

7/17/70

	GNP		Auto GNP		All other				
	Current \$	Constant \$	Current \$	Constant \$	Current \$	Constant \$			
1969-1	907.6	722.1	38.2	36.9	869.4	685.2			
2	923.7	726.1	34.8	33.3	888.9	692.8			
3	942.6	730.9	37.6	35.8	905.0	695.1			
4	951.7	729.2	35.8	33.9	915.9	695.3			
1970-1	959.5	723.8	31.1	29.2	928.4	694.6			
2	970.1	724.3	35.3	33.1	934.8	691.2			
3Q 69 - 1Q 70	16.9	- 7.1	- 6.5	- 6.6	23.4	- 0.5			
3Q 69 - 2Q 70	27.5	- 6.6	- 2.3	- 2.7	29.8	- 3.9			

Note: Detail may not add to totals due to rounding

Source: Will be published in Survey of Current Business JULY 1970 incl. 2Q 70 data

7/13/70

New Basis

Changes in real GNP by component
billions of 1958 dollars

	① 4Q 1968 - 3Q 1969	① 3Q 1969 - 2Q 1970
Total	-12.1 13.4	-5.2 -6.6
Federal Purchases	-3.9 -4.2	-7.6 -7.1
All other GNP	16.0 17.6	2.4 0.5
Change in business inventories	-0.3 1.4	-7.1 -7.4
Final Sales	16.3 16.2	9.8 7.9
Consumption expenditures	8.9 10.6	8.2 8.8
Nonresidential fixed investment	5.1 4.8	0.6 -1.4
Residential	-1.5 -1.6	-2.1 -2.3
Net Exports	0.6 1.0	1.5 1.3
State and Local Government Purchases	3.1 1.5	3.0 1.5

① Based on old GNP figures

New Basis

Changes in personal income, personal taxes and disposable income

4Q 1965 - 3Q 1969 3Q 1969 - 2Q 1970

Transfer payments	4.0	12.7 13.9
+ All other personal income	41.05	27.3 29.5
= Total personal income	45.61	40.0 43.4
- Personal taxes	11.31	2.7 - 0.3
= Disposable personal income	34.31	37.3 43.7
Consumption expenditures	31.3	31.2 32.1

~~① Parameter needed GNP data~~

[illegible]

obsolete

Table 4. - Changes in GNP deflator

1965-66	2.7
1966-67	3.2
1967-68	4.0
1968-69	4.7
4Q 68-1Q 69	4.8
2Q 69	5.1
3Q 69	5.7 (4.4)
4Q 69	4.5
1Q 70	6.3 (5.2)
2Q 70	4.1

Note: Figures are all on old basis. Data in () exclude effect of government pay raises

Table 5.- Percent Changes in Wholesale Prices

Period	All com- modities	Farm products	Processed foods and feeds	Indus- trial com- modities
1965-66	3.3.	7.3.	5.9.	2.1.
1966-67	.2.	-5.6.	-1.2.	1.5.
1967-68	2.5.	2.5.	2.2.	2.5.
1968-69	3.9	6.2.	4.9.	3.4.
Seasonally adjusted annual rates				
Dec '68-Mar '69	5.6.	8.3.	7.5.	5.6.
Mar '69-June '69	5.1.	12.6.	10.3.	1.8.
June '69-Sept '69	2.1.	-.4.	1.0.	4.0.
Sept '69-Dec '69	6.1.	12.6.	8.6.	4.3.
Dec '69-Mar '70	4.2.	5.1.	8.7.	3.5.
Mar '70-June '70	1.0.	-14.9.	-6.2.	4.2.

Source: Bureau of Labor Statistics.

ch	GAP	Final sales	Final sales less Fed punch	
IV 69	9.1	13.3	13.7	
I 70	7.8	13.4	13.2	
II 70	10.6	9.6	12.3	39.2
I 69	16.2	18.1	19.1	
II 69	16.1	15.7	16.8	
III 69	19.9	15.3	12.6	48.5

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Corp. tax liabilities

	<u>1969</u>	<u>1970</u>
Corporate <u>Surtax</u> liability	3.7	0.9
Increase in liability due to repeal of ITC	<u>0.5</u>	<u>1.9</u>
TOTAL	<u>4.2</u>	<u>2.8</u>
TOTAL CORP TAX LIAB	42.7	

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National Defense Purchases (constant 1958 \$)

1965 43.4
 6 51.2
 7 59.8
 8 61.4
 9 58.6

1968-1Q 61.3
 2Q 61.9
 3Q 61.1
 4Q 61.1

	current	Index	1968 = 100	In 1970 prices
	79.2	1,296	1.00	89.0

1969-1Q 60.2
 2Q 59.0
 3Q 58.4
 4Q 56.9

1970-1Q	55.2				
2Q	52.9	77.1	1,457	1.124	77.1

Source: OBE - but NOT for attribution

		Ref Current Dollars	Ref for Fed Purch		IV 1968	
IV	1968	79.3	134.2	100	79.3	72 100
I	70	78.9	143.4	107	73.7	93
IV	70	72.4		110.2	65.8	83
II	70	77.1				

13.5 in IV 68 pines
14.85 in II 70 pines

	Defense Current Dollars	Deflator Fed Purchases		IV 1968
IV 1968	79.2	128.4	100	79.2
II 70	77.1	146.2	114	67.6
IV 70	72.4		117	61.9

17.3 in IV 68 pines
19.7 in II 70 pines

If historical patterns continue, we can expect substantially improved productivity growth as growth in demand increases and growth in output is resumed. Indeed, productivity growth in manufacturing appears to have improved since the beginning of the year. Improved productivity growth should substantially reduce the cost pressures on prices that result from continuing rapid increases in hourly labor costs. Improved price performance in turn should lay the basis for a declining trend in hourly labor cost increases and a further reduction in cost pressures.

Resumption of moderate growth in output will also result in gains in employment in the second half of 1970. While the monthly unemployment statistics are, of course, very sensitive to variation in labor force growth, an increased pace of employment growth will result in a tapering off of unemployment increases. When the rate of employment growth becomes similar to that of the labor force, unemployment will stabilize and may even decline while continued progress can be achieved in reducing the rate of inflation.

Policy in the Period Ahead

When we made our projections for the year 1970, we envisaged a path for the economy that would meet our price objectives and at the same time would keep unemployment from becoming too high. Now that it appears that we have slipped somewhat from what we considered to be a desirable path, we ought to take steps to get back

The President made a number of other proposals to assist these hurt in the fight against inflation. These included the establishment of an insurance corporation backed by the Federal Government to guarantee the small investor against losses caused by financial problems of brokerage firms. This does not mean that the investor would be protected against risks from investment in the stock market. It would mean that the small investor would be freed of concern over the stability of the securities industry itself.

The President also recommended that social security benefits be tied to changes in the cost of living. This legislation, which has already passed the House, would put on a more regular basis adjustments that have been made sporadically over the past several years (statement must be checked).

The President also requested the Congress to act on his proposal to give greater authority to the Small Business Administration to stimulate banks and others to make loans to small businesses at lower interest rates.

Finally the President recommended legislation to enable the Department of Transportation to provide emergency assistance to railroads in financial difficulties.

ANSWERS TO QUESTIONS BY CONGRESSMAN PATMAN

1. The recent bankruptcy of the \$7 billion Pennsylvania Railroad and the reported high liquidity problems of many other businesses raises a serious question of whether we should have a special way of providing financial help to businesses that find themselves in trouble by reason of tight money, whether or not these businesses are big or small. I have in mind something generally similar to the old Reconstruction Finance Corporation but not necessarily like it; an institution that would if credit is not available locally through financial institutions be able to extend help in the form of loans at reasonable rates of interest. Is it your opinion that we should have such a Federal National Development Bank, or similar institution?

Points in Answer:

(1) The question of adequate liquidity for basically sound firms is one to which both the Congress and the Administration should give attention, but it would be hasty to conclude either that the economy faces big troubles from this source, or that current or proposed facilities are inadequate to deal with the problem.

(2) In the latter respect, the powers now enjoyed by the Federal Reserve System, the Small Business Administration, the Defense Department under the Defense Production Act, and other authorities should be carefully evaluated before new departures are proposed. The Administration's proposal to guarantee loans to railroads is a worthy example.

(3) Thus far, the private financial system -- particularly the commercial banks -- has been able to finance sound credits in a satisfactory manner. Their ability to do so has been greatly aided by Federal Reserve actions with respect to discount policy and in relaxing Regulation Q.

(4) Before additional steps are taken, a number of thorny questions will have to be thought through. For example --

- how far does Government responsibility extend when part of the difficulties of a firm appear to stem from the Government's regulation of that industry?
- is any effort to "bail out" such firms properly viewed as an effort to protect its owners, managers and creditors? Or can other public interest factors be identified and, if so, how?
- if the Government assumes "bail-out" responsibilities, it will insist upon protecting itself through some type of reporting and/or regulation. To what extent can these activities be carried out without undermining the very strength of our free enterprise economy?

- What are the budgetary implications of establishing such a facility?
- How could such a facility be established in such manner not to impair the proper adjustment process as the economy shifts from one stage of activity to another?

These are only a few of the difficult questions that arise, and are presented only to stimulate discussion of this important matter.

2. Is it your view that interest rates at the present time are too high? If so, what are your recommendations to lower these rates?

Points in Answer:

(1) There is no doubt but that the \$38 billion in red-ink budgets during the three years ended in mid-1968 pushed interest rates to levels that are too high.

(2) Rates will come down as more and more people are convinced of this Administration's determination to stop the inflation, ~~that the red-ink policies of the 1960's brought on.~~

(3) The increasingly evident signs that the Administration's anti-inflation program is working -- and without pushing the economy into an ^a~~old-fashioned~~ recession with high unemployment -- have in recent weeks contributed to strength in bond markets. (See table.)

(4) The Congress can join the Administration in its fight against inflation by passing the revenue measures requested by the President, and by resisting the temptation to add to appropriations bills.

Major Interest Rate Swings in 1969 and 1970

	1969 Yield Range		1970 Yield Range		Date	Yield	Date	Yield	Low	High	Low	High	Date	Yield	Latest
	High	Low	High	Low											
Treasury Bills:															
3-month	12/29	8.08	4/30	5.87	1/16	7.93	3/24	6.08							6.52
6-month	12/29	8.09	4/30	5.96	1/5	7.99	3/23	6.18							6.68
12-month	11/24	7.86	1/16	5.86	1/30	7.62	3/25	6.22							6.70
Treasury Coupons:															
1-year	12/29	8.40	1/20	6.16	1/2	8.28	3/25	6.73							7.14
3-year	12/29	8.51	1/20	6.02	1/7	8.42	3/25	6.87							7.60
7-year	12/29	7.77	1/16	6.09	5/26	8.12	3/25	6.98							7.66
Federal Agency:															
1-year	12/30	8.76	1/20	6.33	1/2	8.75	3/25	7.50							7.82
3-year	12/31	8.55	1/28	6.53	1/2	8.54	3/25	7.75							8.17
New York Corp. Bonds:															
(Treas. Ser.) 1/...	12/5	9.29	1/24	7.27	6/19	9.90	2/27	8.72							9.13p
New Munic. Bonds:															
(Bond Buyer Ser.)	12/18	6.90	1/23	4.82	5/28	7.12	3/12	5.95							6.59
New Home conven.															
(FHA Ser.)	Dec.	8.36	Jan.	7.53	Mar.	8.57	Jan.	8.54							8.552/

Office of the Secretary of the Treasury
Office of Debt Analysis

Series based on issues with no call protection, for 5 year call protected issues deduct (at present time) approximately 25 basis points.

Preliminary

May

6. What should be done about the trend toward forming one bank holding companies? Do you believe this should be restrained? In view of the fact that banks are franchised by public authority to carry out monetary functions that are basic legislative powers, should they not be required to stay exclusively in the banking business and not be permitted to engage in other forms of business and in effect go into competition with their own depositors?

Points in Answer:

(1) We see no reason to stop the formation of one-bank holding companies, but believe strongly that such companies -- and especially their acquisitions -- should be brought under Federal control.

(2) To this end, the Administration in March 1969 submitted a comprehensive proposal designed to draw a firm but reasonable line between banking and commerce.

(3) Last year the House passed one-bank holding company legislation which was far too restrictive, and which would harm financial consumers because of its anti-competitive thrust.

(4) Recently the Senate Banking and Currency Committee voted to report a bill which, although not consistent in its particulars with the original Administration bill, would effectively bring one-bank holding companies under Federal regulation.

(5) We hope very much that the ultimate outcome of Senate action and the following conference will be a bill closer to the one originally proposed by the Administration.

(6) The question of the source of banks' monetary functions and whether that should "go into competition with their own depositors" is beside the point. The question is what sort of structure and regulation would best serve the public interest, especially the needs of financial consumers.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUL 14 1970

Honorable Herbert Stein
Council of Economic Advisers
Washington, D.C. 20506

Dear Herb:

The attached questions have been or will be received by all of the Government witnesses who have been asked to testify before the Joint Economic Committee on the mid-year review of the economy. In order to develop a consistent Administration position on these questions, we would like you to draft the basic points (narrative text not necessary) to be covered in agency testimony on questions 3, 5, and 7.

We will meet with the other interested agencies to discuss your suggested answers at 4:00 p.m., Wednesday, July 15, 1970, in Room 248 of the Executive Office Building. Those attending will be: Dr. Charles Walker (Treasury); Mr. Richard McLaren (Justice); Mr. Herbert Stein (CEA); Mr. Jerome Rosow (Labor); Mr. J.C. Partee (FRB); Mr. Fred Deming, Jr. (HUD); Mr. Rocco Siciliano (Commerce); and Mr. Maurice Mann (OMB).

Sincerely,

/s/ Maury

Maurice Mann
Assistant Director

Attachment

• FOR RELEASE 10:00 AM, EDT
WEDNESDAY, JULY 22, 1970

Statement of
GARDNER ACKLEY
Professor of Economics
University of Michigan
Before the
JOINT ECONOMIC COMMITTEE
Mid-Year Hearings on the Economy
July 22, 1970

I propose today no detailed analysis of recent economic developments, the current economic situation, or the outlook for economic activity. Nor will I review systematically the whole range of available policy alternatives. Rather, I propose to direct my comments to two questions:

1. What should be the over-all posture of fiscal and monetary policy now and in the months ahead?

2. What can be the contribution of "voluntary methods" of wage and price stabilization to the slowing down of the rise of prices?

I believe that, at this particular time, there is sufficient agreement on the general character of the economic outlook that the answer to neither of these questions requires any detailed analysis of our situation and prospects. I will say only that I have been a relative optimist, expecting that we would avoid a recession of the character of 1949-50, 1953-54, 1957-58, and 1960-61. Preliminary estimates for the second quarter of 1970 were not available at the time this statement was being prepared, but I believe they will confirm my expectation that the low point for real gross national product would be reached in the first quarter. However, I have in the last several months trimmed back appreciably my estimates of the probable extent of the pick-up in real GNP during the final three quarters of 1970. Perhaps I had underestimated the extent and the effects of the intangible lack of confidence,

which some feel exists in the business community, that our present political leadership is in full control of the economic situation and knows what it is doing. In any case, I surely did not anticipate the Cambodian adventure, and the shock that it has caused to the confidence both of investors and of consumers. My best judgment still is that we will see a slow revival of economic activity during the remainder of 1970. Yet I cannot rule out the possibility of a severe cutback of investment plans that would bring a renewed decline in the second half and a genuine recession.

Posture of Fiscal and Monetary Policy

However, the weaker economic performance and outlook, and the weakening of my own confidence in recovery, only confirm, rather than alter, the views I have held since last winter on economic policy -- namely, that more easing than we have yet had is appropriate in the combined impact of monetary and fiscal policy.

In recent months there has been much beating of breasts in the financial community, the Congress, and the Administration regarding the need to persevere in a highly restrictive fiscal policy stance. In particular, great importance is attached to preserving something close to balance in the Federal budget, regardless of the state of the economy. Many seem already to have concluded that economic disaster can be avoided only through a substantial increase in excise or income taxes next year.

I agree with the breast-beaters in attaching great importance to fiscal policy -- as they apparently do. That is, I join them in denying that only money counts. I have not abandoned my view -- which this Committee will perhaps recall -- that both fiscal policy and monetary policy are important. I disagree only in what the posture of fiscal policy should now be.

I would support a tax increase only if the economy recovers considerably faster than any economist I know now expects, or if the Federal Government were to spend a good deal more than I now see any reason to believe that it will spend. That is, I could support a tax increase which would lead the Administration and the Congress to increase substantially the planned allocation of resources to domestic social programs: for the rescue of our cities, for education, mass transit, pollution control, manpower training, and anti-poverty programs. But I see very little chance of that happening. And I fear that a tax increase might reduce some of the pressure to restrain spending for defense, space, SST, and agriculture, and could seal the doom of the President's proposals, in his Budget of last January, for desirable cuts in a number of obsolete or low-priority domestic programs.

In short, as of now, I would support a tax increase to finance added spending on desirable social programs. I would not support it -- as of now -- to reduce a deficit that is primarily a symptom of a weak economy, or to permit larger spending on defense.

Regarding monetary policy, I believe that it is important to keep interest rates trending downward, to assure a generous flow of finance to housing, and to supply a needed rebuilding of liquidity. If this means, temporarily, accelerating the rate of increase of monetary aggregates above some theoretically predetermined level, then let it!

The last three times I appeared before this Committee, in February and June of 1967 and in February of 1968, I was an urgent propagandist for fiscal and monetary austerity, pleading for enactment of the surtax, which -- I am sorry to say -- the majority of this Committee failed to recommend either in its 1967 or its 1968 Reports on the President's Economic Report. The whole

basis for my position then was that a tax increase was essential to avoid inflation. We are surely still experiencing inflation -- at a higher rate than I was probably willing even to predict in 1967 or 1968. Why then am I no longer a supporter of fiscal austerity? To me the reason is clear and simple. Inflation today and in the months ahead does not rest on any excessive demand for the national output, and there is no reasonable prospect that an excess of aggregate demand over our potential output will be generated in the foreseeable period ahead. Cutting back on the expansion of aggregate demand, through fiscal and monetary austerity, is essential for avoiding or curing an excess-demand inflation. It has little relevance for the "cost-push" inflation which we face now and will continue to face in the months ahead.

The present inflation originated in an excess demand, that developed when fiscal policy was far too expansionary during much of the period from 1966 through mid-1968. But that excess has been eliminated. The unemployment rate is no longer at 3.3% but stands close to 5.0%, and no one expects it to fall for some time to come. Instead, almost all economists -- I included -- expect it to rise. The rate of utilization of industrial capacity is low -- and falling. In the first quarter of 1970, real output was about \$22 billion below our potential. This gap grew in the second quarter and will undoubtedly expand further in the second half.

Given the current and prospective levels of unemployment and capacity utilization, the advance of prices will surely slow down. Not all at once; not as rapidly as we wish. We should not have expected a quick slowing down of price increases, nor that it would come before an appreciable rise in unemployment. The overly optimistic predictions of the Administration,

which could not be and were not met, have probably contributed to the wide-spread demands on the part of many persons for full wage and price controls, and on the part of others for a continuance or even tightening of the fiscal and monetary squeeze on economic activity.

The fiscal and monetary policy requirement for stopping inflation was to create and maintain some slack in the economy. That has been done. And this slack will not quickly be reabsorbed as the result of any easing of policy restraints that is presently contemplated. Past policies have already guaranteed a slack economy for some time to come. The Administration may exaggerate the lags in the effects of policy when, after a year and a half, it continues to blame the present economic situation on the acts of its predecessors. But there is a lag, and the policies we are discussing in July of 1970 will have more effect on next summer's economy than on this summer's.

Will Inflation Slow Down?

But will the inflation slow down even with some continuing slack in the economy? I believe that it will. (I also think that we should help the process along with some supplementary policies. But that is a separate matter. Here I speak only of the effects of the slack alone.) Table 1, below, relates rates of unemployment, averaged by quarters, to rates of change in prices, during the 64 quarters from 1954 through 1969. Price change is represented by the implicit GNP deflator for the private nonfarm economy -- which I regard as the most suitable index of price change for this purpose -- and is measured over the four quarters ending in the given quarter. One of the dividing points for the unemployment rate which I chose for this distribution was at 4.7 per cent -- last month's rate of unemployment. The table shows that at rates of unemployment between 4.7 and 5.7 per cent, the average rate

Table 1 -- Rates of Unemployment and
of Price Change, Quarterly, 1954-1969

Average unemployment rate	Number of quarters	Average increase of private nonfarm deflator from one year earlier
4.00% or less	17	3.32%
4.01 to 4.70%	12	2.45%
4.71 to 5.70%	22	1.40%
More than 5.70%	13	1.26%
All	64	2.17%

Table 2 -- Unemployment Rates and Price
Increases, 1956-1958, and 1967-70

Period	Average unemployment rate	Average increase of private nonfarm deflator from one year earlier
3rd quarter 1956 through 2nd quarter 1957 ^{a/}	4.07%	3.97%
3rd quarter 1957	4.23%	3.46%
4th quarter 1957	4.93%	2.91%
1st quarter 1958	6.30%	2.15%
2nd quarter 1958	7.37%	1.63%
3rd quarter 1958	7.33%	1.42%
1st quarter 1967 through 4th quarter 1969 ^{b/}	3.64%	3.74%
1st quarter 1970	4.17%	4.61%
2nd quarter 1970	4.83%	NA

^{a/} The quarterly rate of unemployment ranged between 3.93 and 4.13 per cent, and the rate of price change between 3.70 and 4.14 per cent.

^{b/} The quarterly rate of unemployment ranged between 3.37 and 3.90 per cent, and the rate of price change between 2.99 and 4.54 per cent.

of price increase, 1954 through 1969, was only 1.40 per cent a year. It was a bit less -- 1.26 per cent -- for rates of unemployment in excess of 5.7 per cent.

Not only has the average rate of price increase been quite moderate (I regard less than 1-1/2 per cent as moderate) whenever the unemployment rate has exceeded 4.7 per cent, but there were only two such quarters when the rate of price rise exceeded 2.0 per cent. Those two quarters occurred during the recession of 1957-58, as Table 2 indicates.

Table 2 demonstrates how, following an inflationary boom, prices begin to decline as pressures on resources ease. However, it also shows that rates of price increase remain high -- relative to those which normally prevail at similar rates of unemployment -- until a considerable period of time has passed. In 1957-58, there were three successive quarters of high unemployment before the rate of price increase got below 2.0 per cent.

It will be noted that, during the period of the recent inflationary boom, both unemployment rates and price increases averaged less than in 1956-57. However, the length of the inflationary period has been considerably longer this time than in 1956-57, and during this period, the rate of price change was edging upward. Thus, we can probably expect an even longer lag in the moderation of price increases. So far, the disinflationary process has barely begun. Indeed, no decline in the rate of inflation was yet apparent in the first quarter of 1970, when the rate of price increase actually exceeded the average for the preceding three years. And when the decline does begin, I expect it to be even slower than in 1957-58. But the decline will come.

There is a further question which the historical evidence does not directly help us to answer. Suppose that instead of continuing into full recession -- as happened in 1957-58 -- the unemployment rate should stick for several quarters at around 5 to 5-1/2 per cent before moving back down to the neighborhood of 4 per cent. Will the deceleration of inflation then be even slower than if the unemployment rate had risen further? I believe that it might be a little slower but not much; and that the social and economic losses to the nation from unemployment rates of 6 and 7 per cent far outweigh any slight gain that might come in a faster deceleration of price increases. The only evidence I can point to, and it is only suggestive rather than conclusive, is that, for all quarters since 1953 in which the unemployment rate exceeded 5.7 per cent, the average rise in prices was only slightly less than for those quarters in which the rate stood between 4.7 and 5.7 per cent.

Thus, to defeat inflation, we can gain little by persevering in highly restrictive fiscal and monetary policies that threaten progressively to raise the rate of unemployment. By now loosening the restraints, we can hold down the social and economic costs of high unemployment some months from now, and reduce the chance that the economy will slide further into recession.

"Voluntary" Wage and Price Stabilization

But if fiscal and monetary policy can now do very little to hasten our return to an acceptable degree of price stability, are there other tools we can use to help stabilize prices? This brings me to my second topic -- the contribution of so-called "voluntary methods": "jawboning", "guideposts", or "incomes policies". (For lack of time, I omit discussion of other tools -- which, in the absence of a better term, I call "structural" policies.)

Let me move into this question by way of some comments on the recent debate over price and wage controls.

First, I agree with those who contend that the President should always have stand-by authority to impose legal wage and price controls. If desired, use of such authority could be effective at any given time for only a few months, giving Congress time to debate its extension. The trouble is that there is never a good time for Congress to vote stand-by authority. In times of price stability, no one is interested. If prices are rising enough so that there is even the slightest prospect that the authority might be used, Congressional consideration of the measure will induce many to raise prices and wages -- just in case. The resulting faster increase of prices makes it more plausible that the authority may be used when finally voted, inducing others to attempt to beat the gun. By the time Congress has acted, the speculative momentum may very well have reached the point that the authority has to be used. This is at least an important part of the sad history of 1950-51.

Specific legislative authority for stand-by controls is a good idea, although I do not think now is a good time to vote it. But does not the President already have wage-price control authority, or could he not assume it in an emergency and then ask for a legislative spelling out of it? Surely he must have the authority at any time when American military forces are engaged in action.

Second, I am appalled by Kenneth Galbraith's advocacy of full wage and price controls, which would be permanent in the case of large firms and important collective bargaining situations. Permanent price controls would convert most of American industry into the status of a public utility. But

even our historical regulation of power, communication, and transportation rates does not extend to government setting the wages of these industries' workers. With the inflation of the last few years, the average rate of price increase for the decade of the sixties was just 2 per cent a year. I see no reason why we cannot expect to do nearly that well on the average in the future. The possibility of reducing this average through permanent wage-price controls to, say, 1 per cent a year surely cannot justify so revolutionary a change in our economic system. Established on a permanent basis, industrial price controls could well lead (as they have in utility regulation) to compulsory controls over extension of service, to controls over investment, and so on. Even more horrible to contemplate -- in my view -- are permanent wage controls, which mean that strikes are not against private employers but against the government. Are we ready to put labor leaders in jail?

I can only believe that Professor Galbraith had his tongue in his cheek.

Third, there is the Roosa proposal: for a quick, temporary, wage and price freeze, limited to six months and allowing no adjustments. This is quite a different matter. However, it may not be possible to shrug off even for six months the inequities created by a freeze at a time when wages and prices are in movement. It was not possible at the time of Korea. If any effort is made to deal with such inequities, a substantial staff is required. On balance, I think the Roosa plan is unwise, and, surely, too late.

It seems to me, however, that Roosa's proposal focusses our attention on the real problem. He wants a freeze while the leaders of labor, business, and government negotiate a system of voluntary standards for wage and price

behavior. It is surely possible that this would be easier to accomplish if the participants were negotiating their way out from under controls. In any case, I see a negotiation of the kind that Roosa describes as the real key to any effective system of voluntary stabilization.

As I have said on many occasions, the principal weakness of the Kennedy-Johnson "guideposts" was the failure to inspire any feeling of responsibility for their success on the part of labor or business. Neither group felt such a sense of responsibility, because neither had participated in the formulation, adoption, operation, or interpretation of the guideposts. Instead, the guideposts were devised by the Council of Economic Advisers and promulgated by the President. They were expected to be "enforced" by the pressure of "public opinion" -- an expectation that was almost always disappointed, since the public could rarely see any direct stake in the price of sulfur or the wages of boilermakers, while the press -- on the whole -- treated the resulting confrontations between Government officials and labor or business leaders as an interesting spectator sport, whose outcome was of no great consequence to anyone except those directly concerned.

It seems to me that a voluntary wage-price restraint program can be made to work mainly to the extent that the leaders of labor and business can be made to feel some commitment to its success. This requires that they be fully involved in recognizing the need for the program, formulating its targets, and planning its over-all strategy. I believe that some kind of a stabilization compromise can be negotiated which the leaders of labor and business will, in private, support, and, in public, at least accept. Surely, both labor and business must realize that they are on a treadmill that is getting no one anywhere. Instead, each firm and union feels it has to run

ever faster just to be sure that it stands still. I believe that a great many of the leaders on both sides now know that this is a losing game, and that the country's interests, as well as their own, justify their committing themselves to some degree of wage and price restraint, offered in return for a simultaneous commitment of restraint by others -- in a pattern of mutual de-escalation.

It may not work, but I believe it is well worth a try. However, to sell the idea to business and labor will require leadership by Government officials who believe that the achievement is possible, worthwhile, and not ideologically suspect. I do not know whether that degree of commitment yet exists in the Administration.

If it does, then the proposed machinery -- a National Committee on Productivity, consisting of representatives of labor, business, the general public, and the Government; a President's Conference on Productivity; and professional analytical support from the Council of Economic Advisers -- could be effective. If there is not adequate commitment by the Administration, no machinery will work.

If the Administration wanted it, and the parties agreed it would be useful, the Congress might be willing to grant authority for use of the subpoena, the right to require advance notice of certain price increases, and perhaps even the right to delay such increases for a time. But there is no use granting such authority if it would scare off agreement, or if the Administration would be unwilling to use it.

I do not contend that a voluntary system can accomplish a great deal. It certainly cannot control an inflation arising from genuinely excessive aggregate demand. Its real purpose, in my view, is to fight a cost-push

inflation. Its task is to prevent -- or to help slow down -- the wage-price spiral: to break the pattern under which rising prices require large wage increases, which in turn push up prices. I believe it can accomplish this task, at least in part.

I have elsewhere attempted to deal with some of the common arguments against a voluntary system. But I gather that, for now at least, those arguments have been put aside by the Administration, so I will not go through them again.

Let me conclude by summarizing my belief that

- commitment and enthusiasm on the Government side are far more important than the particular machinery used;
- that the main objective must be to enlist the support (in private) and the tolerance (in public) for the system on the part of the leaders of labor and business;
- that achieving such "consent" is far more important than the theoretical nicety of the standards that are evolved; and
- that a voluntary stabilization program can reduce the present unacceptable rate of inflation sooner than would otherwise occur; and, in the longer run, it can permit us to operate our economy at a somewhat lower level of unemployment, or a lower rate of inflation, or both, than would be possible without it.

GNP Deflator

Chain index

1Q 69 4.7

2Q 5.0

3Q 5.6

4Q 4.9

Ave

5.0

1Q 70 6.4

2Q 4.2

5.9 (4.9 excl. pay raise)

4.8

UNITED STATES GOVERNMENT

Memorandum

TO : The Council

DATE: May 1. 1970

FROM : Murray Foss *MF*

SUBJECT: Two Measures of Total Price Change

Changes in the implicit deflator for GNP reflect not only price changes but also weight changes. Other things equal, a shift in output away from GNP components with low indexes relative to the 1958 base period will make the overall deflator higher. Over the past two quarters there has been a very sharp decline in the production of autos, which have a very low index.

The figures below, from OBE, compare movements in the published deflator with a chain index, whose weights are those in the preceding quarter. Note that in the last two quarters the difference between the two types of measures comes to about one-half of one percent.

Seasonally Adjusted Annual Rate of Change from Preceding Quarter

	GNP Deflator		Chain Index
	<i>New</i> *	<i>Old Basis</i>	
1Q 69	4.7	4.9	4.8
2Q 69	5.0	5.2	4.7
3Q 69	5.6	5.4 (4.1)	6.1 (4.7)
4Q 69	4.9	4.7 (4.4)	4.3 (4.2)
1Q 70	6.4	5.1 †	4.6 †
<i>II</i>	<i>4.2</i>		

Note: Figures in parentheses excluded effect of government pay raise.

* Added 7/16/70

† Based on preliminary GNP estimate published in April
cc: Messrs. Ripley and Cagan



Federal Government Receipts and Expenditures, NIA Basis
\$ billions, SAAR

Revised Basis.

	RECEIPTS	EXPEND.	SURPLUS
1966-3Q	145.3	146.5	-1.2
4Q	147.0	151.1	-4.1
1967-1Q	147.7	159.3	-11.6
2Q	148.7	161.2	-12.5
3Q	151.9	165.0	-13.1
4Q	156.5	168.8	-12.3
1968 1Q	165.3	174.5	-9.2
2Q	170.0	180.5	-10.5
3Q	180.1	184.2	-4.1
4Q	186.2	187.2	-1.1
1969 1Q	197.2	187.7	9.5
2Q	202.5	189.1	13.4
3Q	200.8	192.5	8.3
4Q	202.0	195.9	6.1
1970 1Q	195.9	197.7	-1.7
2Q	196.8	210.6	-13.8
FY 1967	147.2	154.5	-7.3
FY 1968	160.9	172.2	-11.3
FY 1969	191.5	187.6	4.5
FY 1970	198.9	199.2	-0.3

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Table 1.

SJ

- Why ratios are subject
1. Historical
 2. Static - need interface of specific liabilities
 3. Miss timing of cash flows
 4. Miss other sources of liquidity, money, capital markets
 5. Miss runoff of assets or other

Liquidity Ratios of U. S. Corporations

1948 - 1969

Emphasize
long historical decline.

⑥ There is no logical reason
that 2:1 bankers guide is legitimate
Bankers have increasingly turned to cash flows to measure liquidity.

End of Year	All Corporations ^{1/}		Manufacturing ^{- Higher}	
	Current Ratio	Quick Ratio ^{2/}	Current Ratio	Quick Ratio ^{2/}
1948	2.06	.62	2.70	.78
1949	2.19	.71	3.08	1.07
1950	2.02	.60	2.54	.84
1951	1.93	.55	2.23	.65
1952	1.94	.53	2.29	.64
1953	1.93	.53	2.33	.67
1954	1.95	.53	2.47	.71
1955	1.85	.48	2.41	.69
1956	1.82	.41	2.36	.55
1957	1.83	.40	2.43	.55
1958	1.87	.41	2.63	.62
1959	1.81	.39	2.51	.57
1960	1.80	.36	2.51	.52
1961	1.80	1.96 ^{3/}	2.48	.49
1962		1.91	2.47	.48
1963		1.87	2.46	.46
1964		1.84	2.39	.43
1965		1.79	2.27	.37
1966		1.74	2.16	.30
1967		1.75	2.20	.29
1968		1.72	2.14	.28
1969		1.64	2.01	.23

End of Quarter

1968	I	1.77	.24	2.21	.28
	II	1.76	.23	2.19	.28
	III	1.74	.23	2.17	.27
	IV	1.72	.23	2.14	.28
1969	I	1.72	.22	2.12	.27
	II	1.70	.21	2.09	.25
	III	1.67	.20	2.06	.23
	IV	1.64	.19	2.01	.23
1970	I	1.63	.18	1.99	.21

^{1/} Excludes Banks, Insurance Companies, and Savings and Loan Associations.

^{2/} Quick ratio refers to cash and Government securities divided by current liabilities.

^{3/} Due to a revision in the "All corporations" series, data for 1961 and subsequent years are not comparable with earlier figures. Data are shown on both bases for 1961 to provide a link between the two series.

TABLE 2

LIQUIDITY RATIOS OF MANUFACTURING
CORPORATIONS, BY INDUSTRY GROUP

December 31, 1968 and March 31, 1970

37 28
37

88.25%

INDUSTRY GROUP	QUICK RATIO		CURRENT RATIO	
	Dec. 31 1968	March 31 1970	Dec. 31 1968	March 31 1970
All Manufacturing	.28	.21	2.14	1.99
Durable Goods Industries <i>More problems</i>	.28	.19	2.11	1.94
Motor Vehicles and Equipment	.30	.25	1.88	1.80
Aircraft and Parts ?	.07	.09	1.40	1.41
Electrical Machinery *	.21	.14	2.17	1.92
Other Machinery	.35	.18	2.43	2.14
Other Fabricated Metal Products	.26	.19	2.22	2.01
Primary Iron and Steel	.53	.27	2.28	2.04
Primary Nonferrous Metals	.34	.24	2.46	2.27
Stone, Clay and Glass Products	.49	.28	2.48	2.14
Furniture and Fixtures	.38	.27	2.49	2.48
Lumber and Wood Products	.31	.21	2.20	1.99
Instruments and Related Products	.37	.29	2.50	2.43
Miscellaneous Manufacturing	.29	.19	2.26	2.19
Nondurable Goods Industries	.29	.24	2.19	2.07
Food and Kindred Products	.27	.20	2.08	1.96
Tobacco <i>always low because they carry so much inventory</i>	.16	.14	3.11	2.66
Textile Mill Products	.23	.19	2.42	2.38
Apparel Products	.16	.16	1.85	1.98
Paper and Allied Products	.34	.20	2.36	1.99
Printing and Publishing	.35	.37	2.20	2.19
Chemicals	.30	.20	2.40	2.18
Drugs	.59	.46	2.57	2.42
Petroleum Refining	.31	.30	1.94	1.84
Rubber and Plastics Products	.18	.14	2.12	2.02
Leather and Leather Products	.22	.18	2.56	2.40

Office of Policy Research
June 1970

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TABLE 3

LIQUIDITY RATIOS OF MANUFACTURING CORPORATIONS
BY ASSET SIZE GROUP

Quarterly, December 31, 1968 through March 31, 1970

Asset Size Group	Dec. 31 1968	March 31 1969	June 30 1969	Sept. 30 1969	Dec. 31 1969	March 31 1970
<u>QUICK RATIO</u>						
All Manufacturing	.28	.27	.25	<i>-71%</i> .23	.23	.21
Under \$1 million	.34	.33	.31	<i>-33%</i> .33	.31	.31
\$1 to \$5 million	.31	.28	.27	<i>-71%</i> .26	.26	.24
\$5 to \$10 million	.31	.30	.27	<i>-60%</i> .25	.25	.21
\$10 to \$25 million	.30	.29	.28	<i>-62%</i> .25	.24	.22
\$25 to \$50 million	.30	.30	.27	<i>-37%</i> .27	.27	.22
\$50 to \$100 million	.27	.27	.26	<i>-75%</i> .24	.23	.23
\$100 to \$250 million	.28	.26	.23	<i>-66%</i> .22	.21	.19
\$250 to \$1,000 million	.27	.25	.24	<i>-75%</i> .21	.21	.19
\$1,000 million and over	.27	.27	.24	<i>-87%</i> .20	.21	.19
<u>CURRENT RATIO</u>						
All Manufacturing	2.14	2.12	2.09	2.06	2.01	1.99
Under \$1 million	1.86	1.88	1.87	1.86	1.83	1.88
\$1 to \$5 million	2.15	2.15	2.08	2.07	2.05	2.03
\$5 to \$10 million	2.34	2.35	2.23	2.17	2.15	2.14
\$10 to \$25 million	2.24	2.35	2.32	2.27	2.21	2.20
\$25 to \$50 million	2.46	2.47	2.39	2.33	2.29	2.20
\$50 to \$100 million	2.39	2.35	2.37	2.34	2.29	2.32
\$100 to \$250 million	2.51	2.41	2.40	2.33	2.27	2.26
\$250 to \$1,000 million	2.28	2.30	2.31	2.26	2.20	1.81
\$1,000 million and over	1.95	1.93	1.90	1.87	1.82	1.81

TABLE 4
FREQUENCY DISTRIBUTION OF RATIOS
TOTAL CURRENT ASSETS TO TOTAL CURRENT LIABILITIES
MANUFACTURING CORPORATIONS WITH TOTAL ASSETS OF \$10 MILLION AND OVER
BY ASSET SIZE GROUP

Ratio	\$10 to \$25 Million	\$25 to \$50 Million	\$50 to \$100 Million	\$100 to \$250 Million	\$250 to \$1,000 Million	\$1,000 million and Over	Totals
<u>March 31, 1969</u>							
5.00 and over	50	27	11	11	4	-	103
4.00 to 5.00	62	41	17	17	9	1	147
3.50 to 4.00	39	25	25	25	15	1	130
3.00 to 3.50	49	44	36	24	21	5	179
2.75 to 3.00	29	15	13	24	20	6	107
2.50 to 2.75	44	25	34	27	28	6	164
2.25 to 2.50	45	35	28	31	23	8	170
2.00 to 2.25	53	23	19	25	21	22	163
1.75 to 2.00	49	35	23	19	29	18	173
1.50 to 1.75	41	35	18	21	13	9	137
1.00 to 1.50	51	29	20	17	12	10	139
.50 to 1.00	11	4	-	3	1	-	19
Less than .50	2	-	1	-	-	-	3
Totals	525	338	245	244	196	86	1,634
<u>March 31, 1970</u>							
5.00 and over	39	21	21	7	3	-	91
4.00 to 5.00	48	23	23	18	5	-	117
3.50 to 4.00	37	17	22	10	13	-	99
3.00 to 3.50	49	40	35	25	21	6	176
2.75 to 3.00	33	24	17	14	21	3	112
2.50 to 2.75	40	19	28	34	30	11	162
2.25 to 2.50	50	31	29	24	20	8	162
2.00 to 2.25	42	34	33	27	31	10	177
1.75 to 2.00	59	42	21	25	24	28	199
1.50 to 1.75	68	48	31	29	16	17	209
1.00 to 1.50	75	51	27	31	23	18	225
.50 to 1.00	9	5	3	-	1	-	18
Less than .50	5	-	-	-	-	-	5
Totals	554	355	290	244	208	101	1,752

TABLE 5
FREQUENCY DISTRIBUTION OF RATIOS
TOTAL CURRENT ASSETS TO TOTAL CURRENT LIABILITIES
LARGE DURABLE GOODS MANUFACTURERS ^{1/}
BY MAJOR INDUSTRY

Ratio	Motor Vehicles	Other Transportation Equipment	Electrical Machinery	Other Machinery	Other Fabricated Metal Products	Primary Iron and Steel	Primary Nonferrous Metals	Stone, Clay and Glass	Instruments and Related Products	Other ^{2/}	Totals
<u>March 31, 1969</u>											
5.00 and over	-	-	2	2	1	2	2	1	1	-	11
4.00 to 5.00	1	1	4	3	2	1	1	2	2	1	18
3.50 to 4.00	1	1	5	5	2	2	2	3	1	1	23
3.00 to 3.50	1	1	8	10	2	2	5	3	1	-	33
2.75 to 3.00	3	1	3	4	1	5	2	2	1	1	23
2.50 to 2.75	1	1	4	4	1	3	4	6	1	3	28
2.25 to 2.50	2	2	3	11	2	6	-	-	3	2	31
2.00 to 2.25	2	1	7	9	4	4	2	6	1	2	38
1.75 to 2.00	3	6	9	4	1	3	1	1	1	-	29
1.50 to 1.75	4	2	5	3	2	1	5	3	2	-	27
1.00 to 1.50	2	11	4	1	4	2	-	1	-	1	26
.50 to 1.00	-	-	-	-	-	-	-	-	-	-	-
less than .50	-	-	-	-	-	-	-	-	-	-	-
Totals	20	27	54	56	22	31	24	28	14	11	287
<u>March 31, 1970</u>											
5.00 and over	1	-	-	-	-	1	-	1	3	-	6
4.00 to 5.00	-	-	5	4	-	1	1	1	1	-	13
3.50 to 4.00	-	2	2	2	2	1	2	5	1	-	17
3.00 to 3.50	2	1	6	5	2	2	1	3	1	1	24
2.75 to 3.00	-	-	4	3	2	4	5	-	-	-	18
2.50 to 2.75	2	2	5	13	2	9	4	7	2	2	48
2.25 to 2.50	2	-	7	3	-	2	1	3	4	2	24
2.00 to 2.25	1	-	9	11	2	4	1	1	1	4	34
1.75 to 2.00	2	4	6	9	2	2	4	2	1	3	35
1.50 to 1.75	4	3	8	4	4	5	2	2	3	2	37
1.00 to 1.50	5	14	7	4	6	2	1	2	-	2	43
.50 to 1.00	-	-	-	-	-	-	-	-	-	-	-
less than .50	-	-	-	-	-	-	-	-	-	-	-
Totals	19	26	59	58	22	33	22	27	17	16	299

^{1/} Corporations with total assets of \$100 million or more.

^{2/} Includes Furniture and Fixtures, Lumber and Wood Products, and Miscellaneous Manufacturing

TABLE 6
FREQUENCY DISTRIBUTION OF RATIOS
TOTAL CURRENT ASSETS TO TOTAL CURRENT LIABILITIES
LARGE NONDURABLE GOODS MANUFACTURERS ^{1/}
BY MAJOR INDUSTRY

Ratio	Food and Kindred Products and Tobacco	Textile and Apparel Products	Paper and Allied Products	Printing and Publishing	Chemicals and Allied Products	Petroleum Refining and Related Products	Rubber, Leather and Plastic Products	Totals
<u>March 31, 1969</u>								
5.00 and over	-	1	-	1	1	1	-	4
4.00 to 5.00	4	2	-	1	1	-	-	8
3.50 to 4.00	5	4	1	1	6	-	1	18
3.00 to 3.50	3	3	4	1	4	1	1	17
2.75 to 3.00	5	2	5	-	9	1	4	26
2.50 to 2.75	4	4	3	4	17	-	1	33
2.25 to 2.50	6	5	6	-	11	2	1	31
2.00 to 2.25	12	1	3	-	7	5	2	30
1.75 to 2.00	10	2	3	3	6	10	2	36
1.50 to 1.75	10	2	-	1	-	1	2	16
1.00 to 1.50	3	2	1	-	3	4	-	13
.50 to 1.00	1	1	1	-	-	1	-	4
less than .50	-	-	-	-	-	-	-	-
Totals	63	29	27	12	65	26	14	236
<u>March 31, 1970</u>								
5.00 and over	-	2	-	-	2	-	-	4
4.00 to 5.00	2	4	-	1	2	-	-	9
3.50 to 4.00	3	3	1	-	3	1	1	12
3.00 to 3.50	4	4	5	1	8	1	2	25
2.75 to 3.00	3	3	-	1	9	-	1	17
2.50 to 2.75	5	2	6	2	11	-	-	26
2.25 to 2.50	7	3	5	-	7	3	2	27
2.00 to 2.25	12	6	1	2	11	1	2	35
1.75 to 2.00	12	4	4	2	9	7	4	42
1.50 to 1.75	10	2	1	2	3	6	1	25
1.00 to 1.50	10	3	2	2	4	7	-	28
.50 to 1.00	-	-	1	-	-	-	-	1
less than .50	-	-	-	-	-	-	-	-
Totals	68	36	26	13	69	26	13	251

^{1/} Corporations with total assets of \$100 million or more.

LIQUIDITY RATIOS OF U. S. CORPORATIONS

Quarterly, December 31, 1968 through March 31, 1970

INDUSTRY	Dec. 1968	Mar. 1969	June 1969	Sept. 1969	Dec. 1969	Mar. 1970
<u>Quick Ratio</u> ^{1/}						
All Corporations ^{2/}	.23	.22	.21	.20	.19	.18
Manufacturing ^{3/}	.28	.26	.24	.22	.21	.20
Mining	.36	.36	.35	.35	.35	.35
Retail Trade	.20	.20	.20	.18	.18	.18
Wholesale Trade	.18	.17	.17	.16	.15	.15
Service	.27	.26	.25	.24	.24	.21
Electric Utilities	.17	.19	.16	.16	.14	.15
Gas Utilities	.14	.20	.18	.15	.15	.17
Water Utilities	.31	.33	.29	.27	.27	.29
Railroads	.39	.35	.34	.30	.33	.28
Non-Rail Transp.	.40	.35	.32	.31	.32	.32
Finance	.16	.15	.15	.15	.15	.14
Communications	.21	.17	.15	.14	.14	.13
Agric., Constr. & Other	.26	.25	.23	.22	.22	.21
<u>Current Ratio</u> ^{4/}						
All Corporations ^{2/}	1.72	1.72	1.70	1.67	1.64	1.63
Manufacturing ^{3/}	2.15	2.13	2.10	2.06	2.02	1.99
Mining	1.51	1.55	1.56	1.55	1.52	1.48
Retail Trade	1.77	1.80	1.78	1.73	1.71	1.73
Wholesale Trade	1.77	1.73	1.79	1.69	1.68	1.71
Service	1.25	1.25	1.24	1.24	1.22	1.21
Electric Utilities	.80	.82	.78	.74	.72	.75
Gas Utilities	.83	.89	.87	.79	.84	.90
Water Utilities	.89	.98	.93	.89	.85	.84
Railroads	1.03	.99	.99	.96	.97	.90
Non-Rail Transp.	1.30	1.28	1.24	1.24	1.20	1.22
Finance	1.40	1.39	1.38	1.37	1.37	1.35
Communications	.97	.92	.89	.89	.82	.78
Agric., Const. & Other	1.44	1.42	1.41	1.37	1.38	1.36

1/ Cash and U. S. Government securities divided by total current liabilities.

2/ Excludes banks, savings and loan associations, insurance companies and investment companies.

3/ Based on benchmark derived from Statistics of Income (IRS) and differs from Quarterly Financial Report for Manufacturing Corporations.

4/ Total current assets divided by total current liabilities.

LIQUIDITY RATIOS OF U. S. CORPORATIONS

End of Year, 1961-1969

INDUSTRY	Dec. 1961	Dec. 1962	Dec. 1963	Dec. 1964	Dec. 1965	Dec. 1966	Dec. 1967	Dec. 1968	Dec. 1969
<u>Quick Ratio</u> ^{1/}									
All Corporations ^{2/}	.38	.37	.35	.33	.29	.25	.24	.23	.19
Manufacturing ^{3/}	.50	.48	.47	.42	.38	.30	.28	.28	.21
Mining	.68	.65	.61	.58	.55	.44	.41	.36	.35
Retail Trade	.33	.30	.28	.28	.24	.22	.22	.20	.18
Wholesale Trade	.23	.24	.22	.21	.19	.18	.18	.18	.15
Service	.38	.35	.35	.34	.32	.32	.29	.27	.24
Electric Utilities	.32	.35	.30	.32	.26	.24	.18	.17	.14
Gas Utilities	.31	.32	.25	.26	.25	.21	.18	.14	.15
Water Utilities	.36	.27	.26	.27	.24	.23	.22	.31	.27
Railroads	.68	.70	.74	.69	.63	.55	.45	.39	.33
Non-Rail Transp.	.46	.45	.43	.42	.42	.42	.40	.40	.32
Finance	.27	.24	.24	.21	.19	.18	.17	.16	.15
Communications	.56	.62	.54	.49	.33	.31	.28	.21	.14
Agric., Constr. & Other	.26	.28	.25	.25	.23	.23	.22	.26	.22
<u>Current Ratio</u> ^{4/}									
All Corporations ^{2/}	1.96	1.91	1.87	1.84	1.79	1.74	1.75	1.72	1.64
Manufacturing ^{3/}	2.50	2.44	2.38	2.35	2.28	2.17	2.21	2.15	2.02
Mining	1.93	1.98	1.93	1.83	1.74	1.57	1.61	1.51	1.52
Retail Trade	2.22	2.17	2.09	1.99	1.94	1.88	1.83	1.77	1.71
Wholesale Trade	1.88	1.94	1.88	1.83	1.72	1.68	1.72	1.77	1.68
Service	1.28	1.23	1.21	1.21	1.17	1.19	1.22	1.25	1.22
Electric Utilities	.95	.99	.93	1.03	.93	.96	.88	.80	.72
Gas Utilities	1.09	1.01	.97	1.05	1.02	.89	.88	.83	.84
Water Utilities	.84	.80	.85	.88	.74	.72	.75	.89	.85
Railroads	1.27	1.29	1.30	1.27	1.25	1.17	1.13	1.03	.97
Non-Rail Transp.	1.32	1.38	1.33	1.27	1.32	1.36	1.35	1.30	1.20
Finance	1.55	1.48	1.49	1.46	1.46	1.43	1.42	1.40	1.37
Communications	1.22	1.32	1.20	1.35	1.07	1.07	1.11	.97	.82
Agric., Constr. & Other	1.54	1.52	1.45	1.43	1.39	1.42	1.44	1.44	1.38

^{1/} Cash and U. S. Government securities divided by total current liabilities.

^{2/} Excludes banks, savings and loan associations, insurance companies and investment companies.

^{3/} Based on benchmark derived from Statistics of Income (IRS) and differs from Quarterly Financial Report for Manufacturing Corporations.

^{4/} Total current assets divided by total current liabilities.

Emergency Relief from Market Disruption Caused by Imports

Sec. _____

(a) A petition for emergency relief from imports of an article causing market disruption may be filed with the Tariff Commission by a trade association, firm, certified or recognized union, or other representative of an industry.

(b) When the Tariff Commission finds that a petition filed under (a) presents a case of market disruption, it shall report its findings to the President at the earliest practicable time, but not later than three months after the date on which the petition is filed.

[Alternative 1:

(c) The Tariff Commission shall find market disruption in cases where competitive imports constitute more than five percent of domestic consumption in the year immediately preceding the year in which the petition is filed and (i) the ratio of imports to domestic consumption has increased by twenty-five percent in that year over the preceding year or has been increasing at an average annual rate exceeding twenty percent over the four calendar years immediately preceding the year in which the petition was filed or (ii) the ratio of imports to domestic production has increased by ten percent in that year over the preceding year or has been increasing at an average annual rate exceeding five percent over the four calendar years immediately preceding the year in which the petition is filed.]

[Alternative 2:

(c) The Tariff Commission shall find market disruption in cases where competitive imports (i) increased in the year immediately preceding the year in which the petition is filed by seventy percent over the preceding year or (ii) have been increasing by an annual average rate of fifty percent per year over the four calendar years immediately preceding the year in which the petition is filed.]

(d) In cases where it finds market disruption, the Tariff Commission shall then determine whether the imports of the article in question are causing, or threatening to cause, serious injury. It shall find that injury exists when (A) imports of the article are substantial, have increased rapidly and account for a substantial and increasing share of consumption, and (B) domestic production or sales of the article have declined significantly, or employment related thereto has declined significantly, and (C) the declines in domestic production, sales or employment are due, in whole or in part, to the rapid increase in imports.

(e) When the President receives a finding from the Tariff Commission which indicates that there is (i) market disruption pursuant to paragraph (c) and (ii) injury pursuant to paragraph (d), and unless he determines that such action would be contrary to the national interest, he shall:

(1) Within 180 days negotiate an orderly marketing agreement or agreements as provided for in Section 352 of this Act, or failing that,

(2) Place quantitative limitations on imports of that article, with the

total quantity of imports under such limitation increased by no more than five percent per year above the average of the three preceding calendar years, or

(3) Provide tariff adjustment pursuant to Section 351(b).

(4) Any actions applied pursuant to (2) and (3) may at any time be superseded by an agreement or agreements negotiated pursuant to Section 352 of this Act.

(5) In addition to actions taken under paragraphs (1) - (4), the President may also provide that firms producing such articles may request the Secretary of Commerce for certifications of eligibility to apply for adjustment assistance under Chapter 2, and provide that workers producing such articles may request the Secretary of Labor for certifications of eligibility to apply for adjustment assistance under Chapter 3.

(f) Any actions taken under paragraph (e) shall be proclaimed for such a period, not to exceed two years, as the President determines to be necessary to remedy the injury caused by market disruption. He may at any time reduce the scope of any such actions or eliminate them.

(g) No petition shall be filed under paragraph (a) with respect to an article unless at least one year has elapsed since the President last made a determination on the eligibility of that same article for emergency relief.

(h) The President shall promptly notify each House of the Congress of his decisions with respect to each petition filed under paragraph (a).

VALUE OF U.S. TRADE IN \$MILLIONS WHICH WOULD BE AFFECTED BY RESTRAINTS ON THESE
ITEMS WHOSE RATE OF IMPORT INCREASE FROM 1968 to 1969 HAS EXCEEDED THE FOLLOWING
PERCENTAGES:

Categories	Value of Trade in Specific Items Whose Rates of Import Increase Have Exceeded									
	300%	200%	150%	100%	90%	80%	70%	60%	50%	40%
Agriculture	2	7	21	30	88	111	159	171	258	332
(Fruits & Vegetables)			(5)	(9)	(9)	(17)	(17)	(17)	(17)	(17)
(Fish)							(42)	(43)	(47)	(86)
Wood & Paper	12	13	15	21	23	28	30	52	52	127
Textiles		3	18	105	122	126	148	397	436	472
(Cotton)		(3)	(5)	(7)	(21)	(25)	(25)	(31)	(35)	(46)
(Synthetic)			(2)	(83)	(83)	(83)	(83)	(83)	(89)	(112)
(Wool)										
(Apparel)				(4)	(7)	(7)	(29)	(272)	(288)	(288)
(Other)										
Chemicals	18	39	45	54	56	79	88	94	122	475
Minerals	4	5	10	14	14	29	39	62	79	107
(Glass & Ceramics)	(4)	(4)	(9)	(11)	(11)	(24)	(34)	(57)	(68)	(71)
(Other)										
Metals	21	27	91	275	388	430	487	821	1077	1776
(Iron & Steel)	(13)	(17)		(64)	(64)	(73)	(82)	(99)	(119)	(120)
(Other metals)	(4)	(4)		(8)	(8)	(15)	(44)	(82)	182	(126)
(Metal Products)			(4)	(4)	(12)	(12)	(12)	(12)	(12)	(135)
(Machinery)	(1)	(3)	(11)	(144)	(144)	(147)	158	(425)	(661)	(1192)
(Office machinery)			(2)	(53)	(152)	(152)	(152)	(152)	(157)	(260)
(Electronics)			(52)	1104	1104	1104	(104)	(340)	(340)	(340)
(Transport)	(3)	(3)	(3)	(3)	(3)	(26)	(34)	(46)	(46)	(46)
Miscellaneous	1		17	51	122	213	220	277	313	477
(Shoes)			(1)	(4)	(4)	(4)	(4)	(4)	(4)	(4)
TOTALS	58	95	215	550	813	1016	1171	1874	2337	3766
Percentage of US Total Imports	0.2%	0.3%	0.6%	1.5%	2.2%	2.8%	3.2%	5.1%	6.4%	10.4%

THE VALUE OF US TRADE IN \$ MILLIONS WHICH WOULD BE AFFECTED BY RESTRAINTS ON THESE ITEMS
WHOSE IMPORT INCREASE FROM 1965 TO 1969 HAS EXCEEDED THE FOLLOWING PERCENTAGES :

Categories	2000%	1500%	1000%	500%	400%	350%	300%	250%	200%	150%
Agriculture	10	12	54	76	82	88	106	127	173	270
(Fruits & Vegetables)	(3)	(5)	(5)	(14)	(12)	(19)	(19)	(40)	(50)	(92)
(Fish)	(4)	(4)	(4)	(9)	(9)	(9)	(9)	(9)	(12)	(14)
Wood & Paper	1	9	9	13	14	19	20	20	51	101
Textiles	33	42	150	313	332	416	452	472	511	518
(Cotton)	(6)	(15)	(15)	(18)	(22)	(24)	(37)	(37)	(47)	(48)
(Synthetic)	(7)	(7)	(102)	(260)	(275)	(357)	(376)	(379)	(379)	(379)
(Wool)										
(Apparel)							(4)	(19)	(32)	(5)
(Other)									(36)	(36)
Chemicals	27	46	51	78	106	109	131	160	179	271
Minerals	29	36	37	38	40	54	59	61	86	119
(Glass & Ceramics)	(29)	(30)	(31)	(32)	(32)	(46)	(46)	(48)	(57)	(86)
(Other)										
Metals	354	412	487	762	883	1391	1624	1895	2274	2656
(Iron & Steel)			(21)	(37)	(32)	(32)	(37)	(45)	(48)	(50)
(Other metals)										
(Metal Products)	(84)	(115)	(115)	(122)	(203)	(206)	(274)	(274)	(332)	(471)
(Machinery)	(55)	(55)	(108)	(360)	(398)	(903)	(903)	(1154)	(1362)	(1580)
(Office machinery)										
(Electronics)										
(Transport)										
Miscellaneous										
(Shoes)										
TOTALS	474	649	904	1503	1789	2596	2950	3698	4515	5330
Percentage of US Total Imports	1	2	2	2	2	7	8	10.2	12.5	14.7

Synthetic Textiles

<i>Growth Periods</i>	<i>Growth Ranges (%)</i>	<i>Ab Val (\$000's)</i>	<i>Accum Val (\$000's)</i>	<i>% Accum</i>
1965-69	2000 or over	137,291	137,291	19.8
	1500-1999	21,506	158,797	22.9
	1000-1499	60,454	219,251	31.5
	500-999	138,184	357,435	51.4
	400-499	100,522	457,957	65.9
	350-399	15,750	473,707	68.2
	300-349	13,601	487,308	70.2
	250-299	2,656	489,964	70.6
	200-249	28,654	518,618	74.7
	150-199	24,521	543,139	78.2
	0-149	167,564	710,703	100
1968-69	300 or over	30,276	30,276	4.2
	200-299	19,831	50,107	7.0
	150-199	37,055	87,162	12.2
	100-149	102,173	190,335	26.7
	90-99	32,619	222,954	31.3
	80-89	21,438	244,392	34.3
	70-79	14,108	258,500	36.3
	60-69	12,231	270,731	38.0
	50-59	86,953	357,684	50.2
	40-49	43,895	401,579	56.5
	0-39	309,124	710,703	100

Footwear

Growth Periods	Growth Ranges (%)	1969	1969	
		AB Value (\$000's)	Accum Val. (thous)	% Accum
A. 1965-69	2000 or over	17,381	17,381	3.5
	1500 - 1999	4,778	22,159	4.5
	1000, 1499	9280	31,439	6.4
	500 - 999	121,808	153,247	31.0
	400 - 499	44,309	197,556	40.0
	350 - 399	268	197,824	40.0
	300 - 349	79,492	277,316	56.1
	250 - 299	5,753	283,069	57.3
	200 - 249	80,658	363,727	73.6
	150 - 199	38,952	402,679	81.5
	0 - 149	91,514	494,193	100.0
		Total = 494,193		
B. 1968-69	300 or over	4,484	4,484	0.9
	200 - 299	575	5,059	1.0
	150 - 199	4,465	9,524	1.9
	100 - 149	3,372	12,896	2.6
	90 - 99	8,880	21,776	4.4
	80 - 89		21,776	4.4
	70 - 79	11,724	33,500	6.8
	60 - 69	59,602	93,102	18.8
	50 - 59	14,456	107,558	21.8
	40 - 49	180,399	287,957	58.3
	0 - 39	206,236	494,193	100.0
		Total 494,193		

Data on the Financial Positions
of Consumers, Businesses, and Banks

1. Percent of Consumer Installment Loans
Delinquent 30 days and Over, Bimonthly
(Percent)

	1965	1966	1967	1968	1969	1970
February	1.77	1.73	1.82	1.54	1.55	1.79
April	1.71	1.78	1.90	1.56	1.59	1.73
June	1.74	1.76	1.72	1.57	1.65	
August	1.83	1.76	1.65	1.56	1.70	
October	1.83	1.79	1.68	1.50	1.71	
December	1.65	1.75	1.71	1.67	1.81	

Source: Department of Commerce, Business Conditions Digest

2. Total Consumer Installment and Mortgage Debt as a
Percentage of Personal Disposal Income

Quarter	1965	1966	1967	1968	1969	1970
I	62	61	60	59	60	59
II	62	61	60	59	60	
III	61	61	60	60	60	
IV	62	61	60	60	60	

Source: Board of Governors of Federal Reserve System, Federal Home Loan Bank Board, and Department of Commerce.

3. Consumer Debt Service as a Percentage
of Disposable Personal Income

1960	19.2		1965	21.6
1961	19.4		1966	21.9
1962	19.7		1967	21.9
1963	20.6		1968	22.1
1964	21.1		1969	22.4

Source: Department of Commerce

4. Ratio of Current Assets to Current Liabilities
of All Manufacturing Corporations

	I	II	III	IV
1960	2.50	2.50	2.50	2.51
1961	2.54	2.55	2.53	2.48
1962	2.48	2.47	2.45	2.47
1963	2.48	2.47	2.48	2.46
1964	2.49	2.45	2.43	2.39
1965	2.38	2.35	2.34	2.27
1966	2.25	2.25	2.22	2.16
1967	2.18	2.21	2.23	2.20
1968	2.21	2.19	2.17	2.14
1969	2.12	2.09	2.06	2.01
1970	1.99			

Source: Securities and Exchange Commission

5. Ratio of Cash Plus Government Securities to Current
Liabilities of All Manufacturing Corporations

	I	II	III	IV
1960	.51	.50	.48	.52
1961	.48	.48	.47	.49
1962	.45	.44	.42	.48
1963	.44	.43	.43	.46
1964	.46	.45	.43	.43
1965	.39	.38	.36	.37
1966	.34	.32	.29	.30
1967	.27	.26	.26	.29
1968	.28	.28	.27	.28
1969	.27	.25	.23	.23
1970	.21			

Source: Securities and Exchange Commission

6. Frequency Distributions of Liquidity Positions*
for about 200 Largest National Banks

Liquidity Ratio	Percentage Distribution		
	June 30 1969	December 31 1969	May 1970
60-100%	1	1	0
40-59	9	10	2
25-39	51	56	38
15-24	34	29	52
10-14	4	4	7
0-9	1	0	0

Source: Comptroller of the Currency

*Net liquid assets to net deposits.

Government Policies

The Government's fiscal position shifted from surplus to deficit from the second half of 1969 to the first half of 1970 and to that extent helped to limit the extent of the slowdown. Measured on a national income accounts basis, the Federal fiscal position shifted from a surplus at an annual rate of about \$7 billion in the second half of last year to near-balance in the first quarter of 1970 and a sizable deficit in the second quarter. With one important exception Federal expenditures in the first half were about the same as had been programmed at the time of the budget submission; if anything they turned out to be a little lower (check). The exception, of course, was the Federal pay raise, which had originally been scheduled for January 1, 1971, but which was enacted in April with a retroactive feature and added some \$2-1/2 billion (annual rate) to expenditures in the first half of 1970.

Receipts in the first half of 1970 turned out to be less than contemplated early in 1970 partly because profits fell more sharply than expected and partly because there was a shortfall in personal tax collections. Given the increase in expenditures due to the pay raise and the shortfall in receipts due to the sluggish economy, it is not surprising that the projected surplus of moderate size for the first half turned out instead to be a deficit.

UNITED STATES GOVERNMENT

Memorandum

TO : Herb Stein

DATE: July 14, 1970

FROM : Paul McCracken

SUBJECT:

I am having considerable difficulty getting any sustained period of time to think about this testimony and the Wednesday schedule is even less promising. Here are some materials prepared by various staff members as possible inputs. Could you look all of this over and give some thought as to how all this might be put into more finished form? I think we ought to be appropriately cautious, still stopping short of any defensiveness about recent developments. Indeed, the tone throughout our testimony ought to be distinctly affirmative.



The year 1970 is half over and now is a good time to take stock of the Administration's anti-inflation program. In a number of respects the economy has conformed to the broad pattern contemplated at the start of the year but clearly it has been more sluggish and the reduction in the rate of inflation has been slower in coming than we expected. We stated in our Economic Report last winter that the slowdown in the economy, which was already apparent in the final quarter of 1969, would continue in the first half of this year. This slowdown, the result of policies of fiscal and monetary restraint undertaken in 1969, was a basic ingredient of our program to lessen inflationary pressures. Over most of the period from 1966 through 1969, the demands placed on the economy exceeded its capabilities. We had to reduce those demands, and, going beyond that, to create some slack -- a gap between actual and potential output -- in order to diminish the pressure on prices. As we viewed things at the start of the year the slack would develop because we contemplated little growth in the economy at a time when the economy's capacity to produce was continuing its steady rise. And only after this slack had existed for a few quarters did we expect prices to slow down. Our basic ^{price} objective -- a slower ~~price~~ rise -- would be the last part of the disinflationary process.

We recognized that cooling off the economy would mean some rise in unemployment but that this was an unavoidable cost of achieving our ends. It was never our intention to make that cost too high. We

hoped to attain our objectives gradually so as to keep from pushing the economy into a downturn from which it would take a long time to recover. Some of our critics -- those who look solely at the inflation problem -- lose sight of that fact, just as those who look solely at the unemployment rate seem to lose sight of the fight against inflation.

Against this background I should like to review economic conditions and policies in the first half of 1970 and then go on to what lies ahead for the second half including its policy implications.

Demand and Output

First Quarter

The slower rise in demand that had become evident in 1969 continued in the first quarter of 1970, when GNP measured in current dollars rose only \$7-1/2 billion -- moderately less than the \$9 billion increase in the fourth quarter but considerably less than the \$16 billion-\$19 billion increases in the first three quarters of 1969. ^{1/} The first quarter rise in prices -- 6.2 percent at an annual rate including the direct effects of the government pay increase -- was more than the rise in GNP, ^{- This} which meant that physical volume or real GNP declined. The decrease in the latter -- 3 percent at an annual rate -- came on the heels of a very small decline in the fourth quarter of 1969.

Most of the slowdown in demand from the fourth to the first quarter came from a sharp reduction in the rate of inventory accumulation. It

^{1/} The decrease would have been greater if not for the fact that the retroactive portion of the government pay increase enacted in April 1970 was included in first quarter GNP.

was very severe in the automobile industry where sluggish sales around the turn of the year had caused automobile stocks held by franchised dealers to become topheavy and led to major production cutbacks.

Indeed, if we exclude the automobile industry's production from the total we find that real GNP, instead of declining ^{at an annual rate of 2} percent, was unchanged from the third quarter of 1969 to the first quarter of 1970. X

Reductions in defense spending also brought reductions in inventories held by the aerospace industry. In other areas there were moderate cutbacks in inventory accumulation. Business continued to follow cautious inventory policies because interest charges on carrying stocks were high, tight money put a premium on conserving cash, and there were many uncertainties about the economic outlook.

The first quarter appears in a better light if only "final sales" -- GNP less the inventory change component -- are considered. Final sales rose \$14.4 billion, a rise that fell within the range of the increases in the last three quarters of 1969. Here several crosscurrents were at work. The Federal Government was continuing to make major reductions in defense spending. In the private sector, the housing industry showed another reduction as starts fell to an annual rate of 1.25 million units, ^{one-fourth} ~~the~~ percent below their level in the corresponding period of 1969.

In ^{the consumer} ~~other~~ sectors demand held up quite well, ^{generally in line with our expectations} Consumer expenditures rose considerably in the first quarter even though consumers were

cutting back their purchases of new cars. This comparative strength reflected the fact that disposable (after-tax) income of consumers was being well maintained, and the chief reason for this was the reduction in the surtax from 10 to 5 percent on January 1. As a result of this tax cut, the take-home pay of families and individuals was increased by some \$4 billion.

Second Quarter

The latest GNP results for the second quarter, showing an end to the decline in real GNP and a pronounced slowdown in the rise of the deflator GNP, are very gratifying. It means that we have achieved two basic objectives for 1970: a containment of the slowdown in activity and a reduction in the overall price rise.

The \$_____ billion increase in current dollar GNP was considerably more than the first quarter rise. The chief difference between the first and second quarter changes in current dollar GNP occurred in the behavior of inventory investment. The sharp reduction in the rate of accumulation in the first quarter gave way to a minor increase in the spring with the auto industry playing an important role in the switch.

As in the first quarter, the rise in consumer spending dominated the second quarter rise in final sales, demonstrating that the consumer is making the expected response to income increases and has maintained his spending in the face of a severe decline in the stock market. The

stimulus to consumer spending from the cut in the surtax on January 1 was buttressed in the spring through two important actions -- the 15 percent rise in Social Security benefits and the payment of a \$2.5 billion Federal pay increase, both retroactive to the first of the year. These two measures added an estimated \$12 billion to personal income in the second quarter.

Autos were an important beneficiary of these large injections into the income stream. Consumers stepped up their purchases of domestic-type automobiles from a very low 7.6 million annual ^{rate} in the first quarter to about 8 million in the second. They also purchased imported cars at a 1-1/4 million ^{rate, making} ~~and the~~ grand total sales of 9-1/4 million, only 3 percent below the 1969 rate. This improvement in demand permitted auto dealers to build up their stocks a little after reducing them in the first quarter. The rise in sales and renewal of stockpiling ^{were} responsible for a considerable recovery in domestic automobile production, adding about \$3-1/2 billion to the rise in GNP from the first to the second quarter.

Fixed investment reflected divergent developments. There were some indications that the rise in plant and equipment spending was petering out with outlays for nonresidential investment recording only a small gain. Since profits were down sharply in the first quarter and the economy was sluggish, businessmen scaled back to some extent

5. Q. Unemployment is already too high and is in danger of increasing further. Millions of people have been thrown out of work. What in your opinion should be done to alleviate unemployment?

A. Pump rate of growth of money GNP up to 9 to 11% per annum for next two years, by fiscal and monetary policy.

Pass Training Bill

Pass U. C. Bill

Continue present efforts addressed to defense adjustment.

- - - - -

7. Q. What do you believe to be the best course of action to deal with the inflation that now afflicts our economy so badly?

A. Do not allow rate of growth of money GNP to exceed 9 to 11% per annum for next two years.

Program in President's June 17 speech.

- - - - -

3. Q. Our housing industry is in a serious state of depression and we are falling far short of our housing goals -- goals that a few years ago were set forth as fundamental to our national interest. Under present interest rates, a person who buys a \$20,000 home with a traditional mortgage term of 30 years under present rates of interest would be compelled to pay not only the \$20,000 for the home but \$38,000 for the interest, a total of \$58,000. It has been proposed that in order to channel more vitally needed funds into housing, some provision be made for utilizing pension funds. I have introduced a proposal in the Congress that would require them to invest a small percentage of their assets in a public bank which in turn would be able to make housing loans. What is your opinion of some such means of using pension funds?

A. Probably ineffective.

Discriminatory against pensioners, if effective.

If there is to be subsidy, should come out of general revenue.

Positive measures
Voluntary programs

UNITED STATES GOVERNMENT

Memorandum

TO : The Council

DATE: July 15, 1970

FROM : Michael Moskow *MM*

SUBJECT: Data on Collective Bargaining settlements for 1st half of 1970

On Monday, July 20, BLS will release preliminary data on major collective bargaining settlements during the first half of 1970. Table 1 gives some pre-preliminary estimates which should be very close to Monday's figures. The data are confidential.

The data for the first 6 months of 1970 cover 1.8 mill workers which is about 36% of those who are expected to be covered by settlements in C.Y. 1970. Most construction negotiations have already been completed but the report only covers 313,000 of the 600,000 construction workers expected to be covered this year. The large teamster settlement is included and covers about 500,000 workers. Thus, construction and trucking account for about 45% of the workers covered by settlements included in this report.

cc: SJ
MK



Table 1

Wage Changes under Major Collective Bargaining Agreements

	First six Mos. 1970	First three Mos. 1970	First six Mos. 1969	Annual data 1969
First year changes in wage rates (Md. adj.)				
all industries	10.2%	8.8%	7.4%	8.0%
Manuf.	7.8	7.6	6.6	7.0
Nonmanuf.	16.0	15.7	10.1	10.0
Annual rate of increase in wages over life of interest (Md. adj.)	9.0	6.6	6.1*	6.8
Manuf.	6.0	4.7	5.5*	5.8
Nonmanuf.	12.3	9.2	8.4*	8.5
First year chg. in wages in construction (Md. adj.)	14.7	15.7	15.2*	13.1

* Md. increase.

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JOHN R. STARK,
EXECUTIVE DIRECTOR

Congress of the United States

JOINT ECONOMIC COMMITTEE

(CREATED PURSUANT TO SEC. 5(A) OF PUBLIC LAW 391, 75TH CONGRESS)

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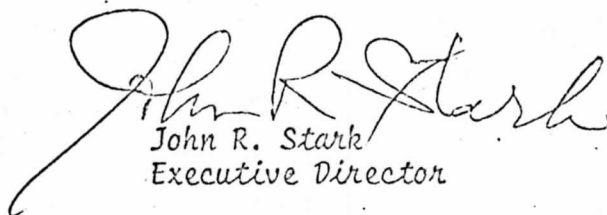
July 9, 1970

Hon. Caspar W. Weinberger
Chairman, Federal Trade Commission
Washington, D. C.

Dear Mr. Chairman:

Chairman Patman has asked me to send you a number of questions in which he is particularly interested. It is his hope that you may see fit to present your views on these matters in a subsequent statement for the printed record.

Sincerely yours,


John R. Stark
Executive Director

lg

H5
*Example of types
of questions
that might
be asked*

TO BE
QUESTIONS/SUBMITTED TO ALL WITNESSES BY CHAIRMAN PATMAN

1. The recent bankruptcy of the \$7 billion Pennsylvania Railroad and the reported high liquidity problems of many other businesses raises a serious question of whether we should have a special way of providing financial help to businesses that find themselves in trouble by reason of tight money, whether or not these businesses are big or small. I have in mind something generally similar to the old Reconstruction Finance Corporation but not necessarily like it; an institution that would if credit is not available locally through financial institutions be able to extend help in the form of loans at reasonable rates of interest. Is it your opinion that we should have such a Federal National Development Bank, or similar institution?

2. Is it your view that interest rates at the present time are too high? If so, what are your recommendations to lower these rates?

3. Our housing industry is in a serious state of depression and we are falling far short of our housing goals -- goals that a few years ago were set forth as fundamental to our national interest. Under present interest rates, a person who buys a \$20,000 home with a traditional mortgage term of 30 years under present rates of interest would be compelled to pay not only the \$20,000 for the home but \$38,000 for the interest, a total of \$58,000. It has been proposed that in order to channel more vitally needed funds into housing, some provision be made for utilizing pension funds. I have introduced a proposal in the Congress that would require them to invest a small percentage of their assets

In a public bank which in turn would be able to make housing loans.

What is your opinion of some such means of using pension funds?

4. Under present law, Delaware corporations are able to participate in far reaching mergers and formation of conglomerates and to get around state laws on such questions as branch banking and other reasonable limitations. Should not the Congress take some action to restrict the power of such corporations in order to bring them more in conformity with the laws of the states in which they operate?

5. Unemployment is already too high and is in danger of increasing further. Millions of people have been thrown out of work. What is your opinion should be done to alleviate unemployment?

C E A

6. What should be done about the trend toward forming one bank holding companies? Do you believe that this should be restrained? In view of the fact that banks are franchised by public authority to carry out monetary functions that are basic legislative powers, should they not be required to stay exclusively in the banking business and not be permitted to engage in other forms of business and in effect go into competition with their own depositors?

7. What do you believe to be the best course of action to deal with the inflation that now afflicts our economy so badly?

C E A

HS

	OLD	NEW	DIFFERENCE	YEAR-TO-YEAR CHANGES									
				OLD	NEW								
GNP													
1966	749.9	749.9	0										
1967	793.5	793.9	.4	43.6	44.0								
1968	865.7	865.0	-.7	72.2	71.1								
1969	932.1	931.4	-.7	66.4	66.4								
PCE													
1966	466.3	466.3	0										
1967	492.3	492.1	-.2	26.0	25.8								
1968	536.6	535.8	-.8	44.3	43.7								
1969	576.0	577.5	1.5	39.4	41.7								
NONRES.													
1966	81.6	81.6	0										
1967	83.7	83.3	-.4	2.1	1.7								
1968	88.8	88.7	-.1	5.1	5.4								
1969	99.2	99.3	.1	10.4	10.6								
RES. CONST.													
1966	25.0	25.0	0										
1967	25.0	25.1	.1	0	.1								
1968	30.2	30.3	.1	5.2	5.2								
1969	32.2	32.0	-.2	2.0	1.7								
FEDERAL													
1966	77.8	77.8	0										
1967	90.7	90.7	0	12.9	12.9								
1968	99.5	99.5	0	8.8	8.8								
1969	101.9	101.3	-.6	2.4	1.8								

	OLD	NEW	DIFFERENCE	YEAR-TO-YEAR CHANGE								
				OLD	NEW							
S+L												
1966	79.0	79.0	0									
1967	89.3	89.4	.1	10.3	10.4							
1968	100.7	100.7	0	11.4	11.3							
1969	112.7	110.8	-1.9	12.0	10.1							
NET EXPORTS												
1966	5.3	5.3	0									
1967	5.2	5.2	0									
1968	2.5	2.5	0									
1969	2.1	1.9	-.2									
CBI												
1966	14.8	14.8	0									
1967	7.4	8.2	.8									
1968	7.3	7.6	.3									
1969	8.0	8.5	.5									

	OLD	NEW	DIFFERENCE	CHANGE					
				OLD	NEW				
PERSONAL INCOME									
1966	587.2	587.2	0						
1967	629.4	629.5	-.1	42.2	42.1				
1968	687.9	688.7	.8	58.5	59.4				
1969	747.2	748.9	1.7	59.3	60.2				
PERSONAL TAX AND OTHER PAYMENTS									
1966	75.4	75.4	0						
1967	82.9	83.0	.1	7.5	7.6				
1968	97.9	97.5	-.4	15.0	14.5				
1969	117.5	117.3	-.2	19.6	19.8				
DPI									
1966	511.9	511.9	0						
1967	546.5	546.3	-.2	34.6	34.4				
1968	590.0	591.2	1.2	43.5	44.9				
1969	629.7	631.6	1.9	39.7	40.4				
PERSONAL SAVINGS									
1966	32.5	32.5	0						
1967	40.4	40.4	0	7.9	7.9				
1968	38.4	40.4	2.0	-2.0	0				
1969	37.6	37.6	0	-.8	-2.8				
SAVING RATE (%)									
1966	6.4	6.4	0						
1967	7.4	7.4	0						
1968	6.5	6.8	.3						
1969	6.0	6.0	0						

	Old	New	Difference	Change in the Change					
				Old	New				
NATIONAL INCOME									
1966	620.6	620.6	0						
1967	654.0	653.6	-.4	33.4	33.0				
1968	714.4	712.7	-1.7	60.4	59.1				
1969	771.0	769.5	-1.5	56.6	56.8				
COMP. OF EMPLOYEE									
1966	435.5	435.5	0						
1967	467.4	467.2	-.2	31.9	31.7				
1968	513.6	514.1	.5	46.2	46.9				
1969	564.3	564.2	-.1	50.7	50.1				
PERSONS' INCOME									
1966	61.3	61.3	0						
1967	61.9	62.1	.2	.6	.8				
1968	63.8	64.1	.3	1.9	2.0				
1969	66.3	66.8	.5	2.5	2.7				
RENTAL INCOME OF PERSONS									
1966	20.0	20.0	0						
1967	20.8	21.1	.3	.8	1.1				
1968	21.2	21.3	.1	.4	.2				
1969	21.6	22.0	.4	.4	.7				
CORP. PROFITS & IVA									
1966	82.4	82.4	0						
1967	79.2	78.7	-.5	-3.2	-3.7				
1968	87.9	85.4	-2.5	8.7	6.7				
1969	88.2	85.8	-2.4	.3	.4				
NET INTEREST									
1966	21.4	21.4	0						
1967	24.7	24.4	-.3	3.3	3.0				
1968	28.0	27.8	-.2	3.3	3.4				
1969	30.6	30.7	.1	2.6	2.9				

UNITED STATES GOVERNMENT

Memorandum

TO : Paul McCracken

DATE: July 15, 1970

FROM : Marvin Kosters *MK*

SUBJECT: Status of bill to extend duration of Unemployment Insurance coverage

Insured Unemployment Bill

Strengthening the Unemployment Insurance system was proposed in a presidential message to Congress on July 8, 1969. A bill was subsequently passed by Congress as HR-14705.

It was proposed by the Administration to:

- extend coverage to some 4.8 million additional workers.
- increase benefit levels to 50% of earnings, at least up to some level of earnings.
- provide that workers be eligible for Unemployment Insurance coverage while enrolled in a training program.
- provide that eligibility for UI be conditioned on at least 15 weeks of employment.
- prohibit UI for workers on strike.
- extend coverage for a period of up to 13 weeks, if the Insured Unemployment rate exceeds 4.5 percent for 3 consecutive months.
- raise the taxable wage base to \$6,000 over a 5 year period from its current level of \$3,000 set some 30 years ago.

The Administration proposed that the extension of the duration of benefits be fully federally funded. However, the bill passed



5010-108

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provides for 50% federal funding fully effective on January 1, 1972, and within 60 days for states complying. In addition, the current bill provides for extension of coverage in response to State triggers of 4.5 percent (Insured rate), at least for the interim period until 1972.

Secretary Shultz testified before the Senate Finance Committee on February 5, 1970 to the effect that the bill would be acceptable to the Administration if full federal funding were put in for the interim period until 1972 so that states would not need to act.

Mill's is apparently currently opposing coverage extension to some 400 thousand farm workers, a provision included in the Senate version.

The current status of the bill (July 15) is that, while it was slated to be voted on in the House today, the vote was postponed until perhaps sometime next week. The conference report excluded extension of coverage to farm workers. Congressman O'Hara wants to reject the conference report with respect to farm coverage as do Senators Harris, Javits, and Mondale. The labor department opposes this because they fear that may endanger passing of the bill.

cc: HH
HS
SJ
MM

QUARTERLY CHANGES IN GNP, OLD AND NEW BASIS

3669 - 2870

7/15/73

	3669-4069		4069-1070		1070-2870	
	OLD	NEW	OLD	NEW	OLD	NEW
GNP	9.4	9.1	7.4	7.8	11.2	10.6
PCE	9.7	10.5	10.9	10.5	10.6	11.1
Durable	0.6	1.3	-1.0	-1.7	3.0	2.7
NonDurable	3.6	3.9	6.7	6.8	2.6	3.5
Services	5.4	5.3	5.3	5.4	5.0	5.0
Nonresidential	1.4	1.1	1.5	0	0.7	0.1
Residential	0.2	-0.6	-1.4	-1.3	-0.8	-0.6
CG Inv	-3.0	-4.1	-6.9	-5.6	1.6	1.0
Net Exports	0	0	0.3	0.9	0.1	0.3
Government	1.3	2.2	2.9	3.3	-1.0	-1.3
Federal	-0.9	-0.4	0	0.2	-3.1	-2.7
Defense	-1.1	-1.0	-0.3	0.5	-2.5	-2.2
NonDefense	0.2	0.6	0.2	-0.3	-0.5	-0.5
State	2.2	2.6	2.9	3.2	2.1	1.3
Final Sales	12.5	13.3	14.4	13.4	9.5	9.6

① OGE PROTECTION OF 6/16/70

Corres.
Baker
McLaren
Donnem
Chron

DIBaker:dte

July 15, 1970

Richard W. McLaren
Assistant Attorney General
Antitrust Division

File: 60-111-0

Donald I. Baker
Deputy Director of Policy Planning

Question 4 from the Joint Economic Committee

I would suggest the following approach to this question:

1. The question assumes that the more permissive corporate laws of Delaware (equally such states as Nevada) are being used to circumvent state policies in which there is a federal interest. We are unable to ascertain what these policies are since the liberal features of Delaware law relate primarily to corporate powers, reorganizations, liability of officers and directors, relationships with shareholders, and so forth.

2. Branch Banking: All banks in a state are subject to that state's rules on branch banking without regard to corporate organization. The McFadden Act, 12 U.S.C. §36, specifically subjects national banks in a state to the state law on branch banking.

3. Bank Holding Companies: Many registered bank holding companies are Delaware corporations. However, all such bank holding companies are subject to the requirement of the Bank Holding Company Act of 1956, that they can only do business in a single state 12 U.S.C. §1842(d), and bank holding companies are subject to any prohibitions contained in state law. Thus in a variety of states, including Illinois and Pennsylvania, bank holding companies are entirely prohibited.

4. Conglomerate Mergers: So far as we know, there are no general state rules relating to the competitive effects of such mergers. In certain circumstances, states have had occasion to consider the legality of such mergers under specific regulatory provisions. A case in point is the ITT Hartford Fire Insurance merger, which the Connecticut Insurance Commissioner took under his jurisdiction and considered on the merits under the Connecticut insurance law; such jurisdiction is not ousted by corporate form. The states also retain jurisdiction over the issuance of securities to their residents in

connection with such mergers; this occurs under their "blue sky" laws, for which there is an express reservation of jurisdiction in the Securities Act of 1933. 15 U.S.C. §77r. In sum, although the relationship of a Delaware corporation to its shareholders is governed basically by Delaware law, acquisitions and mergers of such a corporation are subject to other non-Delaware rules -- including the Federal antitrust laws, the Federal Securities Act and state securities laws in states in which it has shareholders.

5. Since we do not find the types of abuse that the question seems to imply, we turn to the fundamental issue of whether the federal government should as a matter of policy impose greater (or complete) uniformity on the arrangements between corporations and their shareholders, at least to the extent that those corporations are engaged in interstate commerce or otherwise subject to federal jurisdiction. This might be done, for example, by a federal incorporation statute. However, by its very nature, federalism is bound to lead to diversity in corporate arrangements. We question whether it would be desirable to depart from that approach, absent a clear showing of abuse not presently evident.

TO BE
QUESTIONS/SUBMITTED TO ALL WITNESSES BY CHAIRMAN PATHMAN

1. The recent bankruptcy of the \$7 billion Pennsylvania Railroad and the reported high liquidity problems of many other businesses raises a serious question of whether we should have a special way of providing financial help to businesses that find themselves in trouble by reason of tight money, whether or not these businesses are big or small. I have in mind something generally similar to the old Reconstruction Finance Corporation but not necessarily like it; an institution that would if credit is not available locally through financial institutions be able to extend help in the form of loans at reasonable rates of interest. Is it your opinion that we should have such a Federal National Development Bank, or similar institution?

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just

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CEA

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CEA

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

JUL 14 1970

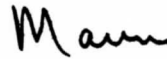
Honorable Herbert Stein
Council of Economic Advisers
Washington, D.C. 20506

Dear Herb:

The attached questions have been or will be received by all of the Government witnesses who have been asked to testify before the Joint Economic Committee on the mid-year review of the economy. In order to develop a consistent Administration position on these questions, we would like you to draft the basic points (narrative text not necessary) to be covered in agency testimony on questions 3, 5, and 7.

We will meet with the other interested agencies to discuss your suggested answers at 4:00 p.m., Wednesday, July 15, 1970, in Room 248 of the Executive Office Building. Those attending will be: Dr. Charles Walker (Treasury); Mr. Richard McLaren (Justice); Mr. Herbert Stein (CEA); Mr. Jerome Rosow (Labor); Mr. J.C. Partee (FRB); Mr. Fred Deming, Jr. (HUD); Mr. Rocco Siciliano (Commerce); and Mr. Maurice Mann (OMB).

Sincerely,



Maurice Mann
Assistant Director

Attachment



NEWS RELEASE

OFFICE OF ASSISTANT SECRETARY OF DEFENSE (PUBLIC AFFAIRS)

WASHINGTON, D.C. - 20301

PLEASE NOTE DATE

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ADDRESS BY

THE HONORABLE MELVIN R. LAIRD, THE SECRETARY OF DEFENSE

BEFORE THE ECONOMIC CLUB OF DETROIT, DETROIT, MICHIGAN

MONDAY, MAY 11, 1970

As Secretary of Defense, I share with you many difficult problems as we seek to restore and maintain peace. Today, I want to begin by mentioning one of these problems and calling on my fellow Americans to help me solve it.

This -- unlike most of our problems -- is a good problem. For it involves helping the men and women who will be leaving the Armed Forces to find jobs. There will be more than two million of them in the next two years. Many will return to school, but perhaps 75 per cent will enter the civilian job market.

As we begin Armed Forces week, this matter is particularly on my mind. I believe that the Department of Defense should bear part of the responsibility for assisting men and women who have served honorably in uniform to find worthwhile jobs -- whether these veterans have served only two years or up to twenty years and more. In the

NEWS RELEASE



weeks and months ahead, we will be calling on American business and labor leaders, state and local governments, and citizens in all walks of life to help us solve this problem.

It is my hope and my firm belief that the current operations in Southeast Asia will accelerate the return to civilian life of thousands of additional military men as we pursue the President's Vietnamization program and the redeployment from Vietnam of at least 150,000 more men by next spring.

As these men come home, and as other servicemen and women complete their service to the nation, I feel that they are entitled to some degree of preference as they seek civilian jobs.

The Department of Defense shortly will announce details of a new program to locate a job for every veteran -- a program which will be successful only if it has the support of citizens throughout our country.

Today we are much closer to achieving our objective in South Vietnam than we were a year ago. U. S. forces have already been reduced from the authorized strength of 549,500 that existed a year ago to the current ceiling of 434,000. By next May that figure will have been reduced to 284,000, a total reduction since January, 1969, of more than 265,000. As Vietnamization has progressed, the people of South Vietnam have increased their capabilities to travel the road to peace with constantly diminishing reliance on the United States.

Ending the war in Southeast Asia is President Nixon's first priority. One year ago, almost to the day, he urged the enemy to accept peace by negotiation. This is the way we would prefer to bring the fighting to a close. The offer the President made a year ago still stands -- the offer of a fair and generous peace which would allow the people of South Vietnam freely to determine their destiny.

In recent days American and South Vietnamese forces moved into Cambodia for a few weeks in order to make possible greater progress in Vietnamization by disrupting the enemy's use of sanctuaries that have been utilized for years as bases for attacks on South Vietnam.

This action will shorten the war; it will bring American troops home faster; it will reduce our casualties.

These are objectives that reflect the fondest desires of all Americans. These are the reasons why President Nixon took action in Cambodia.

It is particularly appropriate to observe Armed Forces Day in Detroit, a city which contributes mightily today, as it has in the past, to the security of our nation.

In 1942, not long after the United States became a combatant in World War II, then Major General Brehon B. Somervell said:

" . . . when Hitler put his war on wheels he ran it straight down our alley. When he hitched his chariot to an internal combustion engine, he opened up a new battle front -- a front that we know well. It's called Detroit."

Since the Korean War, our nation has maintained a defense effort on a scale that far exceeds historic peacetime levels. Three

times we had experienced the anguish of plunging into war unprepared. Three times we suffered through a catch-up phase before achieving adequately equipped forces. After Korea, we decided to maintain in peacetime a posture of sufficient military strength to deter conflict and to permit speedy enlargement of our forces if necessary.

One consequence of this decision is that defense thereby began to exercise a significant continuing impact upon the nation's economy. Gone were the days when decisions to expand or contract the defense effort were of concern only to the workers in Government arsenals and a few scattered communities near military posts and naval stations. For the past 20 years, decisions about national defense have had important effects on the use of manpower and other resources, on the pattern of production, and on price levels on a national scale.

The decision to maintain at all times a military force of substantial proportions also set the stage for a potential conflict of national purposes. In a full employment economy, a relatively high level of military expenditure forces on the President and the Congress some very difficult choices. The economic resources which are channelled into military use could be employed for other purposes. Whether explicitly made or not, the decision to spend a given number of dollars for defense is a decision not to spend these dollars for eradicating slums, for improving schools, for combatting crime, for cleaning up streams, or for foregoing their use by Government completely by reducing taxes.

In earlier years, this conflict did not arise. In peacetime, defense expenditure was too small even to appear to be diverting resources from other worthy social purposes. In wartime before Vietnam, there was general acceptance that the war enjoyed primacy among the possible objects of national expenditure, and cutbacks and restraints on spending for other purposes were accepted. Further, during the early years of World War II, increased defense spending produced utilization of idle resources rather than diversion of resources from other uses.

The Nixon Administration has been struggling with complex and difficult economic problems which arose and grew in intensity over the course of the previous four years. The time period during which these problems attained serious proportions coincides with the period of heavy American involvement in Vietnam -- from 1965 on. The enlarged defense commitment had something to do with the growth of these problems, but it is oversimplification to regard this as the sole, or even the dominant, factor. Defense expenditure increased by \$28 billion between fiscal years 1964 and 1969, but at the same time non-defense spending of the Federal Government rose by \$40 billion.

This drastic increase in Federal spending of \$68 billions for all purposes in a full employment economy was bound to have an inflationary impact unless it was counteracted by timely measures to slow down spending by other levels of Government or by the private sector. But, over the course of these years, state and local outlays rose by more than \$40 billion, and private spending, by more than \$200 billion.

When President Nixon assumed office, defense spending was at its highest point since the Korean War -- and still going up. The numbers in the armed forces were the highest since the Korean War. Defense absorbed a larger share of the Federal budget than any other governmental purpose, as it had for the preceding 19 years.

In January of this year President Nixon submitted a budget that, for the first time in 20 years, allocates more funds for human resource programs than for defense. About one-third of the expenditures recommended in that budget goes for defense. This is a dramatic change from the situation 10 years ago when 45 per cent of total Federal spending was for defense.

In current dollars, military spending is reduced by \$7 billion from the 1969 level while non-defense spending is slated to increase by almost \$25 billion. In constant dollars -- and the Defense Department is affected by inflation even as you in this audience are -- the defense budget recommended for the next fiscal year is \$12.8 billion below the 1969 level.

We are able to reduce defense spending without assuming imprudent risk because of the policy of the Nixon Doctrine, which calls on other nations to bear a greater share of the burden which we have been carrying for their defense. It is particularly the application of this policy in Vietnam, where the South Vietnamese government and its military forces are meeting their increased responsibilities, that makes possible the cuts in the 1971 defense budget.

Although the major objective of economic policy now is to move along the path of sustained and vigorous expansion, moderating the

rate of price increase -- getting a handle, in other words, on inflation -- remains an extremely important goal. A closer examination of what the 1971 budget contemplates for defense demonstrates that the Defense Department is doing its share to ease the pressures that push up prices.

Defense spending will decrease to 7 per cent of the Gross National Product for the next fiscal year, the smallest percentage in 20 years. The manpower squeeze will be relieved as employment in the Defense Department, military and civilian, declines by 680,000 from Fiscal Year 1969 to 1971. Procurement is being cut by 20 per cent, and this is bringing about a reduction of more than 600,000 in the work force required for defense production in the private sector. In the coming year, only about 6 per cent of the labor force will be employed by government and private industry in the field of defense in contrast to 8 per cent when the present Administration began.

The major impact of our spending reductions on the private sector have yet to be felt. So far only about one-fifth of the expected decrease in employment on defense orders in the private sector has taken place.

While recognizing that defense has an important impact on our economy, I believe that the facts puncture some of the myths that have sprung up about the magnitude of that impact. Defense is far from being the main driving force in the American economy. The hoary old myth that defense spending is required to avoid economic collapse clearly does not jibe with the facts.

Defense expenditures recommended for the coming fiscal year, as I have noted, amount to one-third -- 34.6 per cent, to be exact -- of total Federal spending. Not half, not 70 per cent, as is sometimes alleged, but one-third. This share of the budget, which is dropping sharply, will be the lowest since 1950 -- before the Korean War.

As for the impact of defense on the private sector of the economy -- it is true that, for a few companies in a few segments of industry, defense is a big part of the market. But consider the giants of the American economy: food, housing, the automotive industry, steel and other metals, construction, transportation, oil, appliances, clothing -- for these economic giants, defense business is a very minor share of their business. For the 25 largest industrial corporations, defense contracts account for less than 6 per cent of their sales. Bear in mind that just about half of our budget goes to meet our own military and civilian payroll. About \$35 billion is left for the purchase of goods and services, or about 3 cents for each dollar in our trillion-dollar economy.

Our declining involvement in Vietnam is not the severe economic strain that it is sometimes pictured to be. In fiscal year 1970, now drawing to its close, the incremental military costs of Vietnam amount to about \$17.4 billion or about 1.8 per cent of the Gross National Product. In other words, of every dollar of goods and services produced in the American economy, less than 2 cents is spent for military purposes in Vietnam.

One further conclusion should be drawn from the figures which I have cited. The increased Federal spending for domestic purposes which is in prospect cannot be financed by an equal reduction in defense spending. To attempt to accomplish it in this way would be to deprive the American people of the minimum defense needed to provide security in today's world. The planned reduction in defense expenditures, which gives the nation a rock-bottom defense budget, amounts to about one-fourth of the increase now projected in non-defense spending between fiscal years 1969 and 1971. We shall strive to minimize both the risks and the penalties as we implement the policy of trimming down the armed forces. We are deeply conscious of the consequences of our actions on individuals and communities. We have instituted a Program for Stability of Civilian Employment, designed to assure maximum assistance to our own employees whose jobs are ending. For them, we provide priority placement, computerized referrals, aid in relocation and other assistance. Through our Office of Economic Adjustment, we have been working with communities to develop self-help programs to offset adverse economic impacts of base closures and other Defense realignments. Excess military installations have been converted with a high degree of success to Technical Institutes, Area Vocational Schools, new branches of colleges and universities, industrial parks, airports, hospitals, training sites for socio-economic experiments, parks, and recreational areas. In over 100 communities, we have helped to generate new pay-

rolls and convert resources to productive civilian use. This has been a team effort utilizing several Federal agencies in cooperation with state and local governments and the private sector.

Recently, President Nixon endorsed this approach and designated me as the chairman of a newly created Interagency Economic Adjustment Committee. This Committee has the responsibility for bringing the resources of the Federal Government to bear for the alleviation of economic difficulties to individuals and communities affected by cutbacks in military bases.

As Defense is cut back, we risk the loss of essential elements of the industrial base which we should maintain both for the readiness of our forces and for continued progress in research and development. The reductions which we are making mean the loss of some part of the industrial base.

It is vital, however, to maintain productive capacity that can rapidly respond to defense needs. The requirement for swift conversion to defense products might be occasioned by technological breakthroughs on the part of potential enemies or by the need for large-scale mobilization of our armed forces.

It is clear that we are not going to have the capability to completely modernize our weapons inventory on a regular basis in the quantities and with the frequency that we might desire. The funds are simply not available to permit this. For example, some of the

largest reductions we have made are in procurement -- a cut of almost \$5 billion or 20 per cent. Yet we must maintain production capacity, which, while devoted to domestic needs can be rapidly converted to defense purposes in an emergency. The ingenuity and vision of industry will be crucial in maintaining this state of readiness. What will be done with the engineers, the production workers, the managers, the machine tools and facilities that will no longer be needed for current defense production? I do not believe that the workers will be allowed to go their own way and that the plants will be boarded up. On the contrary, I know that the leaders of defense industry can be counted on to retain these skills and resources and convert them to domestic purposes through programs of diversification. By increasing their diversification into non-defense production that requires technical skills and complex processes, these defense companies will minimize the adverse economic impacts of defense reductions. Equally important, they will keep experienced people together who will be closely related to their company's remaining defense business and who could quickly contribute to increased production needs in time of emergency. I have no doubt that this can be done, for defense industry has already built an impressive record of strengthening itself through diversification. In 1960, the defense and commercial sales of some forty of the largest defense companies were more than two-thirds defense and less than one-third commercial. By 1968, the balance had shifted completely. The defense sales for these same companies, while

amounting to the very substantial figure of \$19.2 billion, accounted for only forty-six per cent of total sales and today would undoubtedly be even lower.

The part of the defense budget which is being reduced least is research and development. Our reliance on private industry in this vital field is perhaps not fully recognized. Almost two-thirds of the research and development effort of the Defense Department is undertaken by industry.

This is the indispensable part of the industrial base that must be preserved -- and indeed must be enlarged and expanded.

To maintain our strength at a prudent level and to avoid unpleasant surprises in the future, we must know what developments in weapons are possible and practical for ourselves and for potential enemies.

The kind of defense force we shall have ten years from now is determined by the quantity and the quality of our research and development effort today. Whether the nation is adequately protected against the challenges it may face at the end of this decade depends on what we do at its beginning in the field of research and development.

For security in the future, we must vigorously pursue research in a large number of fields -- the physical and mathematical sciences, the chemical and engineering sciences, the environmental sciences, biological and medical and behavioral sciences, to name the most important.

It is a mistake to think that the sole objective of our research and development is the production of more devastating weapons.

If there is to be effective arms control and limitation, it too must rest on a solid foundation of research. Without such a foundation, we cannot be confident that arms control measures are feasible and practical. Without such a foundation, we cannot be sure whether arms limitation proposals weaken or reinforce our security. Without such knowledge, no responsible administration would enter into agreements with other nations on arms limitation. No responsible administration is going to take such a step without understanding its effects and its limitations. So, if arms limitation is one of our goals -- and our presence at Vienna for the ongoing negotiations on strategic armaments shows that it is -- we must maintain a vigorous program of military research. When we compare our effort in this field with that of the Soviet Union, a disquieting trend appears. We can frankly admit that our knowledge of what the Soviet Union is doing is vastly inferior to their knowledge of what we are doing. This is inevitably the case when an open society is in competition with a closed society. Ten years ago our expenditure for military research and development was at least 25 per cent greater than that of the Soviet Union. During the last few years our effort levelled off while that of the Soviets grew by roughly 10 per cent a year. Currently, the Soviet Union is spending some \$2 - \$3 billion more than we are for this purpose. As the nation moves toward smaller armed forces, the quality of the equipment provided to those forces becomes more important.

And quality depends on continued advances in technology on the part of industry.

As long as I am Secretary of Defense, the Department of Defense will ask no more than we believe is needed to protect our people and their vital interests in the world against the threat of force. Nor will we ask for less.

The Department of Defense is deeply conscious of the need to devote more of the nation's resources to the solution of the many problems that trouble us today at home. The Department has acted and will continue to act to free additional resources for such purposes as building more homes, uprooting slums, improving education, purifying the environment, expanding medical facilities, and doing all the other things that are high on the list of urgent national priorities.

In many significant ways the Defense Department is using its resources for these very ends. Consider, for example, the field of education. We spend \$2.6 billion annually for education, academic and vocational, of a type useful in qualifying people for civilian jobs. We do this because the schooling and training thus provided are needed to equip military personnel to perform their duties efficiently. But, clearly, this substantial investment in education has several byproducts, benefiting the individuals who receive instruction and assisting society in overcoming the problems that are rooted in inadequate education. And there is a significant economic impact as well. Hundreds of thousands of young men enter the civilian job market each year with skills developed

and sharpened in military service -- better trained and more productive than when they put on the uniform.

These are the young men of whom I spoke at the beginning of my remarks. They must be helped to find their place in our economic system.

National security requires a strong and thriving industrial base -- flexible, innovative, and technically advancing. Since this is so, it is appropriate -- especially during Armed Forces week -- to recognize what American industry means to the armed forces. Whenever called upon to support the armed forces, industry has responded magnificently. The need for that support continues. With it, we need not fear for the safety of our country in the difficult years that lie before us.

THE END