

OUTLINE OF REMARKS BY SENATOR HUBERT H. HUMPHREY

REPRESENTATIVES OF THE SECURITIES INDUSTRY ASSOCIATION

WASHINGTON, D.C.

APRIL 29, 1975

I. CONGRESS HAS THE BUDGET UNDER CONTROL. WE ARE GOING TO HAVE
A RESPONSIBLE FISCAL POLICY.

A. REPORTS OF RUNAWAY CONGRESSIONAL SPENDING -- \$100 BILLION
BUDGET DEFICIT -- ARE GROSSLY EXAGGERATED.

NEW BUDGET COMMITTEES ARE FULLY OPERATIONAL; THEY ARE
DOING A GOOD JOB. ESTIMATED BUDGET DEFICITS IN RECENT HOUSE AND
SENATE COMMITTEE RESOLUTIONS ARE IN THE \$70 TO \$73 BILLION RANGE.

THESE LEVELS SOUND MUCH HIGHER THAN THE \$60 BILLION DEFICIT
THE PRESIDENT HAS DISCUSSED. HOWEVER, THE ADMINISTRATION BUDGET
IS JUST NOT REALISTIC. FOR EXAMPLE, IT CONTAINS \$4 BILLION MORE
IN RECEIPTS FROM "OFF SHORE OIL LEASES" THAN ANYONE EXPECTS.

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A MORE REALISTIC ESTIMATE OF THE DEFICIT, UNDER THE ADMINISTRATION'S PROGRAMS, WOULD BE \$66 TO \$68 BILLION. THUS, THE DIFFERENCE IN THE BUDGET TOTALS, BETWEEN THE ADMINISTRATION'S PROGRAM AND THE CONGRESSIONAL BUDGET COMMITTEE'S PROGRAM, IS NOT ALL THAT LARGE (\$2 TO \$7 BILLION).

B. WE NEED TO RECOGNIZE CLEARLY THAT THE DEFICIT COMES *mainly* ENTIRELY FROM HIGH UNEMPLOYMENT. IF THE ECONOMY COULD OPERATE AT 4 PERCENT UNEMPLOYMENT, THE BUDGET WOULD SHOW A SURPLUS IN '76. EVEN AT 5 PERCENT, THERE WOULD BE ONLY A SMALL DEFICIT.

C. IF THERE IS A WEAKNESS IN THE RECOMMENDATION OF THE BUDGET COMMITTEES, IT IS THAT THEY DO NOT PROVIDE ENOUGH TEMPORARY STIMULUS FOR THE ECONOMY, THIS IS ESPECIALLY TRUE OF THE SENATE RESOLUTION.

THE ECONOMY IS STILL WEAK. OUTPUT IS STILL FALLING. WE HOPE AND EXPECT THAT THE DECLINE IN OUTPUT WILL END WITHIN THE NEXT FEW MONTHS. THIS DOES NOT MEAN, HOWEVER, THAT ALL OUR PROBLEMS ARE BEHIND US. WE MUST STILL TAKE THE POLICY STEPS NECESSARY TO INSURE STRONG, SUSTAINED RECOVERY.

THE SENATE BUDGET COMMITTEE ESTIMATES ITS PROGRAM WOULD BRING UNEMPLOYMENT DOWN ONLY TO 7 1/2 PERCENT BY THE END OF NEXT YEAR. OTHER ESTIMATES PLACE THE UNEMPLOYMENT RATE STILL AROUND 8 PERCENT AT THE END OF NEXT YEAR. INDICATORS SUCH AS HOUSING STARTS, BUILDING PERMITS, AUTOMOBILE SALES AND CONSUMER SURVEYS ALL INDICATE THAT THE ECONOMY IS STILL WEAK.

↳ THE ECONOMY COULD USE MORE TEMPORARY STIMULUS THAN IS PROVIDED BY THE SENATE BUDGET RESOLUTION. THEREFORE, I WILL SUPPORT AN AMENDMENT ON THE SENATE FLOOR TO DO SO.

↳ THIS SPENDING WOULD BE TEMPORARY AND WOULD PHASE OUT AS UNEMPLOYMENT DECLINED.

D. I BELIEVE THE FINANCIAL MARKETS CAN HANDLE A DEFICIT WHICH STEMS FROM UNUSED CAPACITY AND HIGH UNEMPLOYMENT / IN THIS SITUATION, THE FEDERAL DEMAND FOR CREDIT IS SIMPLY FILLING THE VACUUM WHICH IS CREATED WHEN PRIVATE DEMANDS FALL OFF DUE TO THE RECESSION. OF COURSE, THINGS WOULD BE DIFFERENT IF WE HAD A LARGE DEFICIT AT A TIME OF FULL EMPLOYMENT. THEN THERE WOULD BE "CROWDING OUT" AND RISING INTEREST RATES. LET ME STRESS AGAIN THAT THE BUDGET WE ARE DISCUSSING FOR FISCAL 1976 WOULD BE A BALANCED BUDGET, IF WE WERE AT FULL EMPLOYMENT.

II. WITH FISCAL POLICY ON THE RIGHT TRACK, MONETARY POLICY HOLDS THE KEY TO A STRONG RECOVERY, BUT MONETARY POLICY IS THE BIG QUESTION MARK.

A. WITNESSES BEFORE THE JEC HAVE BEEN UNANIMOUS IN EMPHASIZING THE IMPORTANCE OF MONETARY POLICY. THEY HAVE ALL AGREED THAT UNTIL RECOVERY IS WELL UNDER WAY, MONETARY POLICY MUST BE ACCOMMODATIVE. THEY HAVE AGREED THAT SHORT-TERM RATES SHOULD BE HELD IN THE 5 TO 6 PERCENT RANGE OR EVEN LOWER. MONEY SUPPLY GROWTH RATES IN THE RANGE OF 8, 10, OR EVEN 12 PERCENT HAVE BEEN RECOMMENDED.

OF COURSE, NO WITNESS WANTED TO SEE SUCH AN EXPANSIVE MONETARY POLICY CONTINUED INDEFINITELY.

TO APPLY TIGHT MONEY NOW, BECAUSE YOU ARE GOING TO NEED IT LATER, IS LIKE DRIVING FROM WASHINGTON TO NEW YORK AND GOING 15 MILES AN HOUR ALL THE WAY BECAUSE YOU ARE GOING TO HAVE TO STOP AT A STOP LIGHT WHEN YOU GET THERE.

B. IT IS THE RESPONSIBILITY OF CONGRESS TO INSIST THAT THE FEDERAL RESERVE CONDUCT THE KIND OF MONETARY POLICY THAT IS NEEDED. SENATOR PROXMIRE AND I HAVE SUCCESSFULLY SPONSORED A CONGRESSIONAL RESOLUTION WHICH REQUIRES THE CHAIRMAN OF THE FEDERAL RESERVE TO APPEAR BEFORE CONGRESS AT LEAST TWICE A YEAR AND DISCUSS THE MONETARY POLICY WHICH HE IS GOING TO FOLLOW, AND THAT MEANS HE SHOULD DISCUSS IT WITH SUFFICIENT SPECIFICITY TO LET US KNOW WHAT KIND OF MONETARY POLICY WE ARE GOING TO HAVE.

DR. BURNS WILL BE APPEARING BEFORE THE SENATE BANKING COMMITTEE ON THURSDAY IN THE FIRST OF THE APPEARANCES REQUIRED BY THAT RESOLUTION.

C. IN DISCUSSING MONETARY POLICY WITH THE FEDERAL RESERVE, CONGRESS WILL HAVE TO LEARN NOT TO GET BOGGED DOWN IN TECHNICAL DETAILS. WE HAVE ALL DONE SO TOO OFTEN IN THE PAST. WHAT WE WANT IS A MONETARY POLICY WHICH WILL MOVE US RAPIDLY TOWARD LOWER UNEMPLOYMENT -- M1, M2, M3 AND SO FORTH ARE MEANS TO THAT END; THEY ARE NOT OBJECTIVES IN THEMSELVES.

IT IS UP TO CONGRESS, THE ELECTED REPRESENTATIVES OF THE PEOPLE, TO SET OUTPUT, EMPLOYMENT AND PRICE TARGETS. IT IS DEFINITELY NOT THE PREROGATIVE OF THE FEDERAL RESERVE TO IGNORE THE TARGETS SET BY CONGRESS, WHILE PURSUING DIFFERENT TARGETS OF ITS OWN.

III. RAPID RECOVERY DOES NOT POSE INFLATIONARY RISK,

A. ARGUMENTS THAT WE SHOULD GO SLOW ON RECOVERY TO AVOID NEW INFLATIONARY PRESSURES ARE MISPLACED. RAPID RECOVERY WILL REDUCE INFLATION, NOT INCREASE IT. THIS IS TRUE, BECAUSE INFLATIONARY PRESSURES RIGHT NOW ARE STEMMING FROM THE COST SIDE, NOT THE DEMAND SIDE. WITH UNEMPLOYMENT ALMOST CERTAIN TO REMAIN AT OR ABOVE 7 PERCENT THROUGH THE END OF NEXT YEAR, THERE ARE NO PRESSURES OF EXCESS DEMAND ANYWHERE IN THE ECONOMY.

BUT OF COURSE, THE SAME WOULD NOT BE TRUE IN A FULL EMPLOYMENT ECONOMY, OR EVEN IF WE WERE FAIRLY CLOSE TO FULL EMPLOYMENT. AS THE RATE OF UNEMPLOYMENT DIMINISHES, IT WILL BE APPROPRIATE TO SLOW DOWN THE GROWTH OF THE ECONOMY TO PREVENT NEW INFLATIONARY PRESSURES FROM EMERGING. BUT AGAIN, LET'S NOT

PUT ON THE BRAKES NOW JUST BECAUSE THERE IS GOING TO BE A STOP
LIGHT 200 MILES DOWN THE ROAD.

IV. CONCLUSION.

I WELCOME THE CHANCE TO DISCUSS ECONOMIC POLICY WITH THIS
DISTINGUISHED GROUP OF FINANCIAL COMMUNITY LEADERS. I HAVE GIVEN
YOU MY VIEWS. THEY ARE BASED ON A GREAT DEAL OF STUDY AND
DISCUSSION WITH THE EXPERTS. TODAY, I AM ANXIOUS TO GET YOUR
OUTLOOK AND COUNSEL.

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