

Statement to Committee on Resolutions

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We welcome this opportunity to appear before the Committee on Resolutions.

The Nixon Administration has been in office for three-and-a-half years. We hope and expect that it will be in office for another four-and-a-half years. The platform should provide the basis not only for running for election but also for serving in the office of the President in the next term. The credibility of the pledges that are made for the next term must be demonstrated by the record of this term.

When the Nixon Administration took up its responsibilities it faced two great economic challenges. One was to stop the explosive inflation. The rate of inflation had skyrocketed from around 1 percent a year in the 1958-64 period to about 6-1/2 percent at the beginning of 1969.

The second challenge was to wind down the war economy. The number of people in the armed forces and in defense production would be reduced by 2-1/2 million. They would have to be absorbed in civilian non-defense employment,

along with a rapidly-growing labor force. The transition from a war to a peace economy would have to be made while the economy was kept under restraint in order to control the inflation.

Moreover, the situation was made more dangerous by the ticking time-bomb of our deteriorating international economic position. We were becoming less competitive in world trade, our balance of payments was in deepening deficit, and confidence in the dollar was declining. This could not be allowed to go on.

The transition from an overheated, war-fed boom to stable non-inflationary peace-time expansion could not be made easily. But it had to be done. Evading the problem would only make it worse. It has been accomplished with remarkably little pain considering the magnitude of the original problem.

Since the Nixon Administration came into office the rate of price increase has been cut in half. After five years in which workers' real take-home incomes hardly rose at all, they are now rising very rapidly, three times as fast as in the period 1960 to 1968. Civilian employment has increased by 4-1/2 million, and since civilian employment for defense has decreased by about 1-1/2 million the increase in civilian non-defense

employment has been about 6 million. The unemployment rate is declining and is now below the average of the Kennedy-Johnson years preceding the Vietnam War buildup. The economy is rising at an extraordinary rate -- in the most recent quarter this was twice as fast as normal. This rapid rise promises a substantial further reduction of the unemployment rate.

The main characteristics of the policy that kept the costs of readjustment moderate and brought about a prompt and healthy non-inflationary recovery have been realism and responsibility. It is fair to say that the President has not been inhibited by old taboos about the economy and he has not been deluded by the new mythology. The Administration had the courage to fight for budget restraint when that was necessary to check the inherited inflation. It is fighting for budget restraint again to prevent a return of the vicious spiral of inflation. But it has been willing to accept budget deficits when they were necessary to support and stimulate the economy. The Administration would not take the easy, attractive but ineffective route of incomes policy to attack inflation when the problem was excess demand. But when the character of the problem changed the President was prepared to take decisive direct action in the form of strong but temporary

wage and price controls. And the President finally ended more than a decade of temporizing with our foreign economic problems by suspending convertibility of the dollar into gold and calling for new rules of the international monetary and trading system.

The economy is well on its way to a healthy combination of high employment and reasonable price stability. But we are not there yet, and once we are there prudent and forceful policy will be needed to keep us there. The platform will, we hope, reaffirm the Administration's dedication to these goals and to a policy of activism to keep us there.

The near-term task is to prevent a resurgence of inflationary pressure while keeping the economy rising steadily. If we repeat the mistakes of 1965-68 their correction will be even more difficult than it has been in the past three-and-a-half years. The key here is the Federal budget, and our effort must be to prevent an explosion of spending which will make inevitable both more inflation and more taxes. We are not talking about putting our foot on the brake to stop the recovery. But we must not press too heavily on the gas.

In addition to meeting the immediate critical budget situation we should seek to improve the principles for the conduct of fiscal policy and the procedures for carrying

it out. We believe that the standard that expenditures should not exceed the revenues that would be collected at full employment is a good general guide. It needs to be better understood in the country and adhered to by the Government. The Administration should push further the steps it has taken to plan budget policy for a period in excess of one year. The Congress badly needs to reform its machinery so that a systematic, visible decision is made about the overall size of the budget. A more constructive relation is needed between the Congress and the Administration in budgetary matters. Fiscal policy cannot be an effective instrument of economic stabilization if it is also a live grenade tossed back and forth between the Administration and the Congress.

Price and wage controls need to be continued and improved for the time being. But we need to look forward to getting rid of them. An important reason for great care in adhering to non-inflationary fiscal and monetary policy now is to permit the controls to end without major disruption of the economy.

We should press on vigorously and creatively with measures to reduce unemployment by bringing about a better fit between job seekers and jobs. The Administration has a good record in this field, in the expansion and improvement

of manpower programs, but more needs to be done.

We should continue the start we have made for the reform of the international monetary and trading system, in which the United States and others can get the maximum advantage from the exchange of goods and capital. The advantage involved, of course, is the advantage to our workers and farmers as well as to our consumers and investors.

But most of all, we should assure the country that the next Administration will follow a balanced and responsible course. We must not make a fetish of annual budget balance, but we must not make deficits a way of life. We must work with the controls, but not become infatuated with them. We must press for our interests in the international economy, but we must not relapse into isolationism. And we should try to meet new problems, as yet unforeseen, in this same realistic way.