in energy and materials used by both industry and the consumer, which reduces demand and increases the available supply.

The health care industry is labor-intensive and the application of technology and management sciences can make it much more effective.

Since health care is now a highly dispersed industry, its productivity can be enhanced by treating it as a system for delivery.

The creation of health care institutes, regional centers and other centralization techniques would permit the benefits of modern technology to be made available to large sectors of the population at lower cost.

Our phenomenal agricultural productivity is the result of the application of biological and chemical knowledge and the invention of ingenious machinery.

The trend must continue. Fortunately, the last three decades have been the most productive period in the history of biological science. That new science presents great opportunities for the future of agriculture, but other areas in the food system, particularly in food preservation, distribution and marketing need much more attention and are susceptible to the same improvements as we have seen in agriculture itself.

Mr. Chairman, we address to the President the recommendation that every piece of legislation and every Executive action be examined beforehand to be sure that it does not impede and, indeed, encourage the generation and use of beneficial technology.

Mr. Chairman, finally to the President and to the Congress, we believe they must insure that we continue to excel in science, which is so essential to the long-range economic well being of the nation.

Thank you.

MR. SEIDMAN: Thank you, Dr. Stever.

I would now like to call upon Mr. Roy Ash, Director of the Office of Management and Budget.

MR. ASH: Thank you, Mr. Chairman.

Senator Mansfield and distinguished Members of Congress, participants in this Conference:

At the pre-summit meetings and at this Conference, there has been general, although not unanimous support, for stringent but realistic fiscal restraint. That is for a total cash outlay level that will keep the federal budget from itself generating excessive aggregate demand and thereby adding to inflationary pressures.

The federal government is the largest single determinant of resource allocation in this country. Through its budget it allocates substantial resources between the private and public sectors of the economy.

By its very nature, the budget also establishes priorities, or allocates resources within the federal sector. These priorities, which are, properly, the product of this Nation's political processes, have changed drastically in recent years.

For example, amounts paid to individuals and state and local governments have increased from 30 percent of total outlays in 1968 to 54 percent this year.

Over the same period, the defense share has dropped from 44 percent to 29 percent.

The budget also influences priorities outside the federal sector. The proportion allocated to grants affects the distribution of resources between the federal government and states and localities, and the composition of that portion has a substantial effect on resource allocation within states and local governments.

Payments to individuals are a major instrument for income distribution and affect at least indirectly the types of goods and services purchased in the economy.

Each of these resource allocation effects is different, and occasionally may even conflict with others.

Further, the federal budget influences the allocation of resources between consumption and investment within the private sector, as well as the availability and cost of borrowed funds to all those who use credit.

Because it is one of the key tools for promoting economic stabilization and, more specifically, for combating inflation, it is important that the budget be discussed at this Conference on Inflation. Moreover, it is essential that actions be taken this year to restrain the growth in federal spending.

Were we not to act now, this year's nearly 10 percent growth in federal expenditures over last year would inevitably be followed by a higher rate of growth next year and in the years thereafter.

Reducing federal spending by \$5- to \$6 billion in a \$1.4 trillion economy may appear to be something just of a gesture but it is not.

Slower growth in federal spending reduces significantly the government's demands upon the financial market not only making those funds available elsewhere in the economy by contributing to a reduction in interest rates.

Searching for ways to restrain the growth in spending all programs are candidates. None can be considered uncontrollable or otherwise sacrosanct.

In choosing the programs that will bear the brunt of spending restraint, a number of critical considerations must be kept clearly in mind:

We must be mindful of those who are suffering disproportionately from inflation.

We must make a conscious effort to see that the burden of restraint is distributed equitably in this light.

We must recognize -- and take into account -- the fact that the effects of budget restraint differ in different program areas and try to achieve equity here, too.

We must understand the effects of the restraint on the economy and on employment in particular and make certain that restraint does not create more problems than it resolves.

These are, I believe, clear messages that have come from the pre-summit meetings and from this meeting and from all these meetings and the sentiment has been generally for budget restraint and not for drastic slashes in most federal programs.

The consensus of meetings -- both pre-summit and here -- for stringent but realistic restraint on the growth in federal spending describes an action to be taken to slow the growth in prices to deal with inflation.

Achieving restraint will not be easy. We need and we are working to obtain Congressional support for the kinds of actions that must be taken that cannot be taken by the Executive alone. The Congress and the Executive must act together.

We need and are working through this forum and in other ways to obtain public support, and we need to remind ourselves continually that achieving budget restraint will require that very difficult choices be made, for it is the burden of inflation that we are sharing and there are no benefits from that type of sharing.

The course described above is, I believe, the proper way to proceed in our democratic society.

While it is admittedly difficult, it offers the best and only hope for a durable solution.

Thank you.

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MR. SEIDMAN: Thank you, Mr. Ash.

I now call on the Secretary of Defense Mr. James Schlesinger.

SECRETARY SCHLESINGER: Thank you, Mr. Chairman.

My purpose this morning is to discuss the trends in defense expenditures and how that impacts the U.S. role in the world. Because the Department of Defense expenditures are not controlled by legislation or by formula for grants we have a substantial share of the so-called controlables and this substantial share of the so-called controlables has caused in the pre-summit conferences longing eyes to be cast at the defense budget.

The defense budget is viewed as a cornucopia or bottomless pit from which other expenditures can be obtained -- it is that the Department becomes, in effect, a target or an intended, if you wanted, hero for these discussions.

Let me disabuse you of any lingering misconceptions about the loaded, swolen, inflated defense budget. We have suffered a serious erosion of purchasing power as a result of the inflation to which the Department of Defense is no more immune than any other individual or institution.

Further reductions cannot be taken in the defense budget without a drastic effect on the world role of the United States. If you will look at the charts that we have distributed you will notice that on the first chart, while current expenditures have been stable over the period since FY '68, this in terms of constant dollars, the defense expenditures have declined by something in excess of 40 percent. As compared to the pre-war level, say FY 1964, constant dollar expenditures are down by some 18 percent. We spend money in two categories of acquisition, manpower and purchases from industry. Defense manpower has declined as far as military personnel is concerned by a million and a half people.

Since FY '68, as compared to the pre-war level, it is down by 550,000 men, something on the order of 20 percent.

As you know, manpower expenditures are our largest category of expenditure. This is reflected also in the decline in defense related employment in industry which since FY '68 is down from 3.2 million to 1.6 million. The decline in manpower in defense industry is, of course, associated with the decline in real purchases by the Department of Defense which from the Southeast Asian peak has fallen by something on the order of 50 percent.

But, we are now in terms of expenditures something on the order of 25 percent below the 1956 average reflecting the Eisenhower years, the Kennedy years and the early Johnson years. We have gone through a further reordering of priorities in the United States in which social and economic programs have grown dramatically, particularly since the middle 1960's. This is reflected in the declining share of the Federal unified budget to which Mr. Ash referred, going down from 44 to 29 percent.

But, I should emphasize, since there has been confusion on this subject, that any way it is measured the defense share is down.

In terms of the Federal budget, it has declined from something on the order of 70 percent to about 40 percent today. In terms of total public spending including State and local expenditures the decline has been to about 17 percent at the present time, the lowest point since before Pearl Harbor, if that is a source of comfort. In terms of the GNP, the decline has been from 9.5 percent of the GNP to about 5.6 percent in the current budget year and our share of U.S. labor force is down more dramatically because of the introduction of the all volunteer force.

In relation to the total economy, the Department of Defense represents about one-half of what it did in FY '68.

Finally, there is the question of purposes for which the expenditures of the Department are undertaken. These purposes, I think, must be carefully examined year after year.

Basically we maintain a balance around the world vis-a-vis the Soviet Union and as a result of the changing patterns of expenditures the Soviet level of expenditures on defense has passed the level of expenditures of the United States in terms of military power. So be it, allocations have grown substantially since 1960.

It is essential for the United States to maintain a world-wide military equilibrium if we are to perform our historic role which has been thrust upon this nation since 1945. If we are to continue to reduce our military establishment let us do so consciously, accepting secondary status consciously rather than through a continual erosion of the resources available to the Department.

The United States aspires to retain military power second to none and we will not be able to do it on 4-1/2 or 5 percent of the gross national product. As I indicated earlier, detante rests on a world-wide military equilibrium which is undergirded by the forces and leadership of the United States. If the United States drops its torch there is no one else to pick it up. Thank you, Mr. Chairman.

MR. SEIDMAN: Thank you, Secretary Schlesinger. I now call upon the distinguished Senator from Maine, the Honorable Edmund Muskie.

SENATOR MUSKIE: Thank you very much, Mr. Chairman.

Distinguished members of this Panel, the Conference is leading up to the second Economic Summit. It has been worth while. The best judgments of what ails the American economy are out on the table. So is the long list of pills and positions. We may not all agree on which medicine will work best, in what combination but I know we all agree that the time for words has passed. It is time to put a prescription to get as best we can and take the cure, being also mindful that we are talking about human suffering, not just numbers when we talk about inflation and recession.

When we talk of 5.4 percent on unemployment we should recognize that this translates into 10 percent or 20 percent and more for minorities, the young and in many of our urban areas. We must think about more and more people who cannot work to feed their families.

When we say disintermediation we should think about families who are trapped in inadequate housing. When we talk about the Consumer Price Index we should think about the elderly people who can only afford dog food to eat or about the Maine fisherman who works around the clock for ten days and nets $74. These people, all Americans, are waiting for action. They are waiting for a plan and a commitment they can count on.

They are ready to cooperate, I believe, but only with decisive leadership, only if the burdens are shared equitably and only if they can see that the prescription is likely to work.

I believe we need action in at least seven areas, action which will offer people the assurances they need to cooperate in a unified attack on inflation and recession.

First, budget restraint to cut wasteful and unneeded Federal expenditures while recognizing that heavy-handed budget cutting is not a cureall for inflation, could deepen a recession and could eliminate programs which are focused on the problems of people who are hurt most by inflation and unemployment.

And we must recognize that the most visible targets of those who urge budget cutting the most vigorously are these social programs.

With reference to the comments by the Secretary of Defense, may I make the point that the Defense budget is one budget that represents a substantial increase over the 1974 Fiscal Year budget and we have been urged by the President, by the Secretary and others to eliminate that program from any consideration of further restraint upon the budget.

So, let us not ignore and overlook as we talk about budget cutting the possible uneven application of that restraint. May I say that Congress has given assurances of its willingness and ability to engage in responsible budget restraint.

It has demonstrated its commitment to keep the Federal budget under control, measures enacted or pending in the Senate already make significant cuts for this fiscal year. Congress has established a new budget process to control Federal spending.

Secondly, I would urge a national compact of restraint under the leadership of the White House on wages, prices and profits to slow the wage-price spiral.

In the absence of mandatory controls which are clearly out of the picture, that kind of policy can work only to the extent that it is seen to be equitable and calling for equal sacrifice.

Third, an eased monetary policy, a step which I am glad to see is beginning to take place if it has not ended.

Fourth, a tax policy which assures some relief now for those whose incomes are being hurt most by inflation and which more equitably distributes the burdens of inflation and unemployment.

Fifth, to cushion job losses, a public employment program to assure at least 200,000 jobs or more in addition to the 125,000 jobs now authorized for public employment. I think it is clear from the evidence educed at this Conference that unemployment will rise to above 6 percent and may be higher by the first of next year.

Sixth, long-range policies to assure business that we will deal with resource scarcity.

Seventh, international economic policies which offer such assurances as we can give of mutually beneficial internation cooperation.

There is nothing in this list of seven which is new. All I have undertaken to do is to indicate what I believe must be the emphasis. I think there has been an over-emphasis on the possible fruits of budget cutting in terms of controlling inflation to the point that we may be diverted from these other actions that need to be taken.

As I have said, I am for budgetary restraint but over-emphasis to the exclusion of effective and vigorous action along these other lines could be counter-productive in terms of bringing inflation under control.

Regardless, Mr. Chairman, of the final prescription we choose, our economic program must be comprehensive, consistent, fair-minded and equitable and not the kind of stop-start hodge-podge we have had in the past. The people are ready, the Congress is willing to do its part and now we await action by the Administration as it seeks to choose among all of the bills and potions that have been presented before all of us.

Thank you, Mr. Chairman.

MR. SEIDMAN: I now call upon the distinguished Congressman from Illinois, John B. Anderson.

CONGRESSMAN ANDERSON: Thank you, Mr. Chairman and fellow panelists, ladies and gentlemen:

Some delegates yesterday wore buttons that said the problem is more than inflation. Perhaps the important line written by Charlie Shultz for his cartoon character Peanuts "We have met the enemy and he is us," would be more appropriate.

It seems to me like Moses, the great law-giver, yesterday we all scaled the summit and like he, at times, we found thunder and lightening playing around our heads but today is the time to descend.

It seems to me there is no immutable prescription that is acceptable, at least to accomplish all we seek to do.

I would hope, however, we would have learned something from this day and a half together.

It was Emerson who said, "It is the shallow man who speaks of luck; it is the thoughtful man who sees problems as cause and effect."

Most people yesterday described themselves and the groups for which they spoke as the effect of inflation.

We have been far less successful, I think, in designating the cause.

Great emphasis, I feel, has properly been laid in the foothill conferences upon the stream of public spending flowing out of the federal budget, and ascribing to it the description as being one of the major tributaries.to what has become the floodtide of inflation.

To pursue that analogy a bit further, I have talked to some during our foothill conferences who ascribed to the federal budget the role of the "father of waters" but you may recall occasionally it ravages over its banks.

Senator Muskie and others have pointed out that that would be carrying it too far.

All federal spending is not wasteful and unnecessary. Not all federal spending can be shut off like a tap any more than you can dry up the headwaters of the Mississippi.

Hopefully, out of this Conference will come the will and the constituency to support the critical analysis and reevaluation of our budget where our spending efforts are contributing to a riptide of inflation more destructive than the ills we are seeking to cure with a particular program.

Just because the breaks of fiscal restraint, to shift our analogy for a moment, will not take hold immediately is no excuse not to begin now, for if by precept and example we in the federal establishment reduce inflationary expectations and slow our present escalating price levels, it will be worth the effort.

The Budget Reform Act does not become fully effective in its implementation until 1977. The Budget Committee of the House and Senate are meeting now in an effort to assert our proper priorities.

Mr. Chairman, before I conclude, let me say we should indeed strike a median position between the old-time religion of straight budgetary reduction and nothing else, and the position some people seem to have taken at this Conference that there should be no tightening of fiscal policy.

I think the former would be undesirable because it would produce too much fiscal restraint, but the latter position would ignore the obvious need to reduce federal borrowing pressure on the money markets.

I believe there can be at least a $6 billion reduction in government spending in outlays for the current fiscal year.

I believe fully half of that can come from the defense budget. I think the other half, for example, can come in areas involving grants to state and local government.

We have to have programs -- Hill-Burton, impact aid, to mention just two that are not cost-effective programs.

I think you can find in the budget today at least a billion and a half in special-interest subsidies to business, highways, ships, other areas of that kind where we can make actual outlay reductions also.

If we do that, I think we can fashion the kind of compact spoken of -- the $150 to $200 tax credit to low-income families that would give them reason then to accept the idea that they should moderate wage demands otherwise necessary to meet inflation.

Finally, I think that within the package that I have suggested we have to include at least $9 billion in tax reform that ought to be enacted by this Session of Congress.

I think we ought to raise the minimum tax. I think we ought to do away with some of the subsidies, more specifically the depletion allowance that is still in the Tax Code.

If we do some of those things, it is possible I think to raise additional revenues of $9 billion and, coupled with the $6 billion I have spoken of in reduction in outlays, we could give a special cost-of-living tax credit.

We could supply some of the incentives that are needed for industry to -- particularly in those bottleneck-prone industries -- increase their capacity and then we could also have something left over, hopefully, in the neighborhood of $3.5 billion under the outline I have presented, at least $3.5 billion to reduce the protected federal deficit of $11 billion for the current fiscal year.

I think this is the kind of balanced program we can recommend to the country that if we are solemn about our obligation can at least begin to lead us down the road to some solutions.

MR. SEIDMAN: Thank you, Congressman Anderson.

We will now open the floor for questions of any of the Federal panel.

MR. DUFFY: Joe Duffy, American Association of American University Presidents. I have a comment for Secretary Schlesinger.

I believe you do perceive accurately that skeptism of many of us and many Americans about the military defense sector of the budget -- I would like to make two suggestions that I think might respond to our concern. One would be some statement from the Department of Defense with regard to procurement policies and steps that have been taken within the last year or so to tighten up procurement policies and to meet some of the criticism your department has received in that respect.

I think our concern is that the discretionary spending of $57 billion next year will lock us into further escalation in terms of contract commitments and perhaps you might respond to whether that is an accurate concern.

The second way in which your department could respond to our skeptism and concern would be with some clarification with regard to further expenditures such as those in Chile last year, and the policy with regard to the Department with respect to sale of weapons and military aid.

If your department could give us and the American people some response to these concerns I think we might have a more intelligent discussion about our posture.

SECRETARY SCHLESINGER: Thank you, Professor Duffy.

Let me take those two questions.

First, with regard to the issue of weapons sale overseas, the Department of Defense provides assistance to those countries that want to purchase through cash sales from the various U.S. concerns as well as administering the program of military sales and credit and the military assistance grant program.

Increasingly, the shipment of weapons overseas has come from cash sales rather than from grant or from FMS and this has required a change in the way we deal with the problem. It reflects particularly the growth of large balances of oil-producing countries. Each situation is different. For example, we are a part of NATO where there is an established NATO requirement. We are prepared vigorously to urge that the U.S. product be bought as in the case of the F-104.

With regard to other parts of the world and particularly in the Middle East, the policy of the Department has been to urge restraint on the part of the countries that seek to acquire weapons with what are now very substantial cash resources. It is our concern that the acquisition of additional weapons by these countries will outrun their trained manpower, will reduce the pool of trained manpower available for purposes other than military and we urge upon them slowness in building up their military establishments.

So, there are differences in that area.

With regard to the issue of expenditures related to Chile that have been in the news of late, that is, of course, a set of expenditures that are carried on by another agency than the Department of Defense, an agency I once headed, but I don't believe it would be appropriate at this time to go into any detail with regard to the funding of intelligence operations.

We have changed dramatically our procurement policies in recent years and I think in ways that serve both increased effectiveness in terms of purchases and in terms of assuring that the American taxpayer receives as much value for his dollar as can be obtained.

We have shifted away from an established IOC to date. We have established a milestone approach. As we approach a milestone, we must have assurance that the technical problems have been resolved with regard to a particular weapons system so that there is no costly overlap of acquisition and development.

I think that these changes have resulted in a smoother flow of weapons systems into the force structure without being forced in at an early IOC date.

We would be delighted to spread these changes more broadly and at the next meeting of the AAUP, if you can obtain for me an invitation, I would be delighted to discuss it for the membership.

MR. SEIDMAN: Microphone one.

MR. KRAFT: My name is Gerald Kraft. I am with the Kraft Chemical Company and I am speaking for the National Association of Chemical Distributors.

There is currently $7.6 billion of strategic materials in the stockpile. There are 109 different raw materials and commodities in that stockpile of which 107 have excesses that could be made available to the economy.

The Office of Emergency Preparedness has stated only $1.1 billion is now required for strategic objectives. Of the balance of $6.5 billion, only $1.4 billion is currently authorized for release which leaves over $5 billion awaiting authorization for release from Congress.

My question is how can we get Congressional action to give GSA authorization to dispose of this stockpile without disrupting, and I repeat, without disrupting, the marketplace and also to be able to counter any action from any foreign sources or cartels.

MR. SEIDMAN: We have several representatives of the Congress here. Would any of them like to answer that?

CONGRESSMAN ANDERSON: We have a member of the Armed Services Committee here with us. I was discussing with him while the question was being relayed that the committee has the legislation dealing with stockpiles and it is a matter of reporting out legislation and being adopted by the Congress authorizing release.

MR. SEIDMAN: I will call on the distinguished gentleman to comment.

Senator Muskie would also like to comment.

Would you like to start then Senator?

SENATOR MUSKIE: I would say I am really not qualified to comment.

If the case which the gentleman makes is supported and is supportable ,I would think this is the direction in which Congress ought to be looking. The guidelines he lays down I think, are the outlines of the policy we have tried to follow in the past. I don't always have our eye on that ball and it would depend upon initiative in the Executive Branch to move in this direction. I think the fact that this question has been raised will stimulate many of us to look into the possibilities. Maybe Senator Tower, who is a member of the Armed Services Committee, would have something to say.

SENATOR TOWER: I did not volunteer, let the record show.

We, of course, do periodically respond in the Armed Services Committee on an industry demand basis. We, of course, continue to do that. In terms of looking at the whole thing comprehensively and in dealing with it that way, we have not done so. I think that would require some impetus from the private sector of the economy.

MR. SEIDMAN: Thank you, Senator.

MR. ASH: I would like to add one further observation. As you know stockpile sales have been going on for over a year but one factor that has developed in that time that needs to be taken special consideration of is the possibility that some of those stockpiles, even though not needed for potential defense use and potential use in terms of military emergency might be needed for the economy in case various countries of the world would decide for one reason or another to do as some of the Mid-East countries have done in oil.

What we are doing now even though we are proceeding with some sales of stockpiles and even though we are awaiting legislation for other sales is to reaccess our whole stockpile situation in light not just of potential defense needs but in light of the potential needs of the economy in the event foreign countries for one reason or another choose to change their policies in selling those materials to us.

I agree with you that still though, not withstanding that, the levels are higher than they need be, that there should be an orderly program of further sales but at the same time there is this one reassessment going on. The last thing we would want to do is sell out come critical supply just at the time a foreign country decided,to which we have been looking for such supply, decided for political reasons they would not like to resupply us. So that is one consideration that is a bit different than might have been a year or two years ago.

QUESTION: If GSA does not have that authorization, we could not act promptly enough to counteract any of these foreign problems that you are indicating. The other comment I would like to make is we currently have a bill before the House Armed Services headed by Congressman Bennett's Committee and he has flatly stated that until the Security Council comes down and justifies the amount of release, the $5 billion release, he is not disposed to take action.

MR. SEIDMAN: Thank you, sir. The time for this session has expired. We will now take a 5-minute break.

(Brief recess.)

MR. SEIDMAN: I will now call for a report from the section on business and manufacturing, which had two meetings in Detroit and Pittsburgh.

To conduct this section will be Secretary Fred Dent.

SECRETARY DENT: Mr. Chairman, Members of Congress and fellow delegates: the emphasis placed on our economy by this conference is historically beneficial.

I congratulate the host. Yesterday we heard many suggestions about energy conservation. Our Department has been delegated the responsibility for industrial energy conservation.

We have developed how to start an energy management program. This has been promulgated through motion pictures distributed to business.

Ten days ago we brought out an energy conservation guide for industry and business providing the finest energy intelligence for them.

In addition, there is a National Industrial Energy Conservation Council of 22 private sector business leaders advising the Department.

The results of all of this we calculate in the period October through last May has resulted in savings of $5.6 million per day or $2 billion per year.

We are particularly proud of the cooperation that we are receiving and want to reassure those delegates who have suggested even more intensive energy conservation that we agree with you.

At the two business and industry conferences I heard admiration expressed for our economic system, confidence in it, and broad-based suggestions for improving it for all of our society.

My experience at two pre-summit conferences convinces me that a basic problem is that we have asked too much of government.

Government, in turn, has asked too much of our economy.

Our commitment and our ability to produce and to save has weakened. Local, state and federal government take about one-third of our annual production in taxes.

More funds are borrowed under terms of government loan guarantees. We must reestablish a non-inflationary balance between supply and demand.

Our productivity, yes, the performance of our economy must be improved. All of us, teachers, plant employess, farmers, government workers, executives must improve our individual performance by being more effective and efficient.

Both the public and private sectors must become leaner. Wasteful non-productive practices, whether by business, labor or government, need to be eliminated.

In addition, all of us must accept some sacrifice if we are to correct the economic ills. No sector of the economy should be carried by others.

Mr. President, I endorse a crusade for America involving balanced budget, lower demands on government at all levels, and improved economic performance by all Americans.

Now I would like to introduce the delegates from our business and industry sector, who will not be presenting remarks.

If they will raise their hands, I would like them to be identified:

Mr. Irving S. Shapiro of the duPont Company; Mr. Howard Morgens of Proctor & Gamble; Richard Gerstenberg of General Motors; Dr. William Lazer of Michigan State University; Mr. John deButts, American Telephone and Telegraph Company; and, from the Congress we are privileged to have Representative Ford of Michigan, Representative Nedzi of Michigan, Representative Shuster of Pennsylvania, Senator Nunn of Georgia, Senator Ribicoff of Connecticut.

Now, for the presentations we would like to first call on Mr. Arthur Wood, Chairman of Sears, Roebuck and Company.

MR. WOOD: Thank you, Mr. Secretary.

Mr. Chairman, distinguished Members of Congress and the Cabinet and fellow delegates:

In Pittsburgh and in Detroit the conferees from business and industry singled out the spending by the government in excess of revenues as the underlying basic cause which has over a period of years brought us to our present predicament.

The United States Government has been living beyond its means, something no American family or business can do for long.

In spending beyond its revenues, the government has caused the money supply, including bank credit, to expand faster than the real output of goods and services.

From 1963 to 1973 our total money supply increased 120 percent whereas goods and services produced in the nation increased only 50 percent.

Our government has been trying to accomplish too much too fast. When this happens, instead of government programs helping people, they end up hurting people through inflation.

To correct this situation, the government must stop spending more than it takes in through taxes. This will not cure inflation overnight, but expense reduction should start now and the Congress and the Administration must dedicate themselves to living with a balanced budget for the foreseeable future.

Certainly, other factors have added to our problem. The disastrous rise in the price of fuel and gasoline, the devaluation of the dollar, which greatly increased overseas demands for U.S. goods, and shortages of foodstuffs and other commodities, have all contributed to inflation.

Today, shortages are being reduced by increasing production in our mines and our oil fields and in our factories.

Business and farmers are going all out to increase production. This will help to stabilize prices as supplies catch up with demand.

In order to enhance production, it is essential that productivity be improved. As wages and salaries have been increased to help catch up with the cost of living, business is experiencing a decline in productivity.

This works against stabilizing of prices. The government should take a hard look at laws and regulations which add cost to the production process but do not contribute to one more unit of product.

Environmental and plant safety regulations increase production costs and consume capital that would otherwise be used to increase output.

Businessmen agree that pollution must be eliminated but it is important to note that the cost of anti-pollution and safety devices has been reflected in higher product prices.

The business conferees were strongly opposed to wage and price controls. Price controls cause shortages of materials and many low priced products disappeared from the markets.

Profits were squeezed and only high sales volume prevented serious setbacks to business. Wage controls were unfair and contributed in some cases to a deterioration of productivity.

Controls do not correct the underlying pressure on prices. They do not deal with the real causes of inflation.

We urge the President to stand firm in his opposition to controls. This should counter any temptation to raise prices now in fear of controls coming on later.

Some of our conferees urged measures to stimulate savings and to restrict consumption. Other conferees, including myself, support the emphasis on savings, but are opposed to restrictions on consumer credit.

These are adversely affecting the ability of millions of new young families to purchase household equipment and would reduce production and possibly employment in the plants that manufacture these goods.

It is important to note that the consumer has restricted her total spending over the past 12 months. There has been little growth in real terms of consumer expenditures for goods.

Finally, there is evidence that the supply situation is improving in many consumer products and some raw material prices are softening.

Increased supplies and vigorous competition in the marketplace should help turn the tide of rising prices.

Thank you.

SECRETARY DENT: Thank you, Mr. Wood.

We now call on Mr. Reginald Jones, Chairman of the General Electric Company.

Mr. Jones.

MR. JONES: I thank you, Mr. Chairman.

Mr. Chairman, distinguished Members of Congress and fellow delegates:

I shall try to deal with four subjects on which there was a substantial measure of agreement in our conferences; monetary policy, capital formation, taxation and international cartel pricing.

To many in our audience, monetary policy is not very well understood and perhaps it is best left to the economists.

The rate of growth in our money supply has such an impact on the rate of inflation and on the growth of our economy that it is so deserving of some discussion.

Under classic definition by tightening up the supply of money, we increase interest rates and thus make borrowing more expensive.

This reduces demand for all sorts of products and services and so brings a downward pressure on prices and reduces inflation.

So far this year money supply has grown a little over five percent with almost no growth in the June-through-August period.

While businessmen have generally supported a tight money policy up to this time they are now expressing serious concern that overly restrictive policy will tilt the economy into a sharp recession with unemployment next year exceeding seven percent.

You see, with inflation rates running in excess of 10 percent, a growth in money supply of five percent means that we all have five percent fewer real purchasing power dollars to work with.

Whether it is consumers to spend for necessities or luxuries or as businessmen to replace inventories or expanding manufacturing plants.

This credit crunch is now twice as severe as those of 1966 or 1970, each of which was followed by recession.

It has been suggested that this shortage of real dollars be reduced so that while the rate of monetary growth will constantly trail and be less than the rate of inflation, it will drop gradually and thus cushion the inflationary impacts on the economy.

Now, this action would also tend to hold up federal revenues through tax collection from a stronger economy, with reduced expenditures since there wold be fewer unemployed.

It should help us balance the federal budget and thus leave that much more credit for all of us as consumers or as producers.

The secondary agreement covered the need to encourage sustained business investment in modernization and expansion of our production capacity.

Increasing our ability to produce more goods and services and with greater efficiency overcomes shortages and thus helps to hold prices down.

As a nation we have been reinvesting only about 15 to 16 percent of our total output in productive capacity.

Last year Japan increased 36 percent; Germany, 26 percent. We must also increase our capital to provide jobs for the one and three-quarter million people who will be entering our work force each year.

The needed capital must come from profits and from depreciation expenses allowed on tax returns.

Now profits dropped from 5.6 percent of the Gross National Product in 1965 to only 4.3 percent in the last year.

By another interesting measurement profits amounted to 14-1/2 percent of all the compensation costs for employees back in 1965 but that figure last year was only 11 percent. Businessmen feel that depreciation allowances should be liberalized.

Investment tax credits for utilities and expenditures for safety and environmental protection should be charged off as expenses since they add nothing to productive capacity. Many of the businessmen also favored some tax relief for those with lower incomes, hopefully this would moderate demands for catch-up wage increases which would only push up prices again.

But all such tax measures will require setting Federal revenues which should come in from a stronger economy, possibly from higher minimum taxes or even a temporary surtax on incomes in the higher brackets.

Another major concern at the Pittsbuegh Conference was the enormous inflationary burden caused by the cartel of oil producing nations. During the upcoming trade negotiations which, of course, hinge on the passage of the much needed trade bill, perhaps we should seek to develope an international code of behavior with respect to all shortage situations, oil, bauxite and even wheat.

As President Ford has suggested, the United States does have a position of leverage with its enormous capabilities in food and high technology products. Thank you.

SECRETARY DENT: Thank you, Mr. Jones.

We now call on Mrs. Mary Wells Lawrence, Chairman, Wells, Rich, Greene, Inc.

MRS. LAWRENCE: Mr. Chairman, Mr. Secretary, ladies and gentlemen, in the advertising business you get an inside view of a wide variety of consumers, businesses and Government which is after all, the biggest business of them all.

Since 1960 Government has increased spending on programs other than defense 309 percent. In the same period I have watched Government anti-business feelings grow in almost direct proportion to increased Government spending. Yet some Congressmen and labor leaders speak as though associated State and nationalization of business were not their goals.

This anti-business trend is surprising when you consider that over 80 percent of all taxes are generated by business through corporate profits, Social Security taxes, taxes paid by people employed by business and other business taxes. It is also surprising when you consider that people need business to prosper so that they work in confidence, increase their wages and improve their standard of living.

It is surprising too when we can see the problems Italy has and England has as warnings. The United States' first national priority should be to help its business suceed in world markets and to nourish them so that they can provide the high employment and the higher salaries.

In this regard I would like to speak to regulatory fever in Government. It has created so many restrictions and controls that a great many businessmen today operate defensively rather than aggressively. With the Consumer Product Safety Commission and in the line of business reporting, Government has gone too far in its passion to run business. There is so much uncertainty and even fear of Government in business that many businessmen are less willing to innovate or to risk very much on the future.

Now a lot of Government controls are created in the name of the consumer. They may be noble in intent but I have watched Government controlling business on an every day working level and a lot of those regulations deal with trivia, a lot are confusing, a lot are impossible, and the waste of time and energy is enormous.

If you added up the cost of the effects of Government regulations in all industries it would prove to be one of the major factors in higher prices today. Business cannot possibly absorb the entire cost and the consumer is paying for it. In the research we do in my industry I find that the consumer does not want to pay for so much Government in the way of higher prices.

For example, most people resented the presumptuousness of Government attempting to force them to use seatbelts. They were bitter when they had to pay for these seatbelts. There are thousands of Government regulations that are more hidden than seatbelts, gobbling up consumer dollars and choking business.

We urge the President and Congress to stop, don't add any more agencies and controls for at least two years. We urge the President to charge the Wage and Price Committee with the responsibility to recommend eliminating legislation and agencies that are obsolete or were a mistake and are adding to costs.

I have also seen in studies that taxpayers feel they are paying too many taxes for too many Government programs, take minority groups. The taxpayers feel nobody in Government, Republican or Democrat, is listening to them.

You are listening to many experts here today but any program you create depends on the cooperation of the people and I think you should find new ways to listen to them, too. You can listen to them through a poll but the average poll would be too simple.

For example, if you were to ask someone if he or she is in favor of a consumer or social program that sounds good, he or she would say yes. If you gave that same person $100 and then asked him to either pay for the programs he wanted or to keep the $100 for himself, the replies would be more illuminating.

I recommend that you employ Yankelovich and Gallup to conduct a national study for the President and Congress.

It is possible to create a study that presents alternatives and query the people on just how much government involvement people really want to pay for in high prices and taxes. On my experience, I would take a bet they don't want to pay as much money for government as they are now paying.

Thank you.

SECRETARY DENT: Thank you very much, Mrs. Lawrence.

We now call on Mr. Jerry Jones, Chairman, National Association of Black Manufacturers.

Mr. Jones.

MR. JONES: Thank you, Mr. Secretary.

Mr. Chairman, Members of Congress and distinguished delegates, the present economic condition termed "economic crisis" by all sectors of the community poses grave concern for small and minority-owned businesses. Some economists say the problem is caused by the economy being near full employment and therefore, nearing full productive potential with some sectors of the economy reaching maximum capacity before others.

Many economic solutions to the problems of rampant inflation exist. The problem then, is to find a politically feasible solution. In choosing a politically feasible solution considerable attention should be given to the productive potential of small businesses. Small businesses contribute 39 percent to gross national product representing about 43 percent of the total productive capacity of our country.

Sixty-five percent of the non-government sector work force is employed by small businesses.

Ninety-nine percent of minority-owned businesses are small. Small businesses are plagued by shortages of materials and tight money.

The present monetary policy has added to the cost of high interest rates, has made financing expensive to small and minority business and has made money for loans less available.

Immediate action should be taken to relieve the financing problems of small businesses caused by tight money conditions. Consideration should be given also to the creation of a domestic development bank for the purpose of aiding in the redevelopment of rural and urban depressed areas. A system of tax concessions or credit should be instituted immediately to develop the necessary incentive for increased use of the unproductive and under utilized people of our country.

Loans and investments in small businesses that are not labor intensive but have a potential to offer increased productivity through the utilization of technological or capital intensive advances should be more easily consummated.

Likewise, a one-year moratorium on federal loans to small businesses with a guarantee of direct aid should be instituted if the particular situation warranted. Government programs directed toward the development of small businesses should be maintained. The Small Business Administration Aid Program should be doubled. The basic premise on which these programs have operated is that minorities must achieve parity in the most expeditious manner if we are to prevent our country from being destroyed from within.

All minority groups have recommended full employment. It is debatable that this goal is economically attainable. However, when you consider that minority

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receipts represent .7 of one percent of total business receipts of $1.4 trillion with the minority unemployment rate of 9.7 percent, it is reasonable that business and government immediately strive to increase minority business receipts to 1.4 percent. This act, it is estimated, would lower minority unemployment to six percent, with commensurate results on inflation by transferring funds from such areas as welfare to areas that would contribute to productive output, thereby threatening our tax base.

Many small companies that are doing business with the Federal Government have fixed type supply contracts. Due to the present inflation and material costs, these companies are being squeezed into unprofitability because they are not able to pass on unexpected increases or to justify a proper rate of escalation on new contracts.

We suggest that the government develop sufficient guidelines for rates of inflation contract for supplies to be delivered in the future. In order to accomplish this type of growth for small business, a long-term desirable goal, it is necessary to structure business development programs in such a way as to increase the effective clout of small business in areas where big business dominates and therefore bring about a more competitive and productive economy.

It may be said that this is a long-term solution. We have already admitted the problem of inflation has only a long-term viable solution. The future of big business and labor rests upon the shoulder of small business.

Thank you.

SECRETARY DENT: Thank you, Mr. Jones.

We now call on Dr. Russell Peterson, Chairman, Council of Environmental Quality.

MR. PETERSON: Thank you, Mr. Secretary.

Mr. Chairman, Members of the Congress, there were two environmental themes discussed at the Business and Manufacturing panel, the control of pollution and the conservation of resources.

There was some sentiment expressed in the panel that pollution control has been a major contributor to inflation. Recent analysis shows, however, that control of pollution has contributed about one-half of one percent to our current rate of inflation, a price to be sure but one which is commensurate with the health and other beneifts of clean air and clean water.

Naturally, the economic impact of pollution control is greater on some industries than others. This is especially true for those who pollute more than others. By working together to find optimum ways to fulfill the Congressionally mandated environmental goals while avoiding excessive cost, business and government can minimize confrontation over environmental regulation.

The second theme discussed was conservation of resources, an approach nearly all of us agreed offers every American an opportunity to participate in bringing inflation under control. Our nation is highly wasteful of resources. We have a large opportunity to conserve these resources, to increase their productivity. When we stop wasting something we reduce the demand for it.

We also increase the effective supply of it, leaving more for other uses. Lower demand and increased supply through reduction of waste is one way to overcome inflation.

How do we get people to follow Ben Franklin's advice waste not, want not?

One way would be to initiate a broad based energy tax, coupled with a national crusade to reduce energy waste. The tax would create an incentive for conservation. A national effort involving every American would encourage and assist people and institutions to save the equivalent of a tax by reducing waste.

The proceeds of tax could be used in part to finance tax relief for low income people and provide public service jobs. Thus, avoiding another kind of waste, the waste in human energy through unemployment.

With less energy waste, we can reduce imports of oil and our balance of payments deficit, lower our dependence on foreign supplies, reduce our need for capital investment and new energy production facilities and protect our environment, all at the same time.

By enlisting the energy and resourcefulness of all Americans we can reduce waste and in so doing, stem the decline in the value of our dollars.

Thank you.

SECRETARY DENT: Thank you, Dr. Peterson.

Before going to our Congressional representatives I would like to ask Warne Boyce, President, Microbak Labs, to raise his hand and be recognized.

Thank you.

Now we would like to turn to the Congressional representation who faithfully attended our meeting.

First of all, Congressman Neal Smith of Iowa.

CONGRESSMAN SMITH: Thank you very much, Mr. Secretary.

Members of the panel and ladies and gentlemen, I will not repeat some of the ideas for which there was near unanimous agreement at Pittsburgh and other meetings, such as the need for freedom from controls, the need for a new trade bill and the need for increase in the supply of money. But, I want to point up a few additional things that I believe are equally or even more important.

Now, the greatest cause, and I emphasize the greatest cause, of the rapid increase in inflation this year is undoubtedly the increase in the cost of imported petroleum products.

We will pay $20 billion more this year for less imported petroleum. Now that is just like loading up $20 billion worth of steel and aluminum and basic resources and shipping them overseas and then bringing the ship home empty.

Now we are going to cut that $5 billion which has been talked about a lot around here but obviously the effect on inflation of that action is trivial compared to the effect on inflation represented by the $20 billion increase in the cost of imported petroleum.

Eliminating this increased cost of imported petroleum products might have well by it reduce inflation more than two percent. In addition to encouraging the conservation of petroleum users that we have heard about and with which we all agree we need a definite program to encourage industry and utilities to shift at a more rapid pace from petroleum to dry energy, to the use of coal or energy derived from coal.

Now, this might involve, for example, and there are other recommendations, it might involve an assurance that coal buring equipment which is installed will be considered adequate without change for the same period of time over which it can be depreciated.

A number one plank in the anti-inflation program should be an environmentally acceptable plan to greatly speed up conversion to coal as a major energy resource.

We need a big lick on inflation and I think this would do it.

Also I think the businessmen in the country were in agreement that some form of barter might be good at this time.

If we had the ability to barter some of our basic materials from this country for those in other countries with the approval -- and I stress "with approval" -- of both governments, there would be an assurance that unwise and unfair export controls or taxes would not be applied by either country during the period involved.

This could help assure some very badly needed stability and supplies of basic materials.

Other countries do this and I think we can no longer afford to take the attitude that barter is beneath our dignity. I propose a program leading to some long-term barter deals.

Also, I want to mention that there was indication that inventories build up at the rate of about $2 billion. It seems to me that when the President asks the American people to discipline themselves, we might also ask business and industry to release some of these inventories so as to increase the supply at this time.

SECRETARY DENT: Thank you, Mr. Smith.

We now call on Congressman Gary Brown of Michigan.

CONGRESSMAN BROWN: Thank you, Mr. Chairman.

Mr. Secretary, distinguished delegates, ladies and gentlemen:

After meetings in Pittsburgh and Detroit, and having listened carefully at the session yesterday, I should probably say that the more one listens, the more confused one becomes.

In frustration, one reaches the point suggested on another occasion concerning another matter by Senator Aiken.

As he said, regarding the Vietnam War, maybe we should just declare we have won the war against inflation and get out of it.

Levity aside, since there is nothing funny about the hardships being unequally suffered due to inflation, let me make some observations.

Presentations by the delegates on our panel were not radical or unique. As has been true of other panels from whom you have heard, our delegates found that the greatest contributors to inflation to be others, primarily government with its deficit budgets, overregulation, tax laws which deny adequate capital recovery and formation, and inadequate productivity.

Although the negative revenue impact of some of their tax recommendations did not seem to be appreciated, in fairness it should be said that they conceded taxation of higher levels of income and corporate profits might be required to offset the short fall in revenue lost.

As a result of our discussions and those of yesterday, I have become convinced that each segment of our economy erroneously thinks it knows each other's as well as its own -- and the consumer knows none -- and to make things worse, the consumer thinks he is the victim of this economics chess game.

Everyone wants the federal government to curtail its budget; but couldn't there be some budget-cutting by business and industry?

Couldn't some inflationary budget-cutting be done by greater productivity of labor; and, finally, couldn't the consumers do a little more holding of the line with respect to non-essentials, especially non-essential use of energy?

Let me suggest uncontrollables are not the sole property of government only. How many consumer budgets are not now at least 75 percent committed, paycheck to paycheck?

There is great fear about and opposition to any blanket suspension or even postponement of strict enforcement of safety, environmental and other regulatory standards even though it may be conceded that they contribute to inflation and shortages of critical materials and energy.

This fear and opposition is not frivolous; it is a widely shared concern that must remain in the forefront of our deliberations.

As a Congressional host, I have felt constrained to listen rather than make specific recommendations at this time, though I have several in mind.

If I may speak generally, inflation is a complex and many-faceted problem and its control will not result from any one type of corrective action.

We need to take selective and limited action on all fronts, but action which confronts the greatest contributory causes since we know all things discussed at this conference are not equally at fault.

Esther Petersen, a member of our panel, suggested an inflation audit by all. I draw upon her suggestion urging the establishment of a priority list for strong medicine with no sacred cows exempt.

In addition, each of us needs to become an inflation investigator, an anti-inflation enforcer, if you please.

Budgets, public and private, monetary policy and credit, public and private, and every other activity, public and private, need immediate anti-inflationary examination and action.

I am prepared to join this "no-holds-barred" fight.

Thank you, Mr. Chairman.

SECRETARY DENT: Thank you,Mr. Brown.

We now solicit what the Chairman has identified as one-minute questions from the floor.

SENATOR HANSEN: Mr. Chairman, yesterday my good friend and distinguished colleague, Senator Mike Mansfield, criticized the Administration for failing to take actions that he felt would be helpful.

He suggested, among other things, that we should have created a committee on supply and shortages and that this government should work in cooperation with foreign countries to offset the effects of the oil cartel.

My question to Senator Mansfield is this: Does he believe that the amendment that he was able to attach to the surface mine legislation, which would deny over 14 billion tons of coal for use by this country, to be the direction that we should take in trying to offset the high-priced foreign oil we are called upon to buy?

SENATOR MANSFIELD: I do.

SECRETARY DENT: The young lady at mike number three.

MS. KARPAKIN: Thank you, Mr. Chairman.

My name is Rhoda Karpakin. I am Executive Director of Consumers Union. In identifying the causes of inflation, the panel's report mentioned, among other things, unions pressing for wage increases and the impact of government regulation in areas such as pollution control, health and consumer safety laws, but in discussing the causes of inflation and how to fight it, you failed to give any weight or even mention the impact of government on anti-trust policy.

While sharply attacking government legislation in the consumer interest, you were silent on the dozens, if not hundreds, of government laws, policies, regulations, and subsidies that restrict or eliminate competition and impose artifically high prices on consumers.

Nor did you deal with the conclusion as expressed in the Joint Economic Committee Report included in our pact that ---

SECRETARY DENT: The minute is up. We will put your comment in the record.

MS. KARPAKIN: Please let me finish.

My panel was not adequately represented yesterday when this view could have been expressed and I would like to continue expressing it today.

I am sure if the President were here, he would not squelch me.

Nor did you deal with the conclusion as expressed in the Joint Economic Committee report that "in the private sector industrial concentration collusive practices, administered prices, exorbitant profits and anti-competitive behavior must bear a large part of the responsibility for the current inflation."

Some of that private sector is sitting at the table right now. It is true of Consumers' Union that these factors have been a serious cause of the unconscionably bloated prices that consumers are paying today running into billions of dollars annually.

The Joint Economic Committee has advocated comprehensive legislation to eliminate both government and private barriers to an efficient market economy.

Now my question: I am unhappy with the silence of the panel on these major issues. I would like to know if anyone speaking for business or industry supports such programs to reduce prices.

SECRETARY DENT: Congressman Shuster of Pennsylvania has asked to respond.

CONGRESSMAN SHUSTER: While I am certainly not speaking for business and industry, I was present at some of these meetings.

I did raise the question of anti-trust policy and I expressed the strong view that we need to look carefully at anti-trust policy.

In my opinion, we need a more vigorous anti-trust policy domestically and we need an entirely new look at anti-trust in the international marketplace because American industry is competing against international cartels.

I think that we must permit American industry to join together more in the international marketplace so it can compete effectively against those international cartels, so I feel very strongly that we need new and vigorous anti-trust policies on two levels.

SECRETARY DENT: Senator Tower.

SENATOR TOWER: I just want to say to the lady that this matter was discussed at the two meetings of the economists in New York and Washington and I think this matter will be aired when they have their round.

MR. ROOSEVELT: I am James Roosevelt. I am a former Member of Congress.

Mr. Chairman, Mr. Jones has well brought out the importance of the small business segment of our economy.

I would point out, however, that it is not made up of just minority groups; it is made up of a great cross-section of all Americans.

He did not bring out -- and I would like to bring out and ask a quick question -- that there is a law today on the books which gives the Small Business Administration the right to make guaranteed government loans to the small business sector.

It has never been implemented. I would like to ask, Mr. Chairman and Mr. Secretary, if there is anybody in the Executive Branch of the government who will take the responsibility to see that this independent agency puts that part of the law into effect.

We can have billions of dollars put into productive use if we can only get down to putting the law into effect.

SECRETARY DENT: We will call your suggestion to Mr. Kleppe's attention. Thank you, Mr. Roosevelt.

MR. ROOSEVELT: That was not an answer to my question.

I asked if anyone in the Executive Branch would undertake to see that Mr. Kleppe did something about it.

SECRETARY DENT: Thank you very much.

I regret to say that our time has expired. We tried to share one minute with everyone and regret that we have overrun the time.

MR. SEIDMAN: Thank you, Secretary Dent, and panel members for a fine presentation.

We will now take a five-minute break.

(Brief recess)

MR. SEIDMAN: Will the delegates be seated, please?

We will now begin the report of the sector representing state and local government.

SECRETARY LYNN: Thank you, Mr. Seidman.

Distinguished leaders of the Conference, Members of Congress, ladies and gentlemen:

The state and local government's conference was held in Washington last Monday.

In attendance were Senators Muskie, Bayh, Domenici; Congressmen Horton, Edwards, Rees, and Stanton, as well as Senator Humphrey who represented the economic sector heard many recommendations from governors, mayors, state legislative, county officials, labor representatives, representatives of the consumer and environmental interests, as well as representation from those organizations who represent the poor and the minorities of our country.

The speakers here today will highlight recommendations that came out of that conference. I stress "highlight" because in the interest of allowing time for questions, which all of us feel are of vital importance, we won't have time to mention all of the recommendations, but we do refer you to the summaries and the written reports that were filed after the pre-summits.

First, I believe Senator Dominici has some remarks.

SENATOR DOMENICI: Thank you, Mr. Secretary.

Mr. Chairman, distinguished participants, many summit conferences sign peace treaties. This summit must declare war on inflation.

We can no longer play war games.

In the forefront are 10 million -- and I stress 10 million -- local and state employees, three times larger than the federal work force. This front line delivers America's basic services.

The crunch for our cities and counties especially has not yet come, but it will come and local government must be a part of any anti-inflationary plan.

We can help local government in three ways:

First, we must establish a permanent system to involve local and State officials in national economic policy.

Second, we must permit the consolidation of 1060 categorical grant programs that now funnel $43 billion to our States, cities and counties and, third, it is almost unanimously agreed that general revenue sharing must be continued.

We must end our dependency on outrageously priced foreign oil controlled by an arbitary cartel. We must pursue bold policies over austerity action. The American people will respond to our call for sacrifice. We must cut unnecessary energy consumption first.

Then, we must embark on a Manhattan type project for energy. We cannot delay a crash program similar to the World War II project.

It must be for energy self-sufficiency. Many other battlefields loom in this war that particularly affect our cities, counties and States. We must inject funds into the housing market. We must offer incentives for small investors in savings and loan, and those poor and elderly who suffer so much now, cut a bloated federal budget and we must insist on price and wage monitoring by the government and a vigorous anti-trust enforcement to prevent excessive illegal profiteering.

I seriously urge that the public dialogue, the open forum and the exposure not only of the cabinet of our President to the members of Congress, but of all segments of society be continued as we move toward concrete legislation and implementation of many of the ideas presented at this conference.

Such openness will prove invaluable. The only way America can lose a war is if the cause is not just or if leadership fails to unite the people. Our cause is just. The burden is on leadership. Our failure now could signal the need of America's present political and economic system.

Thank you, Mr. Chairman.

SECRETARY LYNN: Thank you, Senator.

I believe Congressman Rees of California has some remarks.

CONGRESSMAN REES: I think the best thing about this conference is at least we have gotten together and we are talking about our problems. I have been in Congress for eight years and this is the first time I have had a chance to talk to an Administration, mayors, the governors, the county supervisors and talk about legislation that I am dealing with as a member of Congress.

I would hope, Mr. Secretary, that we can continue this because I think that communication, getting together and talking over these problems even though we don't agree all the time, is 50 percent of the battle.

I would like to see a lot more summits; I would like to see a lot more national town meetings of this type so that we can at least feel out our positions and find maybe where we can go and maybe where we can agree.

On our panel in State and local government, most of the morning was tied up with just reading statements and was kind of boring. Once we got passed our printed statements and started communicating, it was pretty good and by four o'clock we were getting ready to start fighting inflation.

We do have inflation. By the end of this year, we will probably have six or more percent unemployment. We are going to find the energy crunch and this pricing of energy is going to run poor people out of their homes because they won't be warm enough.

So, the infantry, really, of government is local government. We can sit and talk about problems here in Washington but it is local government that has to deal with unemployment, crime, people starving to death and not having enough food.

So, I think the important thing is to anticipate inflation is here and set up machinery now because the real hammer blows are down the line. I would hope we could develop a meaningful jobs program, not just raking leaves but doing something meaningful for this country.

I would hope we could consolidate a lot of these programs so we could have direct delivery programs so when Congress votes for money for a community program, it goes there right away and you don't have to hide under paper for six months.

I would also hope we do put more money on block grants going into local government because it is local government that is restricted in terms of their tax base.

Mr. Secretary, I think we have made a lot of progress in our panel and frankly, I am ready to get going, roll up my sleeves and get this thing moving so we can really solve this problem down the line.

SECRETARY LYNN: Thank you, Congressman.

The delegates to our conference who are here, whom I would like to introduce are:

Thomas P. Salmon, Governor of Vermont; seated with Governor Salmon -- and I understand the Governor is going to relinquish a little time -- is William L. Waller, Governor of the State of Mississippi. Together they represent the National Governors Conference.

GOVERNOR SALMON: Thank you very much, Mr. Secretary.

Let me state that Governor Evans of Washington was called home by reason of an emergency. With me is Governor Cecil Andrus of Idaho, Governor Wendell R. Anderson of Minnesota, Governor Dolph Briscoe of Texas, and Kay Bailey, Texas House of Representatives.

The anti-inflation game plan must, of course, include elementary justice for those least responsible and those most affected by their crisis, not Wall Street brokers, but the poor and unemployed in our society.

We urge tax relief and public employment initiatives to alleviate these ills.

The combined state and local budgets of this nation exceed the total federal domestic budget. Unlike our federal counterparts, we must balance our budgets and we are doing so here and now by tough budget cuts and other fiscal restraints.

The vast majority of Governors sense that old-time religion, namely reverence for what worked a century ago, the reduced role of government, balance the budget, control the money supply and have faith, is a vestige of a by-gone age.

Although selective budget cuts must be made as a part of this game plan, those cuts that will result in the dismantling of critical programs in the states and in the cities of this country, thereby reducing services and causing increased demands for state and local taxes, or both, do not contribute to the battle against inflation.

We exhort the President to lead the charge toward greater productivity and efficiency in the public and private sectors and corresponding elimination of the waste and inefficiencies caused by excessive rules, regulations and guidelines.

We applaud the President for a significant beginning toward state and local participation in the state and local budgetary process and we exhort the continuation of general revenue sharing and a greater utilization of discretionary block grants.

But, most importantly, the message we bring you from the Governors here today is that the Congress and the Executive Branch must deal aggressively with the unprecedented threat of the international oil cartel in this country.

Being from New England, it is especially difficult in our part of the world. Let the sense of this summit be that the price of oil must come down and that energy conservation must become a household word in our quest.

We would urge the President to use the strong moral leadership of his office in a call for a massive public conservation, education program coupled with an aggressive drive toward petroleum self-sufficiency.

Something very significant has happened in Washington this week and I speak from the perspective of a chief executive.

The President of the United States, a man who has an impossible schedule, has taken a substantial part of his week to listen to what the American people have to say on the issue of inflation, so similar to the public forum known as the local town meeting in New England.

This country here and now desperately needs leadership. If the tone that the President set this week is implemented by strong Executive and Congressional initiatives, the people of these United States will respond and this Republic will endure.

I now yield to the Governor of Mississippi, Bill Waller.

GOVERNOR WALLER: Gentlemen, we are on the front line with the working men and women and the poor people. I would like to bring to the Senators and Congressmen and to the President two of the main causes of inflation.

We believe thatprice and supply manipulation abound in energy, in beef prices, dairy products, poultry and other farm commodities, even in grains.

We also believe that federal regulation has contributed to the current inflationary spiral.

We would like to point out -- and when we say federal regulation, we are not just talking about EPA or any of these controls -- that we have a nuclear power plant in my State that has been delayed up to eight years because of various federal regulations.

The President told me at the White House recently that it is strange,in America it takes us eight years to build a nuclear power plant when Japan did not discover nuclear power in the first place can build the same plant in five years. We believe that the federal regulations are contributing in a major way to the inflationary spiral.

I have heard nothing at this conference, gentlemen, at our own domestic reserves in natural gas and oil and how to recover those reserves more rapidly and to get off of our knees to quit begging the sheiks for more oil and gas.

Now, listen to this: 40 percent of our oil and gas needs are presently imported. Can we become self-sufficient quick enough in oil and gas to allow the lag time that it is needed to gassify coal, liquify oil shale or whatever?

I believe we can. Only 50 percent of our oil reserves are presently drilled or producing. Less than 60 percent of our natural gas has been discovered. Now, where is the oil and where is the natural gas?

It is in the South and the West. We believe it is being held. Some of the natural gas is going off shore under ground storage. There is a rip-off by some of the gas companies to keep the natural gas, the world's only perfect energy from coming to the poor people and to the needed sources of consumption.

I have been to 18 conferences, Mr. Lynn, and I have heard most of these conferees recommend the deregulation at the well head of natural gas. The free enterprise system can win this battle but we can't if we invade it with rules and federal regulations.

We have to get the captains of industry back in the field with the drill bit to find our energy and we can only do this by giving him a responsible profit incentive. If they are holding energy, if they are holding natural gas, then I believe that we should have federal inquiry and investigation into anti-trust and so forth.

Let me say one thing about public service employment. You are recommending 200,000 people be given a chit on the public payroll.

We would like to see those same people employed by private industry. We cannot get rid of employees at State government once we hire them. We would like to see capital construction projects with that same amount of effort rather than public service employment. Let's put the people to work but let's put them to work in the free enterprise system. Let's not leave the Conference negative because this nation is strong and we can solve our problems by a continuation of what has been exhibited here and that is team work.

Thank you very much.

SECRETARY LYNN: I would next like to call on Mr. Martin Sabo, Speaker of the House, Minnesota, and president of the National Legislative Conference. He will speak on behalf of that conference as well as the National Association of Legislators.

Seated with Mr. Sabo is Mrs. Kay Bailey of the Texas House of Representatives.

MR. SABO: Mr. Secretary and members of Congress, my first concern is that the economic policy which has been advanced by major spokesmen for the Administration is over-simplified and would intensify the harmful effects of our current economic situation on Americans with low and moderate incomes. The preoccupation with maintaining Federal expenditures below $300 billion Fiscal '75 and below $330 billion in Fiscal '76 is too simplistic and at the same time unfortunate. Simplistic because it betrays too narrow a view of the causes of our current economic problems, unfortunate because our attention on energy could be focused on attending to those other causes of the problems which are of more crucial importance.

Why not focus as much attention on energy and food prices and supplies as well as anti-competitive practices of Government and industry as we have on cutting the budget.

In my opinion the current tight-money policies are fueling rather than dampening the inflation. These policies are increasing the long-term costs of housing and other goods. Further, our productive capacity has been weakened and we are not supplying the needed goods.

The major concern of many legislators is that cuts in Federal expenditures will merely shift the financial burden to States and local government, resulting in no effect on total Government spending.

This concern stems from the options presented by OMB for cuts in the '75 budget and ceilings established by OMB for the Fiscal '76 agency budgets.

Social services, people programs rather than defense, seem to be the target for cutting. If programs can be shown to be a wasteful and inefficient use of resources, there is no question about terminating or cutting them. However, if programs provide the needed service there will be public pressure for the continuation by State and local government if the Federal government ceases to fund them.

In this regard, I have two recommendations. One, it is my judgment that the Federal bureaucracy could be cut substantially if the States were allowed more freedom and flexibility to administer the Federal funds which they receive.

Second, I urge the Administration to reconsider the budget ceilings and priorities adopted for the '76 budget, especially as they relate to people programs.

Finally, we would say to the President that we encourage him to continue the dialogue he has begun with State and local officials and urge him to expand those efforts so that dialogue may evolve a new mutual cooperation.

Thank you, Mr. Secretary.

SECRETARY LYNN: Thank you, Mr. Sabo.

I would next like to recognize Mr. Louis B. Mills, Orange County Executive from Goshen, New York, who along with Mr. John Spellman, King County Executive, Seattle, Washington, will represent the views of the National Association of Counties.

Both will be heard very briefly.

MR. MILLS: Mr. Chairman, county governments want to thank President Ford for listening to us in this wonderful Conference. May I respond to those spokesmen at this Conference and in the Congress who call for reduction in aid to local and State government and who think that we in local government are piling up surpluses.

Mr. Secretary, I am presenting the Orange County, New York budget next Tuesday morning at 9 a.m. and every dollar we have plus the balance of our revenue-sharing funds are going to be thrown into the gap just to keep our local tax effort down to a 15 percent increase and that budget calls for no new positions and no new programs.

A Federal cut to us in virtually every county across the nation will be disastrous in terms of program reductions and employee layoffs. This means the little people of this country are going to suffer.

Mr. Secretary, over three-fourths of the budget of county government goes into human services. I might add, sir, that the counties along with the States, provide the bulk of the social services in America today. If there is one place in Government where economies can be found it is in our over-lapping and counter-productive welfare systems. Let us make the delivery of social services far more effective. Let us stretch our tax dollars by enacting national welfare reform and national health insurance.

Thank you very much, sir.

SECRETARY LYNN: Thank you, Mr. Mills.

MR. SPELLMAN: Mr. Secretary, distinguished members of Congress: We in local government are in foxholes of the governmental battle against inflation. The 1975 budget which I will submit in two weeks will reduce public employees by 6 percent and all department heads have been ordered to reduce their overall budgets by 6 percent and improve their productivity in order to fight inflation and declining revenues.

In this atmosphere it is essential that general revenue sharing be continued if the vital human services provided by local government are not to be dissipated. It is also essential that increasing unemployment attendant to anti-inflation policies -- our rate of unemployment is over 8 percent in the State of Washington -- that an increased public employment program be initiated. Such a program not only eases the misery of unemployment by providing training and productive jobs but it is also cost-effective in that it returns over one-half of the dollars spent in increased taxes and in decreases in unemployment compensation programs, welfare programs and food stamp programs.

If this program is to succeed it must not require that local government make those employees permanent employees of the local government. That is impossible in this era of budgetary cuts.

Thank you, Mr. Chairman.

SECRETARY LYNN: Thank you, Mr. Spellman.

I would next like to call on Mr. Joseph Alioto, Mayor of San Francisco. Seated with Mayor Alioto are Mr.Moon Landrieu, Mayor of New Orleans and Mr. Nicholas A. Panuzio, Mayor of Bridgeport, Connecticut. Together they represent the U.S. Conference of Mayors and the National League of Cities.

All three will be heard from briefly. First, Mayor Alioto.

MAYOR ALLIOTO: Mr. Secretary, distinguished Members of the Congress, we wish to thank President Ford first of all on behalf of the Conference of Mayors for opening the doors of the White House to the mayors of this country.

Mr. Secretary, we want to congratulate you on the skill with which you have handled this section of the summit Conference.

Now, I want you to deduct that introduction from the one minute which has been allotted to me to make this short presentation.

You know, we think the city dwellers are right in the middle of the inflation burden. Therefore, we have to deal with practical solutions that have some opportunity, some probability of immediate reaction. We therefore suggest that the Congress should immediately suspend all private fair trade laws for six months or for the duration of the inflation, duration of the war against inflation.

We think the President should make a strong proclamation that the anti-trust laws are now reinstated on the books. We believe that President Nixon and John Mitchell worked to repeal those laws and now there ought to be a direction to do something about them.

Recent cases brought against national industries, mainly by private practitioners, have resulted in rather dramatic price drops in the middle of inflation. For example, electric equipment, gypsum wall board, drugs, chemicals, and corn products. In some cases, up to 50 percent.

We think if you put all the laws in the anti-trust division and the Federal Trade Commission on national price fixing cases relating to food, gas, metals, building materials and medical supplies, if you did that right away, you would get some immediate result. We believe that the Congress should right away fund mass transit and public transportation deficits so that we can prevent an inflationary fare increase.

We believe that should be done right away. We believe, further, that while we don't like controls, a very limited export licensing program of minimum regulation where you set aside the domestic requirement on wheat, feed grains and fertilizers, should be had so that that will bring down prices on beef, dairy products, poultry, flour and bread. All you do is simply shift the price not from the producer but from the American housewife to the international exporter.

That is what we believe in one minute, Mr. Secretary.

SECRETARY LYNN: Thank you, Mayor.

We will now hear from Mayor Landrieu of New Orleans.

MAYOR LANDRIEU: Mr. Secretary, distinguished Members of Congress, the consensus was that selective budgetary cuts are in order. However, those cuts intensively done will merely shift the burden to local and State government, thereby not reducing governmental expenditures but reducing the federal expenditures, increasing local and State expenditures and I might say causing an increase in the very regressive property and sales taxes on which we most heavily rely.

We feel that there ought to be selective increases in the federal income tax and other taxes as well as tax relief for the poor. There are also casualties in a war such as this and the emergency employment program has served us well up to this point and we feel will serve us in the future as we take more dramatic steps to curb inflation.

Urban economic and community development are absolutely essential programs. They represent conservation and productivity tools. They should be maintained and continually funded. The only thing that is holding local government together today and keeping our body and soul in one place is general revenue sharing.

Gentlemen, we recommend to you in the strongest possible terms to continue that program.

In conclusion, Mr. Secretary, knowledge should be both our sword and shield but it is quite evident that we know very little about urban dymanics.

Consequently, we recommend to you that you maintain a rather strong research arm, lest we be undated by our own ignorance.

SECRETARY LYNN: Thank you, Mayor.

We will now hear from Mayor Panuzio of Bridgeport.

MAYOR PANUZIO: Four quick points.

First, we have heard about energy. What we really need is action as Senator Domenici has suggested.

Second, we need economic impact statements along with all legislation passed by the Congress. We ought to know how much it is going to cost us and when it is going to cost us so that we know the effect on the environment; we think that we will try to budget our time today and I hope that the government budget is funded properly.

We believe in multi-year funding. Tell us how much you are going to give us over a period of years then we can use that money much more effectively which will be anti-inflationary.

Fourth, get the money back to us quickly. Don't let us have to go borrow money in anticipation of the money from Congress which is inflationary. We are ready to listen to you; we have a lot of suggestions.

Perhaps, too, just give us an opportunity and we will help you write the legislation.

Thank you.

SECRETARY LYNN: Thank you, Mayor.

I would next like to call on Mr. Robert Turner, President of the International City Management Association.

Mr. Turner.

MR. TURNER: Thank you, Mr. Secretary.

Mr. Chairman, local government will and must contribute to reducing inflation by both action and example. We will be trying to do our part in holding back the increase in State and local expenditures while at the same time striving to maintain reasonable and adequate government service levels.

There is dependency upon the productivity of our operations. We need help in this endeavor. We need assistance from the Federal government and that relatively small cost can have major leverage in speeding up achievement of productivity improvements that can result in significant savings.

A number of small and relatively unknown Federal programs can be enhanced and expanded.

Theseprograms have already paid high dividends in helping cities and counties maximize their effective use of local revenue and Federal grants. Specifically these include management programs, HUD's research and policy development program, civil service commissions in the governmental personnel programs, the National Science Foundation's program of innovation and technological transfer and activities of the National Commission on Productivity and Work Quality.

These and other similar research efforts can only help to guarantee that the local governments of this country will be able to continue to serve their citizens at the lowest possible cost.

Thank you.

SECRETARY LYNN: I would like next to call Nathaniel Jones, General Counsel of the National Association for the Advancement of Colored People. Mr. Jones.

MR. JONES: Thank you, Mr. Secretary, distinguished members of the Congress and Conference leaders: As at the pre-Summit, the greatest service I can render, I think, is to refer to and emphasize the soul-searching paper entitled "The Economic Crisis and the Black Community -- A Call for Action".

That paper grew out of a black economic summit meeting convened last weekend by Dorothy Kite of the National Counsel of Negro Women, Mayor Jackson, President-elect of the National Black Caucus of Locally-Elected Officials, Vernon Johnson of the National Urban League, and Charles Randall of the Congressional Black Caucus and Roy Wilkins, Executive Director of the NAACP.

Those who responded to the call represented organizations with constituencies of some 6 million persons.

The paper that they drafted represented the broadest consensus that exists as to the effects of inflation's disproportionate impace upon racial minorities. It calls for a public service employment program of at least 1 million jobs, and equity in the distribution and delivery of adequate housing and development services for minorities of this country.

The paper discredits the notion that there is a tolerable level of unemployment and it urges the implementation of a full-employment policy so that persons willing to work may obtain jobs.

This is crucial as black unemployment in 1974 second quarter was 9.7 percent contrasted to white unemployed of 4.6. Adding further urgency are the figures on unemployment for black males which increased over 12 percent last year. The paper calls attention to the fact that in some innercity neighborhoods, the black unemployment rates are 20 percent and for black teenagers they are as high as 36 percent.

Therefore cutbacks in funding of programs to serve the human needs of these and other groups cannot be tolerated.

There is a clear warning inplicit in this paper, Mr. Secretary, and I respectfully suggest that the nation will ignore that warning at its peril. It is simply this: That unless the current job crisis facing blacks and minorities of this country is relieved and dramatically relieved, the cities and States of this nation will experience unprecedented levels of racial and social tensions.

Thank you very much.

(Applause.)

SECRETARY LYNN: Thank you, Mr. Jones.

I would now like to recognize Mr. Jerry Wurf, President of the American Federation of State, County and Municipal Employees, of the AFL-CIO for the labor side of the issues. Seated with Mr. Wurf is Mr. George Hardy, President of the Service Employees International Union of the AFL-CIO.

MR. WURF: Mr. Chairman, I appreciate this opportunity to serve on this Panel. I appreciate the reasonableness and fairness with which you have conducted the sessions and I would like to say a word or two on behalf of the 12 million State and local government employees who represent some 15 percent of our American workers, who like all Americans, are feeling the impact of our economic difficulties.

Seated here beside me is George Hardy, President of the Service Employees International Union. This joint statement is on behalf of the other union representatives at the pre-Summit meeting on State and local governments.

At yesterday's Summit Meeting, other American labor leaders dwelt on the harsh effect that inflation has had on American workers. I was proud, sir, that they dealt with it in terms of responsibility and in terms of patriotism and I was somewhat appalled this morning to hear them attacked rather unreasonably.

Inflation has been especially severe among public employees. Their wages and benefits traditionally have been lower and their wage increases have come at a slower and more regulated pace then workers in the private sector of the economy.

As food, fuel and other costs have risen drastically, their salaries have simply not kept the pace and their standard of living has continually deteriorated. They must be allowed to catch up quickly. They cannot be expected to continue to suffer disproportionately from rising costs.

Secondly, we urge the Administration to create a major public service jobs program to reduce unemployment and improve the quality of public service for all Americans. At the same time we think it is critical that public service jobs not simply follow on the heels of cuts in existing public service programs stemming from Federal budget reductions or other cutbacks.

This sort of job recycling would be counterproductive and cruel.

Third, we believe that the federal government must maintain its support of the states and cities through federal revenue-sharing as well as through continued funding of the categorical grants programs.

Budget cuts which affect these programs would require those in our society who already are suffering to suffer more.

The budget cuts proposed by the Administration -- and we have heard this figure of $5 billion -- would have no appreciable impact on inflation but cuts of that dimension would deny assistance to the poor, the aged, the ill, and those less able among us.

Finally, we believe it is critical for the states and the cities to alleviate the economic distress of low- and middle-income Americans through reforming tax structures and building in much more progressive mechanisms than now exist.

We are heartened by reports that the Administration is considering federal tax reforms to benefit poor and middle-income working families. There appears to be a consensus at this conference that such action is a prime priority.

Public employees are concerned Americans but they feel rightly they paid too high a price in recent disastrous national wage and price control programs.

The program may have been a failure nationally but in public employment where wages are so visible it worked with advantages.

In summary, we are ready and willing to help, but we believe that the well-being of the states and cities in this country and the well-being of the men and women who work for them must not be victimized by a national assault on inflation.

SECRETARY LYNN: Thank you.

For our next and final speaker, representing the consumer interests, I would like to call on Mr. Theodore Jacobs, Executive Director of the Center for the Study of Responsive Law.

MR. JACOBS: Thank you, Mr. Secretary.

Fellow consumers, I welcome this opportunity to present some of the views of the growing consumer movement on the difficult economic problems facing us today.

Consumers have not been adequately represented in these meetings and we urge the President to remedy this void by soon meeting with consumer leaders and consulting with them on a regular basis as he does with business leaders and labor groups.

In discussing inflation, we must first recognize that one of the primary causes of the present economic dilemma is our intricate system of corporate welfare for the corporations.

That is a system of governmental policies resulting in protection of certain industries, a general lessening of competition, the growth of anti-consumer practices, and, finally, higher prices.

These policies include meat, dairy and other important quotas, export subsidies, anti-trust exemptions, maritime subsidies, massive loopholes and special interest legislation of a thousand varieties.

It also includes a regulatory system which lessens competition among different modes of transportation, and insures higher prices and diminished efficiency.

In seeking solutions to our problems, we must recognize that ours is no longer a free market or free enterprise economy and so the old-time religion of tinkering with fiscal and monetary policy just won't work.

Basic consumer industries such as food, energy and autos are dominated by a system of administered prices not responding to market factors.

Thus, when demand for new cars or meat products falls, prices go up and not down as they would in a free market.

Given this situation, what is needed is nothing shorter than a restructuring of the economy to bring it to a greater degree of real competition.

Specifically, we urge, one, a serious and well-funded anti-trust enforcement policy to stop escalating prices and to encourage industry to operate more efficiently and innovatively.

Two, we urge genuine tax reform to recover the inflation gains of large corporations and to build greater equity into our tax system.

Three, we urge a concerted effort to eliminate special interest subsidies and protections.

Four, we urge the elimination of business rate cartels which control prices over trucking, airlines and sea-shipping.

Five, we urge a program to provide consumers and consumer organizations with rights and remedies on the buying side of the market to compete with the advantages of business on the selling side.

One such program which is vitally needed is the creation of a consumer protection agency which has bipartisan support and which President Ford supported when he was a Member of the House of Representatives.

It was clearly not the consumer nor organized labor which brought on this economic crisis.

In part, it occurred because of the way in which we have allowed economic power to use the government to develop excessive power, market power for specialized consumer interests.

Given this situation, can anyone seriously contend that our economy will be turned around without a major commitment to more equitable distribution of wealth and power in our society?

Thank you.

SECRETARY LYNN: Thank you, Mr. Jacobs.

We will take time for a couple of questions.

MR. McCLOSKEY: I am Michael McCloskey with the Sierra Club.

Senator Domenici, I had suggested a crash program of becoming self-sufficient in energy which Governor Peterson on the preceding panel had suggested concerning conserving energy as an alternative to major new capital investments in domestic energy development to lessen reliance on imported oil.

Now, to introduce my question, let me point out that the Federal Energy Agency suggestions that complete self-sufficiency in energy would require $1 trillion in new investments over the next 10 years and reducing imports to just 25 percent of our oil consumption would require $700 billion over that period or $70 billion a year, which is greater than the cost of oil price rises.

My question is: How inflationary do the panelists think that competition for that much more capital will be?

SECRETARY LYNN: Do I have someone with a hand raised?

CONGRESSMAN REES: Mike, I would assume that the price of oil is not going to be much lower than $8 a barrel landed in the United States and the top part of oil probably would be about $11 or $12 and that the price of oil down the line really will be our cost of average production of energy. This is going to be the cost of energy in the United States for the next 20 years, whether we have total self-sufficiency or not. We are more or less going to make the price and the price will be between $8 and $12 a barrel.

In terms of our own self-sufficiency, we get into a counter productive period when we go much above $10 a barrel and at that time we should probably shut off any new concepts of energy development strictly within the United States. There is no reason we should say that we are going to get to absolute self-sufficiency and never import oil because if we do that we are going to be in a situation where our average cost of energy is going to be a lot higher than the average cost of energy in other countries and of course this would not be good for our economy.

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SECRETARY LYNN: Mr. Simon.

SECRETARY SIMON: The cost of $750 billion to $1 trillion to be spent in our energy industry over the next decade has been the popular estimate by private forecasters and experts in this area. In order to do this, I think that another dimension of the answer might exist to your question -- that is what expense of our whole capital formation does this represent?

Are we going to keep the same size investment pie in the demand of the energy industry which are critical to this country from a national security basis as well as an economic basis?

Are they going to detract from our other needs? Would they be environmental, housing, mass transit and all of the many capital expenditures that our industry needs to grow and prosper and to provide the Americans with the continued properity at a reasonable price that we have enjoyed throughout our history?

Well, this gives emphasis to our need that has been called upon here during this meeting, this two-day discussion, as well as the 10 previous pre-seminars, our need to expand this pie so that the demands can more nearly be met over the next decade and not have the extraordinary demand of the energy industry and its requirements take away from the other necessities and the other priorities that we have established for our American people.

Secondly, this is my judgment and my studied judgment -- I don't necessarily agree with the figure of $8 to $12 as the cost, the long-term supply price as economists would call it, for energy in the future.

I think it will be more reasonable than that. If we do our job promptly, and that is a big "if" in the government, and move ahead with this Project Independence program that is going to, a) reduce demand, because as I said yesterday, we are great wasters and as I have said a thousand times before, and proceed simultaneously with removing the government impediments from bringing on the additional supplies -- we are a country of abundant natural resources and technology -- we can bring the price of energy to the American people in the next decade well below the level.

SECRETARY LYNN: We have time for one more question. The gentleman on microphone three.

MR. KURBECK: My name is Matthew Kurbeck, President of the Output Systems Corporation. We are publishers and we just completed a study showing the price ripple effects due to price increases for products produced in the basic industries.

For example, the wholesale price index for August shows that prices for the six most basic products that are used in all industries have increased on the average of 59.8 percent in the past year and 9.9 percent in the past two months.

These include items such as steel, refined petroleum products, non-ferrous metals, plastic resins and agricultural and industrial chemicals.

Mr. Chairman, I submit that no profit-oriented economy can exist in any recognizable form with price pressures of this magnitude in the basic industries.

Now, here is my first question and I think we had better ---

SECRETARY LYNN: I think we better have one.

MR. KURBECK: Are we heading for the same 20 percent inflation rate now being experienced by Japan, Italy and Great Britain?

SECRETARY LYNN: I think our next panelists are going to be the economists and I would like to have that question in mind as the economists speak, if we might.

I think that would be the way to handle that one.

MR. KURBECK: Let me just amplify that one with one sentence. This is a corollary question. These countries waited until they had massive inflation and bankruptcy before imposing rigid and far-reaching price controls. Is the United States policy going to be no price controls even with a 20 percent inflation?

SECRETARY LYNN: I think President Ford expressed himself quite clearly on wage and price controls. I will say to you from my own personal meetings with the President, I will say to you that he does consider this public enemy Number 1 and we are going to get a handle on the kind of inflation rates that you have been talking about.

MR. SEIDMAN: Thank you, Secretary Lynn, and panelists. With your help we will now take a five minute break.

(Brief recess.)

MR. SEIDMAN: Please be seated.

We will now have a report from the professional economists under the chairmanship of Alan Greenspan, Chairman of the Council of Economic Advisers.

MR. GREENSPAN: Thank you, Mr. Chairman.

Distinguished Members of Congress and fellow participants, as you probably know, we had a group of 28 economists representing a fairly broad spectrum of economic opinion in this country meeting on two separate occasions.

The first was on September 5 and the second was on September 23 and at our first meeting we probably went around the table and so it was not oriented toward independent economists.

I will shortly call upon Arthur Okun of the Brookings Institution to summarize the meetings but first I should like to introduce the selective group of panel members who are here and who will be talking about the general types of things which we talked about during these two meetings.

Starting with my left is Professor Milton Friedman of the University of Chicago.

Next is George Shültz, Bechtel Corporation, and Professor Paul Samuelson of MIT.

Next is C. Jackson Grayson of Southern Methodist University, and Paul McCracken of the University of Michigan.

Next is Congressman James Broyhill who was a participant in our meeting. He is from North Carolina.

Next is Wright Patman, also a participant in our meeting.

Then, starting here on the right is Senator Bartlett from Oklahoma, Professor Marina Whitman of the University of Pittsburgh, Dr. Hoadley of the Bank of America, Arthur Okun, of Brookings Institution, Professor Walter Heller, University of Minnesota, and Professor Kenneth Gailbraith, of Harvard University.

What I should like to do is to ask Dr. Okun to take five minutes or so. I am trying to forestall the bell-ringing process here because we do need this time to give as succinct a summary as he can of what economists talked about for two full days and your time is five minutes.

Good luck.

MR. OKUN: Thank you Mr. Chairman, distinguished Members of the Congress and ladies and gentlemen, I can, as you might expect, merely highlight rather selectively some of the key issues and principles that emerged from our discussion. I think in appraising the economic outlook there two guiding principles, two beacons that emerged from our discussions to which we widely subscribe.

On the one hand, we conclude that the boom is dead and it would make no sense to flog a dead boom.

On the other hand, we recognize that the inflation is very much alive and it would be given a new lease on life from any massive measures designed to stimulate the economy.

We have readjusted our professional thinking in the last few months to a new environment in which the prospective demands for products by consumers and businesses are no longer dangerously large and may indeed be distinctly inadequate. But, the hard thrust is that if we are to get rid of the inflation inherited from past excesses of demand and shortages of supply, the nation must expect for some time to comb levels of output and employment below normally desirable prosperity targets.

These two principles have some significant implications. They don't give all of the answers by any means but they help.

As to our monetary policy, they indicate it should not be relaxed or eased but neither should it any longer be so tight as it was this spring and summer, whether measured by the path of the money supply or that of interest rates.

The particular and specific advice that we would give the Federal Reserve varies widely among us but the overwhelming majority of the economists on this panel would recommend a course of Federal Reserve policy that should be consistent with gradually declining interest rates in the months ahead.

On the budget, within the relevant range of discussion the present situations of federal expenditures in 1975 will not significantly affect the prospects for either inflation or unemployment in our best professional judgment. Rather, the case for budget cuts rests largely on relieving pressures in the credit market and on demonstrating discipline controls and effective management to federal programs.

Similarly, the case against such cuts rests more on the sacrifice of social objectives than of real GNP.

Outside of the fiscal-monetary area, the group strongly supports efforts to improve the nation's price performance. Specifically, the members of the economist panel urge the adoption of a package approach, to repeal many laws that now push up prices and costs through import quotas, anti-trust exemptions, rigid regulatory rules, and anti-competitive restrictions on sellers.

The group also urges the United States to play a responsible, cooperative and leading role in strengthening the world system of finance and commerce and particularly in curbing the threats posed by enormous petroleum deficits this year.

The area of sharpest differences of opinion among us concerns Federal policies designed directly to alter private decisions on prices and wages. A distinct minority of the group, small minority, recommends the enactment of wage-price controls, at least selectively now. They see 1975 as a year like 1972 in which excess demand is not the problem and they find the history of these two in 1972 encouraging.

At the other pole is another distinct, small minority again, which urges the Council on Wage and Price Stability to focus solely on Government action on productivity and should not monitor and criticize private decisions. A sizeable number of the group feel that a determined effort by the Council can significantly discourage inflationary price and wage decisions by voluntary appeals and by reliance on the spotlight of public opinion.

A few of us believe that tax cuts to relieve the squeeze on wages would make the appeal for wage restraints to employees and employers, both in the union and non-union sector, more effective and more equitable. To do that, of course, the tax cuts would not be ones that could be offset by price-rising increases in the excise tax.

Mr. Chairman, as you know, we economists spend most of our time disagreeing and that is because we don't need to spend too much time on things on which we agree. After our two sessions together I am nonetheless impressed at the breadth and depth of consensus if not unanimity about one key issue. Namely, the prospect of the U.S. economy in the year ahead, and another, the basic assignment of fiscal monetary policy for 1975. That agreement is much greater than I would have expected a month ago.

Where we agree we can give advice as a group. Where we disagree we can offer options as individuals. We trust that both of these functions can aid in wise Federal decision making.

Thank you.

MR. GREENSPAN: Thank you very much, Dr. Okun.

Professor Samuelson, would you like to say a few words?

PROFESSOR SAMUELSON: Chairman Greenspan, I address you from an unusual position. One of my colleagues said, "Welcome, here on the right...." I wish the record to show that I am here really by fiat. My reply has to be that although I have lost my fight in the simpliest solutions to inflation, I have not lost my reason.

We have heard much about the old-time religion but too often we have simply had a replay of the old-time ideaology. Ideaology won't solve the stagflation however, and notice my emphasis upon a diagnosis. The number one thing that is wrong about most discussions is the statement that our number one problem is inflation. A correct emendation is that our number one problem is stagflation and stagflation has two sides to it. It has a flat economy; it has an economy where unemployment is going to grow.

This, by the way, is not my opinion. It is the opinion of a Greenspan, it is the opinion of a Samuelson, it is the opinion of an economist from IBM. It may be wrong but based on the evidence it is the best opinion we can hold.

Now, when you have stagflation, and the three weeks of meetings have, I think, been useful in clarifying this, many of the things which will help the inflation will hurt the real situation of the economy and so we find once again, the science of political economy is still an art and it is an art in the present situation of compromising among evils.

The one moral that comes out of this discussion, and I think by the way if you were to listen in on seminar rooms all over the nation the same moral would come out, is this: This inflation was a long time in developing. It would be disastrous to try to cure it in one or two years. The only way we could do that would be by a cure which is worse than the disease.

This will be long-term seige and it has to be a seige which pays equal attention to the recessionary aspects and inflationary aspects which together constitute stagflation.

Thank you.

MR. GREENSPAN: Thank you very much, Professor Samuelson.

Next I would like to call upon Professor Milton Friedman of the University of Chicago.

PROFESSOR FRIEDMAN: Thank you, Mr. Chairman.

Ladies and gentlemen, all of us are responsible for inflation. We have encouraged Congress to spend but we have resisted higher taxes. We have encouraged Congress to enact special legislation to raise the prices of the things that we sell but have been far less active in opposing special interest legislation driving up the prices of the things that we buy.

In producing inflation, Congress, the Administration and the Federal Reserve have simply responded to the public will. The hidden tax of inflation has financed the overspending. It has imposed the cost of special interest legislation on the most defenseless among us. In the end we have all been the losers.

Continuing on this inflationary road will destroy our free society. We must stop kidding ourselves that we can all tap the public purse at the expense of someone else. There is no technical or economic problem in stopping inflation. The problem is political.

The only effective cure for inflation is to slow down total spending. Congress and the Administration must restrain Government spending. The Federal Reserve System must moderate the rate of increase in the quantity of money and thereby restrain private spending. It must also follow a steady course, not the eratic course it has so often followed in the past.

No gimmick will substitute for this unpleasant medicine. In particular, price and wage controls, far from being part of the cure, are one of the worse fetters of the disease and should be avoided like the plague. The cure will not be painless but it will be far less painful than letting inflation rage. The cure will not be instantaneous. There is no miracle drug for this disease but it can be effective if we have the political will to instruct our representatives to take the necessary measures and the patience and wisdom to back them when they do.

We must not once again, as we have three times in the past 15 years, embarked on a cure but then give it up before it has a chance to work. The cure will inevitably mean a temporary period of low growth and relatively high unemployment. But postponing the cure will mean even lower growth and higher unemployment later on.

The Government can ease the withdrawal pain by imposing the cure gradually and steadily, by adjusting the tax system to avoid the arbitrary and distorting effect of inflation and by offering to the public inflation-proof security which will enable them to safeguard their assets and which will end the disgraceful process whereby the ordinary citizen has had to pay for the privilege of lending to his Government.

This is a form of indexing which we need on a broader scale. I have been impressed by the number of participants in this Conference yesterday and today who have called for indexing in their own areas. Also, as many other participants have stressed, we must strengthen our assistance to the long-term unemployed, thereby assuring that the costs of ending inflation are not imposed on those least able to pay for them.

We can ease the transition also by ending the special interest Government measures which interfere with the effective operations of competition. The supposed benefits that each of us gets from the special-measures sheltering him is less than the loss that each of us suffers from the combined effect of the special measures sheltering others. All can benefit by the simultaneous elimination of all the special interest legislation.

As Mrs. Lawrence so effectively commented earlier today: This country is basically strong. Our political system is sound, our real income is high and widely shared. We are not, and I emphasize the not, in danger of a major depression or even a severe recession.

What is called for is simply a brief pause in our long-term growth so that we can recover from our temporary illness and once again find the path to healthy growth without inflation.

Thank you.

MR. GREENSPAN: Thank you, Professor Friedman. Professor Heller.

PROFESSOR HELLER: Mr. Chairman, ladies and gentlemen. Contrary to the skeptics, I think this month of summitry has already made its mark. First, whatever else it has done, it has already set a new endurance record for presentation exposure to economic advice and as an economist I can't believe that is all bad.

Second, summitry has led to a new sense of realism and urgency in facing up to the grizzly fact, not just of stubborn inflation but of menacing recession. Granted it is upsetting to the public and to the stock market to face at long last the dismal economic facts of life, to recognize that it is easier to be optimistic about the past more than the future, but that is an essential first step to a solution.

Third, the mini-summit meetings have made crystal clear that the Federal Reserve in trying to wring out the inflationary water from the economy has been squeezing too much of the productive life blood out of it. The Fed has not backed off a bit but without throwing restraint to the wind, it should back off still more.

Fourth, the summit has underscored the vital need to broaden the scope of the inflation program, to recognize that inflation's inequities are an even more serious problem than inflation's economic inefficiency.

As a result, tax and budget relief for those who are being victimized first by inflation and now by recession is gaining an important place on the agenda for action.

White House endorsement of tax relief for the poor confirms this.

Fifth, the summit process has brought home that simply supressing demand cannot do the anti-inflationary job, without unbearable cost and inequity.

So, a policy of moderate monetary-fiscal restraint has to be flanked by a broad spectrum of other measures.

Number one, new measures have to be taken to improve supply management, avert shortages and boost the productivity.

Number two -- and I am glad Arthur Burns is here to hear this -- more selective measures must be taken to allocate credit to high priority uses and deny credit to speculators.

The Fed's Advisory Committee has already taken a tentative step in this direction and I commend to Mr. Burns stronger steps in that direction.

Third, at long last we need to purge federal laws of the inflationary provisions like import quotas, fair trade prices, maritime subsidies, overregulation of airlines and railroads, and a myriad of other sacred cows by which government chokes off competition and milks the consumer.

No President, one has to admit, has dared to take on the groups that are stealthily picking the consumers' pockets with government as an accomplice, but then no modern President has had to face unyielding double-digit inflation and no President has entered the White House less encumbered by IOU's to the special interests than President Ford.

Number four, without an effective effort to block the new price-wage spiral that is growing out of the exploding cost of living, I doubt that the battle against inflation can be won for years to come.

It is not going to be won in the next year or two in any event. I doubt that it can be won for years to come without giving, for example, the Council on Wage and Price Stability some teeth.

This new price-wage watchdog can do some good, as Mr. Okun has suggested, by barking and growling, especially if the President, himself, says, "Sic 'em," from time to time.

The Council would be far more effective if it could bit big news and powerful labor unions that defy public interest. This requires powers of subpoena, suppression and, in the case of flagrant ripoffs to the public, powers of rollback.

If we fail to short-circuit that price-wage spiral now, the demands by the American people for full-scale strategic controls, which most of us want to avoid, will become irresistable.

Here I believe the lesser evil will prove to be the greater wisdom.

Finally, along with all the do's, there is one important don't: Don't fasten on the American consumer the additional inflationary ransom of $10 billion that will be involved in freeing the price of old domestic oil.

To give in to the oil companies would hand them, as Justice Cardoza stated in ringing words, "Another plain, unvarnished bonanza of a windfall."

Thank you.

MR. GREENSPAN: Thank you, Professor Heller.

Concluding our short summary panel will be George Shultz.

DR. SHULTZ: I think that the summit meetings that have been conducted around the country and here in Washington yesterday and today have made a strong and positive contribution to what seems to me to be the principal thing government must do for us: namely, to set an atmosphere that will help solve the problem of inflation and other problems in the economy in a reasonable way.

The components of the atmosphere that seem to me to have been contributed by these conferences are, first of all, a much greater and much more widely shared sense of what the reality is.

I think it is pretty clear that there is practically no dissent, that the reality, as Paul Samuelson expressed it, is stagflation and I think the inference from that, is that while inflation is public enemy number one, there are other problems to be attended to as we attend to the problem of inflation.

So, I think, point one, in setting the atmosphere is this sense of reality.

Second, it seems to me very important to all of us that we have seen so clearly demonstrated a willingness to listen, not only on the part of the President and his Advisors, but on the part of the Members of the Congress and the independent Federal Reserve.

That, I think, is very helpful to all of us and it gives us a sense that there will be consideration, there will be fairness, there will be balance in the approach that is selected.

Third, and I don't put this in terms of the summit meetings, but in terms of the atmosphere that it seems to me government should try to set in dealing with our current economic problem, has to do with the role of the new Committee on Wage and Price Stability.

Clearly, it is going to pay attention to what labor does and to what management does, that has been put into the legislation and it has been talked about a great deal.

I personally am skeptical of that. I think it is worth noting that the country which has done the best job in controlling inflation is West Germany and they have shunned this sort of thing like the plague.

But, let me make a suggestion that is in response to the many comments here about government activity.

Let the committee keep track of the amount of time that is spent monitoring labor and monitoring management and for each hour spent that way let them spend at least an hour monitoring government and all the different kinds of things that government does.

Fourth, in setting the right kind of atmosphere, it seems to me that any strong economic program must be comprehensive in the things that it deals with and I think the items that have been identified in the various summit conferences should be part of any program.

The tax question needs to be addressed in various ways. The international economic development, including the trade bill, needs to be addressed.

The problems of our financial institutions and money markets need to be addressed and the opportunities we have to meet many of the most difficult problems by expanding supply in various areas need to be addressed in ways that have been identified.

Thank you.

MR. GREENSPAN: Thank you, Dr. Shultz.

I now would like to call on Chairman Wright Patman for his comments.

MR. PATMAN: Mr. Chairman, the endless stream of words which have flowed from these conferences over the past three weeks will mean nothing unless there is action and action has to come on monetary policy. I realize that it is most difficult for a republican administration to step on the toes of the Federal Reserve and its banker-business-management constituency.

Here is the first and biggest test for President Ford's economic policies. Will he insist on changes at the Federal Reserve and will he pick up his constitutional responsibility to supervise this agency and to require it to perform in accordance with the Constitution and in the public interest consistent with the economic needs of the nation?

If President Ford allows this agency to continue to operate on its own, without accountability, there is no hope for any lasting improvement in our economy. The people watching these summits should realize this and judge President Ford's words accordingly.

Federal Reserve has done a masterful job of painting itself as the lonely fighter against inflation. This is the line they adopted after inflation ran rampant. But, the truth is that the Federal Reserve, by allowing its monetary policies to wander all over the landscape during critical periods, became an engine of inflation and sky-high interest rates, and this is a fact that the President should tell the American people and hopefully promise that it will be corrected.

Now, our number one problem, I think, is high interest rates. In the last five and a half years, what has caused additional inflation? Every time, higher and higher and higher interest rates for five and a half years. It occurs to me that the Federal Reserve after trying it at least one or two or three years would abandon it because as far as stopping inflation is concerned, it is just like your house is afire, but you try to stop the blaze by pouring gasoline on the fire instead of water.

Therefore, I believe high interest rates cause high prices; high prices cause inflation. As you go back and try to stop it with higher interest rates you go through the same processes again and there is no help. While some of the words may have been sugar coated, these conferences have clearly established that the Federal Reserve has made very big mistakes, some bordering on mal-administration, if not actually.

The record in my opinion, clearly shows a need to require the Federal Reserve to adopt a monetary policy which will allow the money supply to move apace with real economic growth, growth that will provide stability, reasonable interest rates and full employment; in short, a sensible policy which rules out the extremes which have created so much of the dislocation in our economy in recent years.

As has been mentioned, many times in the meetings of this panel and other conferences, the Federal Reserve overall monetary policy needs to be tempered with a firm program for credit allocation to areas of greatest need such as housing. We are in a real depression in housing right now. No one could dispute that. The Congress gave the President the power to implement credit allocation in December 1969 and President Ford this very day could trigger this law and move money into credit starved areas almost immediately.

The Congress has acted. The next step in this area is up to the President of the United States. Not only does the President need to start telling the American people the full facts about the monetary mistakes of the Federal Reserve but he also needs to bring a breath of fresh air to the discussion about fiscal policy. The budget, contrary to a lot of propaganda, has not been the cause of our current inflation.

The Federal budget has been less and less expansionary since 1971 and the first six months of this year actually shows a surplus. Despite these facts, some have attempted to use the summit meeting in an attempt to level a tax on programs for education, housing, rural development, transit, water and sewer projects, health care and other essential social efforts.

These are programs which should be expanded, not cut. These programs are not contributing to inflation. They are in many cases, making it possible for low and moderate income families to exist in this terrible economic situation. So the President could provide new understanding of our real economic problems by conceding that the budget has had no significant impact on the current inflation.

In addition, it is essential that the President establish that there will be equity in any anti-inflation program and that the poor and the less advantaged will not be required to carry an unfair burden through unnecessary budget cuts in their programs.

On this same point of equity, it is essential that low and moderate income people have some immediate relief in the form of a tax reduction. This should be offset by additional revenues from higher income groups.

In my opinion, this could be accomplished early and quickly by changing the tax system which supports Social Security. I propose exempting the first $5,000 of wages from Social Security taxes while raising the upper limits of the earnings on which the tax is imposed. In this manner, the Social Security tax would be made more progressive or rather less regressive, giving low income families a substantial tax saving while raising the tax on higher incomes.

This is also an opportune moment for the President to direct a massive upgrading of antitrust activities in the Justice Department and in the Federal Trade Commission, to improve competition among banking and business corporations and put an end to administered prices, which afflict much of the economy.

There should also be a restructuring of our financial institutions and regulations to assure a more efficient and equitable delivery of credit to all areas of the economy.

This period of economic readjustment also provides a great opportunity to set up a national development bank which would provide credit on reasonable terms for worthy public projects which cannot be financed in the private sector. It is also a time to establish a policy which says that we will not allow able-bodied people who want jobs to remain in the unemployment line. To do this we must have some sort of public service enployment program.

On housing, we need some quick steps to bring this industry out of the depression. I propose that we legislate immediately an injection of $5 billion by way of the GNMA program. This will provide for 150,000 to 200,000 new units for low and moderate income families. I hope the President will give this immediate consideration.

In addition, I hope the President will direct the Federal Reserve to use the Open Market Committee to purchase housing paper in significant amounts.

In conclusion I am convinced that the American people will not tolerate the kind of economic conditions that they face today. My mail from all over the nation reflects this deepening concern and I know that my constituents want specific programs much more than conferences of economic experts.

I came to the Congress 46 years ago and never, with the exception of the dark days of the depression, have I seen more unrest and anger over economic conditions. That is why I say we must take bold steps and why we must give up some of the old-line cliches about monetary and fiscal policy.

President Ford, the nation will be listening and watching carefully to see if your Administration is willing to face the hard facts, even in politically sensitive areas like the Federal Reserve, or whether we are to have more of the same.

Thank you.

MR. GREENSPAN: Thank you, Mr. Chairman.

Congressman Broyhill?

CONGRESSMAN BROYHILL: Thank you very much, Mr. Chairman.

Mr. Chairman and fellow delegates, the economists at the pre-summit session confirmed my belief that the inflation we are experiencing is severe. It is clear that any further delay on a broad scale attack on inflation will only result in a longer and more painful recovery experience. These are my reactions to the subjects that were discussed at the pre-summit meeting of the economists.

First, of course, it is clear not only from the discussions there but also at this meeting, that it is much easier to arrive at reasonable consensus as to the cause of inflation than to arrive at agreement on solutions to the problem.

Secondly, the economists further reinforce my belief that long-range policy of both fiscal and monetary restraint is indicated. Recently, our monetary policies have become too restrictive in my opinion and some relaxation is necessary, especially to assist our hard-pressed housing industry.

There are signs that the Federal Reserve has now begun to relax its monetary policy but extreme caution must be exercised. The Federal Reserve cannot do the job alone.

As a member of a newly formed House budget committee, I fully realize that Congress is going to have to make the hard decisions and reduce expenditures over the long-term. Previous spending policies of Congress have inflated the monetary supply with monies that we did not have. In addition, the government competition for credit has contributed to astronomical interest rates, and to rebut those who claim that fiscal responsibility combined with moderate monetary restraint has not worked in the past -- I would observe that in my years in the Congress, the budget deficits have been astronomical and the debt has increased by over $100 billion, and I would observe in that period of time that a policy of balancing the budget combined with a moderate monetary policy just has never really been tried.

A third point is that Congress must react to the current energy crisis created by the Arab oil price increase. In a few weeks, Congress will receive recommendations from Project Independence. It is imperative that Congress respond to these recommendations and adopt a long range energy program. Such a program should stress exploration for new sources of energy as well as energy conservation.

Fourth, some of the economists made proposals for wage and price controls although there was no consensus on this. The majority present did not endorse such drastic action.

My belief is that to add this vast power and the accompanying bureaucracy to the Executive Branch will be inconsistent with policies of recent months to reduce the enormous powers of the Executive.

Certainly, previous uses of wage and price controls have been unsatisfactory. Controls should be the last resort.

Five, economists confirm that an unhappy side effect of the war on inflation will be increased unemployment. They showed this with their statistics. Congress, therefore, should act to humanize efforts at this time. More comprehensive unemployment benefits and public employment programs must receive immediate Congressional attention.

Six, a great body of law on administrative procedure has developed which adds to cost and lessens competition resulting in increased prices. Economists have demonstrated near unanimous support for the concept of a legislative package to remove these barriers to competition and increase productivity. Congress must immediately proceed to act on these recommendations found on page 10 and 12. The recommendations of the Joint Economic Committee should be followed in my opinion in achieving this goal.

I do hope that these meetings will produce immediate results for a series of proposals for

Congressional consideration. I hope that Congress will respond swiftly but it will have to be done in a spirit of bi-partisan cooperation, not political bickering. Only through cooperation can inflation be solved.

Thank you, Mr. Chairman.

MR. GREENSPAN: Thank you, Mr. Broyhill.

For the question period, I would like to turn over the Chair to the Chairman of the Conference.

MR. SEIDMAN: Thank you, Alan Greenspan, and participants.

We will now have a question period. We have asked the economists to stay up here with us to help us. We will open with questions. I am sorry that we didn't have as much time as we would like but we will spend whatever time we can on the question period.

Let us start way back in the back of the room.

QUESTION: I am Berkeley Burrell, President of the National Business League. When American business is in trouble, so is all of America since it is the well-spring of a strong, viable nation.

This conference was called to find solutions to what all of us have identified as Public Enemy Number One, inflation. The economists have advised that increasing productivity is the number one solution, that the executive and the congressional branches of Government should commit immediately to the funding of a more permanent commission on productivity with maximum, not minimum, funding.

Secondly, in order to demonstrate to the world that this is a top domestic priority there should be the appointment of the Vice President to head such a commission who would then assemble all segments of national life to participate in and make equitable sacrifices toward removing the productivity crisis that we all agree exists.

MR. SEIDMAN: Thank you. Is that a statement really, or a question?

QUESTION: A question, sir.

MR. SEIDMAN: Would anyone on the Panel like to handle that question? Senator Tower.

SENATOR TOWER: Mr. Chairman, as the ranking minority member of the Banking, Housing and Urban Affairs Subcommittee of the Senate, I think I can assure you that this matter is going to be considered by the Banking, Housing and Urban Affairs Subcommittee.

I think there is sentiment for the expansion of the functions, the funding, the activities of the productive commission. I would anticipate that it will get favorable consideration.

MR. SEIDMAN: Mr. Friedman, do you wish to comment?

PROFESSOR FRIEDMAN: Over and over again yesterday and today we have heard the way to cut the budget is to spend more money. I don't believe that is right. I think we need to spend less money. I think this proposal to fund a permanent committee on productive capacity one of those proposals that ought to be eliminated from consideration.

To improve productivity is to give the ordinary man in this country, the worker, the employer, an incentive to try to use his resources as efficiently as possible, and the best thing that Government could do to improve productivity would be to eliminate that whole collection of wasteful interferences with the American economic structure that was condemed by most of the economists and which has been referred to over and over again.

That will save money and it will also increase productivity.

MR. SEIDMAN: Professor Galbraith.

PROFESSOR GALBRAITH: Mr. Chairman, I don't think any of us could complain about Arthur Okun's summary. It is very fair and very comprehensive as to the consensus of the majority opinion. Alfred Marshall who was a considerable figure in economics in the early part of the century once said nothing should be so much mistrusted as the majority view in economics.

I would like to suggest that that principal still holds.

There is no one around this table who imagines that the problem of wage-price stability can be achieved either by the measures here suggested or by even the additional use of invocation and prayer.

While everyone knows, and I think I know better than anyone else because I had several years of practical experience with the problem, the difficulties that are involved in price control and the supporting problem of wage management, the fact is that there is no other way of dealing with the wage-price spiral save by that.

It is of the utmost importance that it be conducted by people who believe in it. If I may say so, my good friend Mr. Shultz is an important, decorative and functional adornment of the construction industry and I am sure that his services as Secretary of the Treasury were great, but I can only think that putting George Schultz in charge of price control is not in any way different from putting Wright Patman in charge of tight money.

This must be done by people who are determined to make it work, who believe in what they are doing. One must have some respect for President Ford's concern that there will be anticipatory price increases but that can be taken care of by a clear announcement by the President, hopefully this afternoon, that if he does have to resort to price control, as indeed he will, he will take as a starting point, as the price for that control, the prices on the day he took office.

We have all heard in these last days the numerous disadvantages of the various measures for controlling inflation and none are greater than in the case of this instrument. But I would plead that in the closing moments of the Conference we recognize that all ways of dealing with inflation have disadvantages.

One of the reasons everybody was so harsh with Arthur Burns yesterday is that he was the only man who is doing anything about inflation in this

Administration and he is doing it with the worst of all possible instruments.

We have had a great deal of discussion of the difficulty of reducing taxes, of reducing expenditures, and my own guess is that they won't be reduced. That leaves us with only one other fiscal alternative and that is to increase taxes and that has to be a tax increase on the well-to-do.

Here, Wright, I am back in harmony with you again. I suspect there are limits to the extent that we can rely on private enterprise when it comes to expanding oil production and fertilizer production, two things by which I set great store. So, my plea is that a long with the problem of price and wage control, which I don't think we can escape, we see the need for overriding and indeed forgetting the disadvantages of every other form of inflation control, recognizing that in some degree the test of success is how unpleasant the action is.

MR. SEIDMAN: Thank you.

We have a number of people up. We would like to get as many of them as we can with either a question or a comment, whichever they have.

So, I am going to ring the bell on one minute on each of you. We will try to get as many as possible.

MR. DRESCH: My name is Stephen Dresch, Yale University and the National Bureau of Economic Research, speaking for myself.

Given the importance of the economic impact of defense expenditures, especially in light of the origins of the current inflationary prices, for example, on energy and other basic materials, it is incumbent, I would suggest, on the economists here to forcibly unmask the deceptive presentation this morning by the Secretary of Defense.

I would suggest that the Secretary's presentation was misleading in two respects. He erroneously referred to trends in the relationship of defense to non-defense Federal expenditures. It is noteworthy that the tables supporting his assertion were labeled "outlays".

If one is concerned with the Federal Government's command over resources, peoples, goods, material, the focus must be on expenditures, not outlays. From outlays we must exclude transfer payments such as Social Security which simply represent redistribution of non-Federal command over goods and services.

I think there are some fundamental issues which have to be addressed and all have been obfuscated.

MR. SEIDMAN: Microphone three.

MR. STETIN: My name is Sol Stetin, President of the Textile Workers Union of America. Somebody handed me a button that says, "The problem is more than inflation," and I agree. One of the disturbing things developing in our country is the accelerating unemployment and what disturbs me is the fact that more and more people are saying in order to fight inflation we have to have more unemployment. This is a pretty sad thing for those who are out of work and it seems to me that we have not yet dealt with the problem of the dollars of production that are being lost because human beings who want to work fulltime aren't getting the opportunity to work. It seems to me, and I lived through the First and Second World Wars, when everybody who watned a job was given a job, it seems to me the only time when people have the opportunity of working fully at their machines, is when other people -- my question: If people are saying there ought to be more productivity, let the economists, let the scientists in our country develop a system of keeping people fully employed so that we won't waste all that production that human beings can consume.

That is my question.

MR. SEIDMAN: Thank you, sir.

Number two.

MR. DEDERICK: My name if Robert G. Dederick, and I am with the Northern Trust Company. We have here a fair degree of talk at this Conference about the desireability of mandatory credit allocation, presumably with a view toward diverting funds away from projects to which the market has accorded the highest economic priority toward those projects which the proponents consider to have the higher social priority.

We haven't heard though why the proponents, most of whom have recognized the ineffectiveness of controls in the wage-price area, think controls would be effective in the market for money which is the most fluid market of all, and certainly our experience in the Korean War does not give us great reasons for optimism.

It seems that anything less than complete regimentation of all forms of credit flows, and here I include trade credit, is subject to leakages while a complete form of credit control has enormous social and political cost.

My question is directed to George Schultz or C. Jackson Grayson. What is your opinion of selective or complete credit allocation?

MR. SEIDMAN: Dr. Grayson, in one minute.

DR. GRAYSON: I think controls all across the economy on wages and prices and I would apply this also to credit controls, do not solve the basic problem. They are a short-term remedy. They may lead to temporary relief in a particular segment but in the long-run those end up being short-term gains and long-term pains.

You are going to interfere with the credit allocation system that would be best worked out by letting the credit flow naturally. I think this would be a tempting short-term gain but in the long run would be a mistake.

MR. SEIDMAN: Thank you.

Microphone one.

MR. BLACK: My nams is Eli M. Black, Chairman of the United Brands Company, a resident of Connecticut.

We have listened to the persuasive and intelligent views from various sectors of the country on all ills. Many good ideas and programs but widely divergent have been expressed. I have no intention of diminishing the importance of these issues. I fear, however, that the President and the Congress will dissipate their energies and attenuate their efforts in trying to solve and so many segments of the country all at once.

I suggest humbly therefore that we address ourselves to the one problem which is uppermost. Dr. Burns referred to our inflation as having lasted for a decade but it has been a crawling, a creeping inflation. Last year it became a galloping inflation with quadrupling of the price of oil and at stake is the very stability and viability of our economic and political system in the western world.

If inflation is the enemy then the price of oil is the villain. Let us concentrate on that. We have addressed ourselves to the supply aspect. I have a suggestion that we do so equally with the demand and I would like to very briefly outline three points.

MR. SEIDMAN: You have a lot of people behind you, sir.

MR. BLACK: I will do it very quickly. One is ---

MR. SEIDMAN: Microphone four, please.

MSGR. COCHRAN: I am Monsignor Cochran, National Catholic Charities.

I might say parenthetically I am about the only clergyman here due to the fact that inflation is blamed at least in part on certain things called Acts of God.

I think that the question I have is what kind of values and value commitments have we reflected here. I think if it were analyzed, I would indicate what we do reflect would not do us very proud. I think we should take a good look at whether we have really failed to address this question.

Additionally, I have been disturbed by the fact everyone who has spoken has asked for something for themsëlves. Much has been said about sacrificing but it is always somebody else who is supposed to sacrifice.

Those here represent the leadership of the country. If we speak of sacrifice does not burden of leadership demand we declare what sacrifice we personally are going to make.

I would illustrate this by saying I would be willing to take a ten percent reduction in my income if everybody else here would do the same thing. That might be rather simplistic economics but I think it is good leadership.

MR. SEIDMAN: Mike 3.

MR. WEINTRAUB: I am Norman Weintraub, Research Department, Teamsters Union.

With all the talk about capital shortages, one,why are you allowing Mobile Oil to spend $8 million to acquire Montgomery Ward? Two, why don't you tax the oil companies?

MR. KAHN: Marvin Kahn, a member of Congressman Thomas Rees' staff.

The economies of the world are truly interrelated and especially now with recent moves we are fluctuating exchange rates probably even more so. While the rate of inflation in the United States is high, given our past experiences, it is still relatively low compared to that of most other western industrialized nations.

Can we really lower the domestic rate of inflation substantially independent of any move of rates of inflation of other western industrialized nations?

MR. SEIDMAN: Do any of our economists wish to take that on?

MS. WHITMAN: We cannot lower our rate of inflation independently of all of the other countries. I think we learned something in the past few years that independence runs toward us as well as in other directions. I also think that somebody has to take the leadership and we can't all just sit around waiting for somebody else to do it or for the anti-inflationary effort to be imported as a successor to the import of inflation. I think the United States is in the position of still being the singly most important economy in the world, less important than we used to be, but still the most important single one.

I think it is very, very incumbent on us to take some responsibility in initiating efforts against this international transmission of inflation and if we don't do it, I think there is very little hope that anybody else is going to be in a position to do it by themselves.

MR. SEIDMAN: Mike 1.

DR. WALKER: My name is Charles Walker, of Charles Walker Associates.

Milton Friedman, who is usually 100 percent correct, but not always, but was this time when he said we are dealing with a political problem.

On behalf of many delegates -- I can't speak for all -- to congratulate the Public Broadcasting System for carrying this town hall approach to this problem throughout the nation.

Secondly, I want to criticize the commercial news network for not doing so, and to suggest after discussions with a number of distinguished economists of past administrations both sides,some around the table, two things they could do to raise the quality of economic journalism on TV to the level of news press, the written press.

Number one, they need to hire good economic journalists on reportorial side.

Number two, they need an economic review board to report privately to the networks on the quality or lack of quality of their documentaries and other economic analysis.

Thank you.

MR. SEIDMAN: We will now have to end the general questioning and we will procede with the conclusion of the program. I am sorry we don't have more time.

MR. GALBRAITH: As a member of this panel who has taken a great deal of time and always has a great deal to say, can we have unanimous consent for a few minutes to hear from Nathan?

MR. SEIDMAN: I feel if Mr. Nathan is entitled to time, so are all of the men standing.

MR. GALBRAITH: May I have unanimous consent to overrule the Chair?

MR. SEIDMAN: Defeated.

Thank you, Professor. I am sorry, but we do have to go on. We are short of time and the Chairman feels that that would be unfair.

I would now like to call on Senator Hubert Humphrey of Minnesota to sum up for his group.

SENATOR HUMPHREY: Mr. Chairman, the first thing I would like of this audience is to remember that this morning our President has been at the hospital. His wife has undergone very serious surgery and I am going to ask the entire audience to join me in standing for about 30 seconds of meditation and prayer wishing a full and speedy recovery for Mrs. Ford.

... The Conference rose and observed 30 seconds of silence ...

SENATOR HUMPHREY: Thank you.

Mr. Chairman, my assignment is summation, and obviously summation will include many points of view. But, there are some things around which we have some agreement. I hope the first one is that this conference has been useful, because I think it has. I am not at all disturbed that a headline says that we have had disagreement. That is the nature of the democratic process.

I rue the day when we get this many people together and everybody seems to march to the same drummer and the same music. That would be a sad day.

The most important finding, as I see it, of this conference is that we have not one, but two public enemies -- inflation and recession.

It has been called by Dr. Samuelson "stagflation". May I say out home all they know is that prices are too high, the number of unemployed is too high, and the production too low. That is what we are dealing with.

Any policy that brings higher unemployment and lower real incomes for our people, in the name of controlling inflation, is simply unacceptable. It will not wash and you have to understand it.

The Employment Act of 1946 has scarcely been mentioned here and yet it is law and it established the basic economic contract between the American people and their government. It declares that it is the policy and the responsibility of the Federal Government to promote "maximum employment, production and purchasing power".

Now, this is the law of the land just as surely as the Internal Revenue Code is the law, but that contract has been violated or it has been ignored and often trampled upon and by government.

I ask some questions:

Do really high interest rates promote "maximum employment, production and purchasing power?"

They do not.

Does excessively tight money promote "maximum employment, production and purchasing power?"

It does not.

Does failure to enforce the anti-trust laws promote "maximum employment, production and purchasing power?"

It does not.

Do our incredibly unfair tax laws, Jerry-Built over the years that encourage mergers and destroy competition that extend special tax favors to some promote "maximum employment, production and purchasing power?"

They do not.

We are guilty of violating federal law here in the government of the United States.

Any policy to deal with our economic problems must live up to the promise of the Employment Act of 1946 to the American people unless you want to repeal the law.

Regretably, we have had no consistent economic policy in recent years.

The freezes, the phases, the variety of economic game plans have resulted for the business community, for everyone, in uncertainty and doubt which in themselves have contributed to inflation and recession.

The proposals and actions resulting from this economic summit, therefore, must result in a reliable, consistent economic policy, faithful to the goals of the Employment Act or this conference will have failed.

Now, it is said that inflation is a thief in the night robbing every American equally. I think we have dispelled that idea because this is wrong. Inflation, as has been brought out here time after time, discriminates against the poor, the disabled, and the minorities, and if you happen to have all of those at one time, you are literally destroyed.

It does hit crippling blows to small business, to housing, to families, to farmers and to the vast majority of wage earners.

The 12 percent inflation that we talked about in the past year is really not factual at all. We are kidding ourselves. It is much higher for low and middle income families who are required to spend about 80 percent or more of their income on food, fuel, housing, transportation, clothing and health care, and it is the price rises on these essentials that must above all, be stopped and reduced unless you want unbelievable political and social trouble in this country.

Some have called here for a big budget cut in the federal budget but with little or no regard for the effect on State and local government where government and people meet head-on.

There can be, there are and will be budget reductions, but a $5 billion or even a $10 billion budget cut will not put food on the table and it will not put another paycheck in somebody's pocket.

I want to compliment Dr. Heller on his paper in the Wall Street Journal of September 27th on the nine myths on budget cutting and inflation.

The watchword as I see it in this summation for all of us is can we be fair? Fairness and justice is what the Constitution calls for -- fairness in all segments of the economy.

The other watchword is discipline which the American people really don't like to have -- discipline in eliminating waste, discipline in working habits, in private industry and government, and discipline as mentioned here in the administration of governmental programs. Fiscal discipline, yes but wholesale cuts in people programs that save the lives of people which is promoting the general welfare under the Constitution, no.

We must remember that while inflation erodes income, recession and unemployment destroy income.

Now, there has been some talk here about the old-time religion and some people say that is our trouble. I don't happen to think that is all of it. I think the trouble is the revival of old-time sin. Some of that old-time sin is pretty clear here today. The policies of excessively tight money, and I know you must have management of money supply and of high interest that just goes at its own pace, appropriation impoundments and half-way controls administered by people who don't believe in them have not cured our economic ills and won't. In fact, the patient's fever is rising and his paralysis is spreading. The doctors--and most of them are here today--had better change the prescription or we may lose the patient.

And might I say more personally the American family may decide to change the doctors at the executive and legislative levels.

We have summarized here today that there are no quick and easy answers to long-term complex problems, but that does not relieve us from certain steps that can and must be taken now to bring down prices or at least stabilize them, to reduce interest rates, to conserve fuel, and we will see whether we really mean conservation in the next few weeks or whether we have talked it, to create jobs and to get this economy moving again.

Some people can talk about our enduring a recession when you have a job, but talk to the people who don't have one and see how they like it or try it for size when you are out of one. We are living in an economy that is not just economics. We are living in a political society of free people, and they are going to have something to say about their future.

From this conference, therefore, should come an agenda of economic action and this should take the form of a legislative program that the President will present to us, and then there are a number of administrative actions under existing law that can be taken.

As I see it, the agenda for economic action should include, among other things, immediate and some long-term considerations.

I will start with a national energy policy which has been emphasized here. We don't have a national energy policy. We have a lot of scattered shots but a national energy policy emphasizing the kind of conservation we have heard of and expanded research that is really something on the Manhattan style and leadership that was pointed out by the United States among the oil importing countries in dealing with the OPEC countries.

We also need a program of immediate tax relief to low- and middle-income Americans and it has to be offset by closing some of the most glaring tax loopholes and increasing revenues from the upper end of the income scale.

We need a national foodpolicy and my fellow Americans we don't have a national food policy and we don't have a secretary that wants one and we ought to understand it.

A national food policy that not only expands production, but provides an assurance of fair and stable incomes to farmers and assures adequate supplies of food at reasonable prices to the American consumer. This may very well include an export licensing system for agricultural commodities determined to be in critically short supply.

You can't have the American people going short of food simply in the name of commercial exports. It won't work.

You have to have a food reserve program in this country for national security purposes. If Mr. Schlessinger can ask for reserves of munitions for the security of our country, I ask for reserves of food to protect the American security and the American consumer and farmer alike.

We need a credit allocation program. We have one now. It is to the highest bidder. That is what you have got and that is not going to work.

A credit allocation program to assure the availability of reasonably priced credit for priority uses such as local government, housing and small business, interest rates can be and must be brought down.

We need a tough new anti-trust enforcement program and it ought to be done.

We need a national health insurance program.

We need a balanced national growth and development policy, some economic planning.

We are the only industrialized country in the world with no economic plans. This is unforgiveable.

We need a full employment program with the jobs being primarily in the public sector, but we need public service jobs and we need a national domestic development bank.

If we can lend under the Export-Import Bank at a low rate of interest, why can't we lend it to our own people at the same rate of interest?

We need a stronger role for the Wage-Price Council and get some teeth in it as was said here today and we need a federal action office to break up the bottlenecks of raw materials, fertilizers --

MR. SEIDMAN: The President will be arriving shortly.

SENATOR HUMPHREY: We need a productivity council of labor and business.

I want to say that I want to compliment our President. I will tell you why:

This is open government. This is what he said -- a national town meeting of the air. This is more public education on economics than this country has had since the last great depression.

I think we can avoid it and I want to say this is democracy in action, of debate, dialogue, discussion and dissent and we are now going to have decision and the time to act is now. Action delayed is a remedy denied.

Thank you.

MR. SEIDMAN: Thank you, Senator Humphrey.

I would now like to hear from the distinguished Congressman, Barber Conable of New York.

CONGRESSMAN CONABLE: Thank you, Mr. Chairman.

Senator Humphrey and I were allowed a total of 20 minutes, and I would say he is a tough act to follow in more ways than one under those circumstances.

We are at the end of a very interesting and encouraging experiment in representative government.

As a member of the Steering Committee for this conference, I have been to six of these meetings, and I can attest that a wide range of interests and aspirations have been represented in the pre-summits as in this room. It should be apparent that the process has not been rigged because so many people have been permitted to charge it was.

Here the American people have **been** able to watch representatives engage in open dialogue with the President and Members of Congress about the gravity of a problem that concerns us all.

I hope others are as proud as I am that such a process is possible. Such openness will help renew our confidence.

The President's patience and unfailing good nature in presiding here so long yesterday and his returning under the circumstances of today to close this conference show the high priority he gives to the battle against inflation.

We know difficult decisions lie ahead, and the inspiration of such leadership is essential if we are to accept those decisions and carry the resulting programs to a successful conclusion.

The Members of Congress present are grateful that the President understands the relevance of Congress to this battle and that he will offer and expect more than politics as usual in our mutual relations no matter how imminent the political season.

Here and at the pre-summits, what we have been seeking is understanding and consensus. As a Republican in Congress, I have none of the pleasure in minority status that Professor Galbraith seems to enjoy. My purpose is to summarise here the majority views of these meetings as I see them. The limitations of time and participation yesterday and today may have made the outline sketchy, but the total record of all the meetings will show, I believe, widespread agreement about the following seven points.

First, fiscal discipline is needed even though the immediate trade-off between spending cuts and the short-term rate of inflation is not all that impressive.

Our current calamity results in substantial part from the cumulative impact of careless though well-intentioned overstimulus from spending more than we taxed.

Further, undisciplined behavior at this time by the Government will rob us of our right to lead America out of the economic swamps because the people understand instinctively what the Government has apparently been a long time learning.

Second, monetary discipline is also needed although many believe we have reached the point where serious dislocation will occur if pressure is not taken off interest rates.

Third, to maintain public support for a substantial monetary and fiscal discipline, we in Government must be wisely sensitive to the special problems our troubled economy inflicts on the poor, the potentially unemployed, the elderly, the small businessman and farmer, the housing industry, and the the consumer. It is going to require judgement, flexibility, and real leadership to find the right balance between toughness and human concern.

Fourth, there is virtually no support in industry, labor or among rank-and-file congressmen for wage and price controls. Talk about their inevitability, which many of us think is cynically based upon the expectation of short public memories, should be discouraged. Things were bad in August of 1971 but they are worse now after three years of controls.

Fifth, many believe that too many industries have the power to raise prices beyond what a healthier competition would permit. Many also believe that labor should be given incentives rather than coercion to moderate its wage demands even where real wages have been eroded by inflation. Perhaps such incentives should be built into any tax adjustment given to lower-income people.

Sixth, great emphasis should be put on conservation of resources and the reduction of waste particularly in the energy field.

Seventh, the world depends upon American prosperity and economic stability.

One of the frightening things to learn as a Congressman is that so often we legislate not just for 210 million people but for the whole world.

The leadership needed from the United States now is not military or political but economic. Cartel-type price-fixing in oil and basic materials can probably be dealt with only if America encourages and leads a collective reponse from the consuming developed and less-developed nations.

Trade bill completion by the Congress will help as a first step in needed negotiating authority.

Now, the President may see the elements of consensus differently than I do. Since he speaks with one voice while we in Congress speak with many, the advantage in finding consensus and in initiating programs lies with the presidency. In dealing with this problem, complexity is our enemy but strong and decisive leadership can give us faith that the underlying realities are being dealt with. Whether or not we agree about the details, if the program is fair, all Americans will be willing to accept necessary sacrifice even though we as a nation have become quite self-indulgent compared to our grandparents.

But we urge the President, the Government as a whole, the Congress not to lose the momentum of these meetings as a preliminary to action. We understand it is not going to be easy or quick. It cannot be done with mirrors.

An element of consensus that I have not mentioned before is that the problem is urgent and we all want to get at it -- everyone who has attended these meetings. We don't just want action for the sake of action. Our economic and political freedoms are at stake. Some of the nostrums which have been proposed will require wise leadership in this voluntary nation of ours to keep our sense of urgency alive and effective as long as it must be kept alive, but those of us in the Congress who know the President so well think both branches of Government now have what it takes.

Thank you.

MR. SEIDMAN: Ladies and gentlemen, the President has arrived in the hotel and he will be with us in approximately two minutes if you want to stand up and stretch and then sit back down again.

(Brief recess)

MR. SEIDMAN: Ladies and Gentlemen, the President of the United States.

PRESIDENT FORD: Ladies and Gentlemen, companions in this conference, and my fellow Americans: just one personal note if I might.

I just returned from the hospital where I saw Betty as she came from the operating room. Dr. Lukash has assured me that she came though the operation all right. It has been a difficult 36 hours. Our faith will sustain us. Betty would expect me to be here. I thank each and every one of you for your contributions to this summit.

From most summits there is no way to go except down. From this summit we are going to start up. This is not the end, but the beginning of a battle against inflation and waste which will not end until it is won.

I have vowed and I ask all of you to resolve here and now that we will celebrate our Nation's 200th birthday with our economy healthy and strong, with prosperity as well as peace the solid realities of our great Republic.

Thousands of dedicated men and women have come together in this series of inflation conferences to map the strategies and tactics of our all-out war against America's domestic enemy number one. All of you will be the new Founding Fathers--if we succeed. If we fail, then certainly we will all hang separately.

General George Washington's words at the start of our Nation are equally appropriate now: "Let us raise a standard to which the wise and honest can repair; the rest is in the hands of God."

And God helps those who help themselves. On this principle, Americans in two centuries have astonished the world and time and time again have confounded the pessimists and the cynics who said it couldn't be done.

You have discussed many ideas. You have spoken candidly. As a result, I, along with other Americans, have gained a better understanding of our economic problems. Perhaps we have caught glimpses of the political problems as well. But, even in our controversies, we have all developed a surer sense of direction. You have done your homework well. Now it is my turn. In the days immediately ahead, I will offer to the American people and to the Congress a program of action which will help bring balance and vitality to our economy. This program could not be formulated without your participation and without the support of millions of other Americans who have given me their ideas. All agree on one vital point: Inflation must be stopped cold.

This Administration will respond--not with words but with actions and programs.

As your President, the only special interest I represent is the American people--housewives struggling with rising grocery prices, workers whose real purchasing power has eroded because of inflation, businessmen trying to control rising costs, families needing new homes but unable to find mortgage money to buy them, those thousands of unemployed who want to work, the elderly locked into pension program corners years ago--indeed, all 215 million Americans.

I pledge to you that I will not shrink from the hard decisions needed to meet the problems facing each and every one of us. This is a critical hour in America's history. It requires that Americans once again arise above petty partisanship or factional interests in any segment of our society.

The very future of our political and economic institutions -- indeed our whole way of life -- is literally at stake.

A fundamental fact of human history is precisely this: Nations which cannot impose on themselves a disciplined management of their fiscal and monetary affairs are doomed to economic disorder and wide-spread inflation. Such discipline is imperative. It is urgent if we are to achieve a stable and expanding economy.

The American people have repeatedly demonstrated their ability to submerge personal and group interests to the general welfare when they know the chips are down, they are really down. They have done it in the past and they will do it again. They will respond as they always have.

As part of the demanded discipline I will send to the Congress a plan of action to keep federal outlays for fiscal year 1975 at or under $300 billion. Every dollar the Federal Treasury must borrow is a dollar not available to the homebuyer or the businessman trying to expand or other citizens who may be borrowers for good and sufficient reasons.

A coalition national policy on energy is essential to economic availability. It must encourage prudent use of available energy. There must be an assured future energy supply to enable consumers and businessmen to plan in a confident and orderly way.

I will soon propose a national energy program aimed at assuring adequate internal supplies while reducing dependence on external sources.

At this very minute, Secretary Kissinger and Secretary Simon are exploring with their counterparts from four major industrial nations a coordinated plan to cope with a world energy crisis and world economic dislocations.

(Applause.)

Today I can announce three actions I have just taken. First, I have directed the consolidation by Executive Order of all of the Federal government economic efforts, domestic and international, under a new economic policy board.

The Secretary of the Treasury, Bill Simon, will serve as Chairman of this Board and as my principal spokesman on matters of economic policy.

(Applause.)

I have appointed Bill Seidman, who has done so well with this conference, to serve as my assistant for coordination and the implementation of economic affairs and also as Executive Director of the National Economic Policy Board.

(Applause.)

In addition to Secretary Simon and Bill Seidman, I have appointed nine Cabinet officers as members of this board. They include Henry Kissinger, Rog Morton, Earl Butz, Fred Dent, Pete Brennan, Casper Weinberger, Jim Lynn and Claude Brinegar.

In addition, the membership includes the Director of the Office of Management and Budget, Roy Ash; the Chairman of the Council of Economic Advisers, Alan Greenspan; the Executive Director of the Council on International Economic Policy, William Eberle. Dr. Arthur Burns, Chairman of the Board of Governors of the Federal Reserve System will attend meetings of this board, which will start to work immediately.

Second, I have established by Executive Order a White House Labor-Management Committee whose counsel and recommendations will not only be sought but given to me man-to-man and face-to-face.

(Applause.)

Eight distinguished labor leaders and eight distinguished business executives comprise its membership. The objective of this committee is not only to serve as advisers to me on major economic policies but to help assure effective collective bargaining, promote sound wage and price policies, develop higher standards of living, and boost productivity and establish more effective manpower policies.

Dr. John C. Dunlop, a dedicated public servant and professor of economics at Harvard, has agreed -- and we are very thankful -- to serve as coordinator of this committee.

(Applause.)

Representing labor on the committee will be President George Meany of the AFL-CIO; Secretary-Treasurer Lane Kirkland of the AFL-CIO; President I.W. Abel of the United Steelworkers of America; President Murray H. Finley of the Amalgamated Clothing Workers of America; President Paul Hall of the Seafarers International Union of North America; President Frank E. Fitzsimmons of the Teamsters International Union; President Leonard Woodcock of the United Auto Workers; and President Arnold Miller of the United Mine Workers.

Representing management on the committee will be John D. Harper of the Aluminum Company of America; Reginald H. Jones of General Electric; Stephen D. Bechtel, Jr., of the Bechtel Group; Richard C. Gerstenberg of General Motors; Rawleigh Warner, Jr., of the Mobil Oil Company; Walter B. Wriston of the First National City Bank; Arthur Wood of Sears, Roebuck and Company, and R. Heath Larry of U.S. Steel.

I am proud to announce this group of 16 distinguished outstanding Americans.

(Applause.)

I have a third announcement: The Council on Wage and Price Stability, recently established by Congress at my request and with my deep appreciation, is another arm I will use in the fight on inflation.

I have asked Dr. Albert Rees, a distinguished economist and professor of economics at Princeton, to direct the Council's work. We are fortunate to have Dr. Rees with us.

(Applause.)

May I express my thanks to all of the people, those that I have mentioned and others that will help, for their willingness to step in and help the country and its 215 million people.

But nobody knows better than I that councils and committees cannot win this war. The most important weapon in the fight against inflation is the spirit of the American people. This spirit is no secret weapon. It is renowned all over the world and I call on each of you in this room, but more urgently on each of you at home watching on television and all of the other Americans across this vast land who either hear or read my words: I urge them, as I know they will, to join with all of us in a great effort to become inflation-fighters and energy-savers.

I know all across our country the question everyone asks me is, "What can I do to help?"

I will tell you how we can start.

Right now make a list of some 10 ways you can save energy and you can fight inflation. Little things that become habits, they do become habits. They don't really affect in some instances your health and happiness. They are habits that you can abandon as we are all faced with this emergency.

I suggest that each person exchange your family's list with your neighbor's list and I urge you and ask you to send me a copy. Some of the best ideas come from your home rather than from the White House.

The success or failure of our fight against inflation rests with every individual American.

Our country is above all a union and you and I can make it a more perfect union as our fathers did.

One of our delegates yesterday, Sylvia Porter, the well known newspaper columnist on economics, has kindly consented to help me get this voluntary citizens' program organized and underway and I thank you very, very much, Sylvia.

(Applause.)

It was dramatically pointed out here yesterday that inflation strikes our society very unevenly. Government must concern itself with those on whom the burden falls excessively.

For instance, we must provide productive work for those without jobs. We must adjust our tax system to encourage savings, stimulate productivity, discourage excessive debt, and to correct the inflation-caused inequities.

And I can assure the American people that the Executive Branch and the Congress working together will effectuate and implement such a program.

(Applause.)

May I add a very special word to our distinguished foreign guests. What you heard here yesterday and today may remind each of you of the current problems of your own country's economy, for the problems of people are not very different in these days wherever they live and work.

The whole world suffers from inflation. I assure you the United States is seeking honest solutions that will help, not hinder, other nations' efforts to advance or to restore their economic health.

I will have extensive consultations with leaders of other governments aimed at strengthening international institutions and to assure that we never again experience worldwide and interacting inflations and deflations.

There are more difficult decisions ahead for me and for the Congress. From the many alternative policies which we have heard here given in good faith and listened to in good faith, we can and will fashion a coherent and consistent program.

I will present my recommendations to the nation and to the Congress within the next 10 days.

Finally, you will understand my two compelling reasons for cancelling all but my most essential appointments and travel plans in order to be here in Washington.

I will devote every minute that I can to forging the massive evidence and the evaluations generated by this conference into concrete action, into concrete plans and legislative proposals.

A great leader of this century in whom the unbeatable willpower of his American heritage combined with English eloquence, rallied his embattled countrymen from almost certain defeat by a blunt promise of blood, toil, tears and sweat.

I trust we can avoid blood and tears and we will.

But, I do offer you plenty of toil and plenty of sweat.

(Applause.)

I will roll up my sleeves and work every bit as hard as you do starting this weekend, until every American is enlisted as an inflation-fighter and as an energy-saver and until this job is done.

Thank you and God bless you.

(A standing vote of applause was given to the President.)

MR. SEIDMAN: Thank you one and all.

We appreciate very much everything you have done in this.

This Conference is now adjourned.

END (At 1:00 P.M. EDST)

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