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REPORT ON THE ECONOMY:

Dr. Walter Heller, Chairman, The President's
Council of Economic Advise

Senator Hubert H. Humphrey, (D., Minn.),
Senate Majority Whip

THE FOLLOWING IS A TRANSCRIPT OF A TELEVISION REPORT BY SENATOR HUBERT H. HUMPHREY (D., MINN.) FOR MINNESOTA AREA STATIONS, WITH SPECIAL GUEST DR. WALTER W. HELLER, CHAIRMAN OF THE PRESIDENT'S COUNCIL OF ECONOMIC ADVISERS. IN THE PROGRAM:

* Senator Humphrey says that the President's economic programs are designed to attack "the real deficits of America---unemployment and unused capacity."

* Dr. Heller says the Nation's biggest economic problem is unemployment and idle industrial capacity.

* Dr. Heller predicts a gross national product of $600 billion, if the economy "were operating full tilt."

* Dr. Heller gives the background and reasoning behind the President's decision to seek a tax cut this year.

* Dr. Heller says the "bulk of the cuts will go to individuals and the bulk of those cuts to individuals will go to the lower income groups."

* Senator Humphrey says an increase in GNP of 30 to 40 billion dollars is possible and would help balance the Federal budget and leave money for programs to improve higher education and secondary education.

INTRODUCTION: This is Washington, and this is Senator Hubert H. Humphrey of Minnesota. Today the Administration and the Congress face crucial decisions on economic policy. With Senator Humphrey is an important guest to help report on the Nation's economic outlook. Now, here is Senator Humphrey:

HUMPHREY: Thank you. Today we are honored to have on this program our guest, Dr. Walter W. Heller, who is presently the Chairman of the President's Council of Economic Advisers. He is the first of many important officials who will appear on this program this year. Dr. Heller is well-known to Minnesotans. He is the former head of the Department of Economics of our own great University of Minnesota. He has had many years of experience in fiscal and monetary matters, and is recognized as one of the nation's outstanding economists. His experience is in both the international and domestic field. Dr. Heller has been a very busy man these days. As the President's chief adviser on economic

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policy, he has been busily engaged in preparing for the President's report to the Congress on the economic condition of our country. He has been in the midst of discussions on the policy on taxation which you heard our President outline. I'm going to get right to the point. First, Dr. Heller, as I recall, the official position you occupy is one of Presidential appointment and confirmation by the Senate. It was established under the Employment Act of 1946. Is this correct?

HELLER: Yes, that is right.

HUMPHREY: And we've had now in our country for these past 16 years advisers to the President of the United States on economic policy. Maybe the best way to acquaint our audience with your position is just to ask the question point blank: What is your job. What is required of you in this job?

HELLER: As you point out, the point of departure is the Employment Act of 1946. It requires me and my two colleagues--we're a three man council---to advise the President of where the economy stands, where it's been, where we think it's going; and if we don't think it is going far enough, or fast enough, to recommend policies that are designed to get it where it should be. I'm translating this somewhat formal language that you Senators enact into law into the essence of it.

HUMPHREY: You mentioned there were three of you on the Council of Economic Advisors. Would you mind giving us the names of your two associates?

HELLER: Yes, one of them is Gardner Ackley.

HUMPHREY: Where is he from?

HELLER: He's from the University of Michigan. And just recently I lost my colleague, Kirby Gordon, to higher calling as Director of the Budget. We're going to bring in John Lewis (that is, the Senate willing) of the University of Indiana. Then we'll have an All Big-10 council. All this stuff about Harvard dominating the New Frontier has to be revised when they look at the Council.

HUMPHREY: Well, this ought to be a re-assuring note for the doubters, when you bring in the good solid constituency and citizens of the Midwest to advise the President of the United States on economic policy. Dr. Heller, as I understand your job, your responsibility of reporting to the President is related to the whole economy of the United States. How do you think we're doing?

HELLER: As you know, just last week we submitted a combined report. Part of it is our report to the President, part of it is the President's report to the United States Congress. In it the picture that's given of the economy is one that has made a lot of advances in the past couple of years. The gross national product has risen by $50 or $60 billion and employment is down quite a bit. It is an economy that's come quite a long way, but it has an awful long way to go in order to reach what we would regard, and what the President would regard as acceptable levels of full employment and full use of our resources.

HUMPHREY: How do you feel we're doing now, compared with three years ago?

HELLER: Three years ago we were going down. Now, we're going up.

HUMPHREY: What's the gross national product?

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HELLER: At the bottom of the recession when the President took office, the gross national product was running about $500 billion. It is now running about $560 billion, or $562 billion to be precise. Well, that sounds like a great accomplishment, and it is. You know, Senator, if we were operating full tilt, if we were down to four per cent or less on unemployment---and that's a modest enough target---if our industrial capacity were being used not at 83 per cent, but around 90 per cent, why this country would be close to producing close to $600 billion of goods and services a year. In other words, we're letting around $30 to $40 billion of good man power and industrial capacity run to waste.

HUMPHREY: This is the point I wish we could emphasize in a way that is meaningful. People are concerned about the tremendous costs in the government, and rightly so, for its various programs. But there is so little concern, or so little understanding about the cost of unemployment, and the cost of unused plant capacity. Now, as I understand it from your comment, that if we could get our unemployment figure down to approximately four per cent of the total work force...

HELLER: Yes, from about five and one-half per cent...

HUMPHREY: ...and then could utilize existing plant capacity, not by adding new, but just by using existing plant capacity, we could have a gross national product of over $600 billion; is that right?

HELLER: Well, about $600 billion. This $30 to $40 billion additional that you could get just by using these resources that are now lying idle is more than the whole country spends on education, and virtually twice what we spend on education. Just think what we could do with another $30 or $40 billion a year in total output.

HUMPHREY: In fact, if you could get that $30 to $40 billion a year extra output it would come mighty close to balancing off the federal budget and leave money for programs for improvement of higher education or of secondary education.

HELLER: That's the point. One of the things that I---coming from a state government background, having worked in the Minnesota tax system---am quite conscious of, is the fact that if we were able to get this economy up to its full potential, then these tax problems of my district of Roseville, and the State of Minnesota, and the cities of Minneapolis and St. Paul, would become vastly easier because you would be broadening the base from which you would be drawing state and local taxes. So there's a great state and local interest in this federal policy and the economic field.

HUMPHREY: Dr. Heller, what do you think is the basic economic problem of the United States today?

HELLER: Well, I would simply put it in terms of making full use of our resources, and in the process stepping up our rate of economic growth. In other words, our growth has been lagging since 1955. We've been growing at two and one-fourth per cent a year, and you know, Senator, that the European countries have been growing at four, five, six, seven per cent a year. In the early post-war years we were growing at four and one-half per cent, double our present rate. What we need to do is get full use of the manpower and the machines and the factories we now have and in the process speed up our rate of growth. That will inevitably follow if we make full use of the capacity we now have.

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HUMPHREY: When you say full use of our resources, you're not only talking of our natural resources and our industrial resources, in terms of machines, but also full use of the available manpower---that first of all. One could say that the first concern that we have is concern over unemployment even though it has been reduced. It has been, and measures such as the Area Redevelopment Program and tax revision last year, and accelerated public works, and a number of other measures have helped.

HELLER: I think that's well put. In other words, measures were taken, through the action of the Congress, that put the private forces of the economy sort of on their mettle, sort of removing government restrictions with a little help here and a little help there to facilitate this recovery process. But when you still have over five and one-half per cent of your labor force unemployed, you obviously can't rest easy.

HUMPHREY: All right now, we'll get right to the immediate question. The President has recommended a tax cut of more than $10 billion, Dr. Heller.

HELLER: That's correct.

HUMPHREY: And after having had the privilege of visiting with you and sharing your thoughts, I know that you were very close to the President during the process of making his decision. I'm going to be working here in the Congress to seek approval of that Presidential proposal. Why do you think a $10 billion tax cut is necessary? While you're talking about it, tell us a little bit about what went on in developing this decision.

HELLER: I'd be glad to Senator. A moment ago I said that so far, we were saying to the private economy: "We'll get out of your way." We were hopeful, of course, that the forces in the private economy would push up on up to something like full employment. I think we found that a good part of that post-war force that was in the economy was diminished somewhat. It's the President's conviction, arrived at through a series of discussions last summer, and in the White House this fall, with the Treasury, with the Council of Economic Advisors, at his meetings in Palm Beach...

HUMPHREY: You were in on these meetings, weren't you?

HELLER: Yes, I was, representing, of course, the interest of the entire economy. In the course of those discussions it was realized the private economy, the market economy, needed a further thrust, a further push, a further chance to express its full purchasing power, its full incentives to arrive at full employment. I think that the thing that really put the clincher on this program was the fact we found the AFL-CIO, the United States Chamber of Commerce, even the National Association of Manufacturers, to a considerable extent, and the Committee for Economic Development, all of the major spokesmen for business, for labor, and indeed many of the agricultural groups, coming in and saying the thing this economy needs is a substantial tax cut to stimulate purchasing power, to strengthen markets for products, and at the same time to increase incentives.

HUMPHREY: I heard you say in one of your discussions, Dr. Heller, that the program that the President is recommending, the one that you have contributed so much to in your thinking, is a program that incorporates purchasing power as part of the thrust, and extra incentive to the private economy as another part.

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HELLER: Except of course, in a sense, markets are the ultimate incentive for production, but to convert those into profits you also have to reduce taxes on corporate income and private business.

HUMPHREY: Now quickly, who is going to get the cuts?

HELLER: Well, the cuts are going to range across the board, but particularly because of the fact that last year there was a $2\frac{1}{2}$ billion cut in effect for businesses. The bulk of the cuts this time will go to individuals and the bulk of those cuts to individuals will go to the lower income groups. Now everybody will participate but there will be about a forty per cent reduction in the lowest groups, tailing off to about twenty per cent on the top groups.

HUMPHREY: Well, Dr. Heller, we're certainly grateful to you for this time and your explanation of these difficult matters. I might just conclude by saying that this program that Dr. Heller has outlined is designed to attack the real deficits of America, the deficits caused by unemployment, the deficits caused by unused capacity, the deficits that leave America weaker. What we need is a stronger America at home so that we can be a stronger America abroad. Thank you very much, Dr. Heller. We'll have you back on this program again, I'm sure.

HELLER: Thank you, Senator.

CLOSE: This has been Senator Hubert H. Humphrey of Minnesota reporting from Washington with special guest, Walter Heller, Chief Economic Adviser to the President.

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