NOMINATION OF GARDNER ACKLEY

HEARING

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY
UNITED STATES SENATE

EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

THE NOMINATION OF GARDNER ACKLEY TO BE A MEMBER OF THE COUNCIL OF ECONOMIC ADVISERS

JULY 20, 1962

Printed for the use of the Committee on Banking and Currency

U.S. GOVERNMENT PRINTING OFFICE
86866 WASHINGTON : 1962

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NOMINATION OF GARDNER ACKLEY

FRIDAY, JULY 20, 1962

U.S. SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D.C.

The committee met at 10:15 a.m., in room 5302, New Senate Office Building, Senator A. Willis Robertson presiding.

The CHAIRMAN. The committee will please come to order.

We are meeting to act on the nomination of the Honorable H. Gardner Ackley.

Without objection I will place in the record a biographical sketch of Mr. Ackley. I note he has a number of degrees, including a Ph. D. from the great University of Michigan. He has had wide experience, and has held many positions in government.

I will also insert in the record a White House release of Thursday, July 12, 1962, in which the President said he was nominating Mr. Ackley to succeed James Tobin to be a member of the Council of Economic Advisers, a very responsible position.

(The documents referred to follow:)

BIOGRAPHICAL SKETCH OF GARDNER ACKLEY

Personal: Born Indianapolis, Ind., June 30, 1915; married 1937 to the former Bonnie Lowry; two children.

Education: Public schools of Kalamazoo, Mich.; Western Michigan University, A.B., 1936; University of Michigan, A.M., 1937, Ph. D., 1940.

Employment: Instructor in economics, Ohio State University, 1939–40; instructor 1940–41, assistant professor 1946–47, associate professor 1947–52, professor 1952 to present, chairman, Department of Economics, 1954–61, University of Michigan; consultant, National Resources Planning Board, 1940–41; economist, Office of Price Administration and Office of Strategic Services, 1941–46; visiting staff member, University of California, Los Angeles, summer 1949; consultant, Economic Stabilization Agency, 1950; Economic Adviser and Assistant Director, Office of Price Stabilization, 1951–52; consultant, Under Secretary of Army, 1961.

Other profesional activities: Member 1954–58, vice chairman 1955–56, Universities-National Bureau Committee on Economic Research; member, board of editors, "American Economic Review", 1953–56; Fulbright research scholar (Italy), 1956–57; director, Social Science Research Council, 1959 to present; member 1958–61, chairman, 1960–61, Committee on Social Science Personnel, SSRC; member, Executive Committee, SSRC, 1960–61; member, Committee on Honors and Awards, 1959 to present; chairman, Committee on Research and Publications, 1959 to present; American Economic Association; member, Selection Committee, Brookings National Research Professorships, 1958–61; member, National Defense Executive Reserve, 1961 to present; Ford Foundation faculty research fellow, 1961–62.

Affiliations: American Economic Association, Econometric Society, Michigan Academy of Arts and Sciences, American Association of University Professors.

Residence: 715 Heatherway, Ann Arbor, Mich.

THE WHITE HOUSE,
Thursday, July 12, 1962.

The President today announced his intention to appoint H. Gardner Ackley of Michigan as a member of the Council of Economic Advisers. He succeeds James Tobin whose resignation becomes effective August 1.

H. Gardner Ackley was born June 30, 1915 in Indianapolis. He received his undergraduate training at Western Michigan University and earned his A.M. (1937) and Ph. D. (1940) degrees in economics from the University of Michigan.

Prior to joining the faculty at the University of Michigan in 1946, where he is presently chairman of the economics department, he taught at Ohio State University and the University of California at Los Angeles.

Professor Ackley's career as a public servant has been an active and distinguished one. From 1940 to 1946 he served with the Office of Price Administration and Office of Strategic Services. He served as the Assistant Director of the Consumer Goods Division of the OPA in 1945 and 1946. In 1950 he worked with the Economic Stabilization Agency, and in 1951 was named Assistant Director of the Office of Price Stabilization. He has held his present position since 1955.

Professor Ackley is the author of an advanced textbook that deals with the problems of economic stability and growth, which has won widespread critical acclaim, as well as numerous scholarly articles on a wide variety of economic issues. This past year he has been on leave in Rome as a Ford Foundation Research fellow to study the Italian economy.

A Democrat, he is married and father of two sons. The Ackley family resides at 715 Heatherway, Ann Arbor, Mich. A member of the Council of Economic Advisers receives an annual salary of $20,000.

The CHAIRMAN. I note that the nomination and the White House press release refer to H. Gardner Ackley, while the biographical sketch refers to Gardner Ackley. I believe it would be desirable to make it clear in the record of this hearing that Mr. Ackley uses the name Gardner Ackley professionally, in his books and articles, though his full legal name is Hugh Gardner Ackley or H. Gardner Ackley. Is this correct, Mr. Ackley?

Mr. ACKLEY. Yes.

The CHAIRMAN. I am pleased to note this morning that our distinguished colleague from Michigan, Senator Hart, is present, and we would be pleased if he would present his constituent.

STATEMENT OF PHILIP A. HART, A U.S. SENATOR FROM THE STATE OF MICHIGAN

Senator HART. Mr. Chairman, members of the committee, thank you very much for what I regard as a very real privilege. This will be a most brief introduction, but I hope you will not regard that as a lack of conviction on my part. Rather, I think the record of Gardner Ackley speaks eloquently of about all that need be said.

I come only, sir, to tell you that those of us in Michigan who have had opportunity to observe the nominee are convinced that the nomination by the President is an excellent one. It recognizes a life which already has seen many marks of distinction accorded Gardner Ackley for any number of contributions, all of them interestingly in areas where there is always great disagreement and controversy.

While there are those who disagree with Gardner Ackley, I know there are none who question the sincerity of his purpose and his dedication to free institutions.

Mr. Chairman, we in Michigan are delighted that Gardner Ackley has come to you this morning, and we trust at your hands he will receive very understanding treatment.

The CHAIRMAN. We also have received notice from your colleague, Senator McNamara, that he concurs with you in recommending the nomination.

Senator HART. In matters economic I contribute only confusion, so I will leave so you might proceed with the business at hand.

The CHAIRMAN. The Chair recognizes the Senator from Illinois, who is one of our chief economists in the Senate.

Senator DOUGLAS. Mr. Chairman, Mr. Ackley has a very excellent reputation and wide experience. I think his appointment is an exceedingly good one.

I am not going to ask him any questions on policy, because I don't believe one should do that. But I would like to ask him whether he has any plans as to how long he is going to serve? Mr. Tobin served about a year and a half. I know it is difficult to be attached to a university and then accept a Government appointment. If one accepts a permanent appointment he is likely to lose out on home base. On the other hand, if he comes down for only a year he just gets broken in before he has to leave.

If it would not be impertinent, I would like to ask if you have any plans as to how long you will serve, approximately.

STATEMENT OF GARDNER ACKLEY

Mr. ACKLEY. Senator, the University of Michigan has granted me leave of absence for 2 years. While it is not impossible I might request an extension, my present intention is that my appointment would be for 2 years.

Senator DOUGLAS. That is very good.

That is all, Mr. Chairman.

The CHAIRMAN. We have a member of this committee from Wisconsin who I believe studied economics at Harvard. He has been interested recently in what kind of advice the President is getting on spending, the next tax bill, and whatnot.

Perhaps the Senator from Wisconsin would like to inquire.

Senator PROXMIRE. Mr. Chairman, while I share the proper attitude, which the Senator from Illinois has expressed, that the nominee should not be questioned at length on policy, I would like to ask a few questions. I just cannot pass up this opportunity of becoming educated in a field in which all of us feel, except for perhaps a very few exceptions, very ignorant.

I understand Mr. Tobin specialized in monetary policy?

Mr. ACKLEY. That is my understanding, sir.

Senator PROXMIRE. Have you concerned yourself with monetary policy in your career?

Mr. ACKLEY. In a general way, yes. My teaching and research have been concerned with the general area of national income analysis, technically known as macroeconomics, which includes certainly matters of monetary policy, so that while I do not propose to classify myself as an expert in monetary matters, I believe I have a general understanding of the area of monetary policy.

Senator PROXMIRE. What do you mean by macroeconomics as compared with microeconomics?

Mr. ACKLEY. Microeconomics would be the proper contrast. The distinction between these two cannot be drawn with complete sharpness but, in general, macroeconomics is concerned with the analysis of the economy as a whole, the factors which affect the determination of the national income and the size of the total output and the level of general employment, while microeconomics concerns itself, on the other hand, with the individual firm and the individual household, with the individual industry or product.

The two obviously merge when we consider aggregates that are intermediate between the total national product, on the one hand, and the output of, say, shoes on the other.

But it is a distinction which is useful in economic analysis.

Senator PROXMIRE. Dr. Ackley, this morning the Wall Street Journal reported the fact that there has been announced a deficit for the past year of $6.3 billion, a little less than was previously estimated. The Journal says that congressional sources have projected a fiscal 1963 deficit of $4.9 billion at present tax rates, without a tax cut.

This is the administrative budget. I would assume in the national accounts budget, which I understand measures the real impact of Government spending and taxing on the economy, this would result in pretty much of a balance, perhaps a slight deficit or a slight surplus.

Is that correct?

Mr. ACKLEY. I don't recall the figures in that detail, but I think that is approximately right.

Senator PROXMIRE. Under these circumstances, if we should have a tax cut, the Wall Street Journal goes on to say that if such a program is recommended and approved—the $7 billion tax cut—the fiscal 1963 deficit could approach the record peacetime total of $12.4 billion in fiscal 1959. Presumably this is on the assumption that the coming year is going to be a pretty good year, certainly far better than fiscal 1959 was, a year in which the past expansion in the gross national product of 7 percent would be pretty much repeated, and yet we could have a deficit of $10 or $12 billion.

Is this correct?

Mr. ACKLEY. I am not familiar with the calculations which underlie this story.

Senator PROXMIRE. Assume we agree on a $4.9 billion deficit, at present tax rates, but then have a $7 billion tax cut. Assume that the $7 billion tax cut would result in a $14 billion increase in gross national product, and that one-sixth of the $14 billion increase in the gross national product would be reflected in increased revenues. Under these assumptions, we would have a net reduction of revenues on the order of $5 billion, which would give us a $10 billion deficit in the coming year.

Is that roughly correct?

Mr. ACKLEY. Yes. What I am not sure of is whether the base on which the $4.9 billion was estimated was the same economic assumptions that underlie your calculation here.

Senator PROXMIRE. Any kind of tax cut, in a period of expansion—the assumptions seem to be we are going to continue to increase the gross national product—would seem to result in a bigger deficit for the administrative budget, and a very definite deficit for the national accounts budget. So the economy would have a stimulus from the Government, at a time when we are moving forward and the economy is expanding and is not under recession, not going downhill.

Mr. ACKLEY. I wonder if that is not the crucial point here.

Would a tax cut be recommended, would it be desirable, if indeed the prospect were, as you suggest, for continued expansion at the rate of 7 percent per year?

Senator PROXMIRE. I am glad to hear that reaction, because many people, Fortune Magazine, for example, made very careful and I thought quite conservative assumptions and still predicted the gross national product would expand by 6 percent in the coming year. It was nearly $40 billion in the past year and yet people who pretty much seem to accept it might still feel this is not rapid enough.

We would still have very heavy unemployment. We probably would not make progress in that direction. They argue this would justify a tax cut; under these circumstances.

Mr. ACKLEY. It has been my understanding that those who have been advocating a tax cut at this time, or are suggesting it be seriously considered, are not as optimistic about the progress of the economy next year as the assumptions which you have suggested.

And it seems to me this really is the crucial question that the President and his advisers must face at this point, what are the prospects for the economy without a tax cut and how much difference might a tax cut make?

I have not had an opportunity to immerse myself sufficiently in the recent data to have a sound opinion at this time, as to what the prospects are.

But I know that there are some in the Government and outside of the Government, who are rather pessimistic about the continuance of the expansion in the coming year.

Senator PROXMIRE. In view of the fact that economic forecasting has been quite—well, has been an art rather than a science, and economic forecasters have often been in error—indeed, the forecasting of the Joint Economic Committee last year is somewhat in error; they estimated we would have a much bigger increase in gross national product than we had—why would not it be sensible economics to try and adopt a policy of providing for these recessions by making our offsetting payments, such as unemployment compensation, social security, things of that kind, as compensatory, built-in safeguards and, on the other hand, continue with a progressive income tax system such as we have, so we automatically have stabilizers in the economy?

That way you do not have to speculate in July and August of 1962 as to what the situation is going to be a year from now, when our experience has indicated that such speculation is often inaccurate.

Why does not it seem to be more sensible, rather than to reduce taxes so sharply, simply to rely on these stabilizers to be of benefit to us?

We tried this in the past. It certainly worked in 1959 and is one of the reasons we came out of that recession, I would say, wouldn't you? We had a sharp deficit, a big deficit, $12 billion, which contributed to our recovery.

Mr. ACKLEY. Let me comment briefly at least on that. It is a large question.

The so-called built-in stabilizers are indeed, as you suggest, very important and have a very important effect.

The one thing I think that is crucial here to recognize is the so-called built-in stabilizers operate only to moderate a decline (and also to moderate an increase), but cannot prevent it, because they come into operation only to the extent that the decline occurs. Only to the extent that unemployment increases, do unemployment benefits increase. Only to the extent that income declines, do income tax payments decline.

So that the best that the automatic stabilizers can do is to moderate a decline and not to prevent it, and clearly they moderate it rather substantially.

However, as I recall the record, the large deficit of 1958–59 was only in part a result of the automatic stabilizers, but also included the effect of some expenditure speedups which the administration put into effect.

Altering expenditures is obviously one kind of discretionary as opposed to automatic fiscal policy. The other is discretionary alteration of the tax rates.

I agree that our ability to forecast economic events is far less than perfect. I think it is not as bad as some make it out to be. But it certainly is imperfect. This, of course, might lead to the view that we ought, so far as possible, to wait and see what happens, and react then.

This, however, is not necessarily the conclusion to be drawn, it seems to me. Because if we wait to see what happens, we might very well find it necessary to do very much more than if we could use what ability we have to forecast, to take the stitch in time that may save nine.

I think we have to proceed very cautiously in this area, but I do not believe that we are faced with the situation that it is impossible for us to see the future and therefore we must simply wait and adjust.

Senator Proxmire. I don't want to pursue this much further. But at a time when we have just enjoyed a tremendous increase in the gross national product—an increase percentagewise of 7 percent—at a time when there is a mixture of views on the part of economists, and at a time when we have just had a big deficit and expect another next year, it would seem that there are certainly strong arguments against a tax cut under these circumstances.

I would like to ask you, quickly, something else.

As I say, Mr. Tobin specialized in monetary policy and I presume you would be deeply concerned with this subject also.

The Federal Reserve Board is responsible for a large share of monetary policy, certainly. Chairman Martin of the Federal Reserve Board testified this week before the House Banking Committee that future Treasury deficits should be financed by selling Government bonds to the public, rather than to commercial banks or Federal Reserve banks.

When I questioned Mr. Martin a few days ago, he indicated that the present policy, which has resulted in increasing interest rates, was necessary rather than to permit the money supply to increase very much.

It seems to me that this policy that is resulting in higher interest rates, in generally a lower level of free reserves, and in a rationing of credit, obviously must result in stemming the expansion of the economy in some key areas, certainly in homebuilding and home buying.

Under these circumstances, it would seem to me most unfortunate—if we are going to have a tax cut to stimulate the economy—to impose credit restraints at the same time, to put the brakes on. Chairman Martin has said if we do have a tax cut, he feels that the Federal Reserve will have a duty to act pretty much to eliminate the expansive effects of that tax cut by soaking up the additional money that might be pumped into the economy.

Doesn't this seem contradictory? Is there a way we can reconcile it?

Mr. ACKLEY. Certainly I would agree with the premise that if one arm of Government policy, namely, fiscal policy, were directed toward economic growth expansion, because of fears of recession or inadequate growth, the other principal arm of the Government economic policy ought to be working in the same direction.

The one factor which I suppose needs to be mentioned to modify this presumption in present circumstances is the international situation, and this I suppose is what Chairman Martin has in mind.

I think that there is sometimes a misunderstanding of the precise nature of the effects of the doctrine that Chairman Martin referred to. For example, there was an editorial in the Post this morning commenting on Mr. Martin's testimony——

Senator PROXMIRE. That is what I am referrring to.

I have that in front of me.

Mr. ACKLEY (continuing). Which suggested that the policy of selling bonds only to the public meant a reduction in the money supply.

This I think is erroneous. It merely means that there will be no increase in the money supply, because the bonds sold to the public collect funds which then are disbursed by the Government to finance its deficit.

So it is not a policy of monetary contraction, it is a policy of not allowing the money supply to increase. And I would think that this could be justified——

Senator PROXMIRE. Could I interrupt there to say that isn't true, however, that a tax cut aimed at stimulating the economy would be tempered and reduced and diminished by this policy?

Mr. ACKLEY. It certainly would not be augmented by such a policy and to some extent it would be diminished, because as the tax cut took effect, and incomes rose, and business activity increased, the demand for money would increase, and if the supply were not increased this would mean higher interest rates, which would tend to choke off the expansion.

This is entirely correct.

Senator PROXMIRE. Is it not true we have a situation where we are apologizing or defending the position of high interest rates on the ground we need it because of our international balance-of-payments difficulties, and saying at the same time we need to stimulate our economy by a deficit?

We could almost as easily make the argument the other way. We could argue that deficits would undermine confidence in the dollar, and also would contribute to our unfortunate balance-of-payments difficulties. It seems to me just as contradictory for us to follow a policy of deliberate deficits in a time of expansion through tax cuts as it is to follow a policy of low interest rates under these circumstances.

Mr. ACKLEY. Yes. I think you are entirely right. There is an inherent contradiction here. We seem to have our freedom of action somewhat restrained.

I would hope that actually there are other ways to permit both of our principal instruments of policy to be operating in the same direction.

The monetary problem, the gold problem, does not necessarily have to have exclusively a unilateral solution by the United States.

The whole free world is involved in this; our gold problem arises essentially because we are doing important tasks for the free world. And it seems to me there are real prospects that our partners in this enterprise can be led to help us solve this problem without the necessity of crippling our economy.

Senator PROXMIRE. Mr. Chairman, I want to join in the general approbation of Dr. Ackley. I think he is eminently qualified.

Anybody examing this record must recognize that. He has written an excellent book, which is an outstanding landmark in economic analysis.

He is extremely well qualified. I only regret he is coming for only 2 years. As a Democrat I hope he can be prevailed upon to stay on for 6 years.

The CHAIRMAN. The Chairman recalls that prior to the Revolutionary War, what is now the State of Kentucky was part of Augusta County, Va. They had a little difficulty there and the sheriff told the judge: "those living there are just too far for me to reach."

After the war, Kentucky said: "We want to form a State of our own and have agreed to it." Virginia had plenty of territory in those days, and the territory was called the West way out there, and it was not considered too valuable.

They wanted to develop some schools in the new State, so a man from Virginia went out to Kentucky and applied to the schoolboard, and they said, "Well, Mister, do you teach whether the world is flat or round?"

He said, "My friends, I teach whatever the patrons prefer."

You have taught in Ohio, which is a conservative State, you have taught in California, which for many years has been a very liberal State, and you have taught in Michigan, which used to be conservative before Walter Reuther and the United Automobile Workers entered the political picture.

Now, on this subject of deficit financing, what have you taught?

Mr. ACKLEY. Senator, I think what I have taught in all of these States is the same.

What I taught before Walter Reuther is the same as I have taught since, and that is that fiscal policy is one of the instruments which no modern government can afford not to use in pursuit of its objectives of stability and growth, that fiscal policy used wisely and properly may involve producing deficits during certain periods, but that it necessarily requires on the other hand the production of surpluses in the Government budget on other occasions.

It seems to me this lesson of economic history and economic analysis is established without serious qualification.

I subscribe fully to that position.

The CHAIRMAN. Well, now, I still do not know exactly about your attitude toward deficits.

I read about this in connection with the Supreme Court decision outlawing simple praying as being unconstitutional.

They say on one occasion, Voltaire, the great atheist, was standing on a street in Paris and a funeral procession came by. One man in the procession was bearing a big cross. They said Voltaire took off his hat and bowed, and the friend said, "Mr. Voltaire, have you changed your attitude toward God?"

He said "Not at all, I salute him, but we are not on speaking terms."

Do you favor deficits, or are you opposed to deficits, or do you just salute them, or what are you going to do about deficits?

Mr. ACKLEY. I favor deficits when the economy is in a situation in which its resources are not fully employed, when its output is less than it might be, when incomes are less than they might be.

I am opposed to deficits when we have full employment, and with the threat of inflation.

I think my record will show that in 1950 when inflation was developing in our economy, I advocated tax increases—larger tax increases than were adopted. I advocated expenditure reductions of a larger magnitude than occurred, in order to create surpluses, to fight inflation. Under other circumstances I have felt deficits were appropriate and have supported them.

The CHAIRMAN. I am inclined to believe you are going to be a helpful influence on the Council of Economic Advisers.

The Chair recognizes the Senator from Texas.

Senator TOWER. You noted that in a time of full employment we should be producing surpluses, and we should not resort to deficit spending.

What do you consider full employment?

Mr. ACKLEY. This is certainly a very difficult question to define precisely in operational terms.

I notice that the Council of Economic Advisers and the President seem to have adopted at least tentatively a definition of full employment as being something in the neighborhood of 4 percent unemployed.

I am not convinced this is the best we can do, or the best we should attempt to do, but it is possible that as a target for policy in the present circumstances, that this is acceptable.

For practical purposes, I would define full employment as 4 percent unemployment.

Senator TOWER. What is the current percentage of unemployment?

Mr. ACKLEY. I believe the latest figure was 5½ percent.

Senator TOWER. So in the present situation, you would favor continued deficit financing?

Mr. ACKLEY. The problem of course is that a decision taken today is a decision which affects the economy not today, but during the year ahead. And the problem is the one that we were discussing a few minutes ago, of trying to make the best judgment that one can about the developments in the economy in the year ahead.

So to say that because unemployment is 5½ percent today, I favor deficits would not be quite correct.

I think the real question is what will be the evolution of the economy, in the next year. If I were convinced that the economy was proceeding rapidly toward the full employment goal of 4 percent unemployment, and was likely to reach that in the year ahead, I would say that we certainly ought not to be planning for tax reductions or major expenditure increases.

Senator TOWER. Do you foresee in the immediate future any loss of confidence abroad in the American dollar, sir?

Mr. ACKLEY. It seems to me that it is very difficult to predict what particular currents of opinion in Europe may be.

Certainly opinions in Europe about the dollar are varied, no doubt there are some people today who do not have adequate confidence in the dollar. But to forecast this volatile psychology I think would be very difficult.

I think our problem is to pursue such policy, with the help of our allies, that we can withstand any speculative, irrational fears that might temporarily develop. But I have no forecast as to whether they will develop.

Senator TOWER. What effect would devaluation of the American dollar have on the currencies of other free world countries, particularly Latin American countries?

Mr. ACKLEY. This is a question that I have not really considered in recent years, and it seems to me entirely academic at this point since the policy of the Government has been so firmly established as opposed to a devaluation of the dollar.

The question really would rest, I suppose, on what action was taken by these other countries. It is hard to imagine countries closely tied to the United States in trade who would not immediately match any American devaluation.

If they did not, of course, their currencies would appreciate relative to U.S. currency, and this would tend to deteriorate their trade position with respect to the United States and other countries which followed the United States in devaluation.

Senator TOWER. I am aware that economic prognostication is pretty much of an enlightened guessing game and that you cannot predict things with great certainty perhaps. But what long-range effect do you think our mounting national debt would have? What would be the long-range economic consequences to the United States if we continue to pile up a huge debt without amortizing any of the principal over the next few years?

Mr. ACKLEY. Of course our national debt has not been increasing since the war in any appreciable amount, and in relationship to the size of the national product, it has been declining rather considerably.

I cannot, myself, see anything seriously dangerous in failure to repay our present debt, so long as we have an economy which is not running away in an inflationary direction.

If we should have over the long pull conditions of demand such that the economy were always tending in an inflationary direction, I think we should be running surpluses in our budget, and this would involve reducing our debt.

While I am not so pessimistic as to assume we must perpetually have deficits in order to maintain full employment, on the other hand, I would rather doubt that we are going to find ourselves in a position where we must have perpetual surpluses in order to restrain inflation.

My position would be consistent with what I have told Senator Robertson about my attitude toward deficits—that the size of the national debt should in effect be a residual. We should take those actions with respect to our fiscal policy each year, at every point in time, as best to secure our objectives of full employment, without inflation.

If this means surpluses, our national debt will decline, if it means deficits our national debt will increase.

But under the kinds of circumstances that it seems to me conceivable to imagine, I don't see the possibility of our national debt increasing faster than our national income, and if it increases no faster than this, I see very little problem.

Senator TOWER. Thank you, Doctor.

Senator JAVITS. Mr. Chairman?

The CHAIRMAN. The Senator from New York.

Senator JAVITS. Dr. Ackley, first, welcome. You seem to have a very fine record. I have little doubt you will have much trouble being confirmed. But I wanted to, like my colleagues, explore with you a few economic questions which are obviously of burning interest to all of us. And if, in anything I ask, you feel that you should not answer because you are going to be a policy official, just say so.

But I did wonder, because it is vexing a lot of people, whether you would make a distinction between a tax cut, which is rumored about so much now, and an incentive tax cut? Is there a difference, and if so, what is it?

Mr. ACKLEY. Yes, sir, I think there is a difference, and I think it is an important difference to keep in mind. I assume that discussion of tax cut at the present time relates to a proposal to make a sort of across-the-board reduction in taxes of all kinds, in a way which is as neutral as possible. It is very difficult to define neutral, but essentially I suppose the objective is not to try to redistribute the tax burden through the emergency tax cut that is being discussed.

Now I think we need, in this connection, to distinguish carefully between tax level and tax structure. That is, we can change the structure of our taxes without affecting the level. We can increase some kinds of taxes and reduce others. And this is a structual change.

It seems to me quite clear that there are some desirable structural changes to be made in our tax system which would promote growth and employment, prosperity in the long run. And I suppose an incentive tax cut would be one which combined a structural revision with some reduction in the level. There are certainly arguments for combining any action on the level of taxes with whatever action needs to be taken on the structure. There are also arguments, I gather, against it.

Senator JAVITS. So you would define an incentive tax cut as one which not only cut the tax take to some extent, but, more importantly, revised the tax structure?

Mr. ACKLEY. That would be my understanding of the term, yes.

Senator JAVITS. And I didn't hear your testimony in answer to Senator Robertson, but I gather that you did discuss a tax cut. Did you give any opinion as to whether you thought either an incentive or a reduced tax take were called for by the present situation?

Mr. ACKLEY. No, I didn't give any such opinion. We discussed it in broad terms.

Senator JAVITS. Would you give us an opinion, or would you prefer not to?

Mr. ACKLEY. I think both for the reason you suggested that it is a hot question of policy and more significantly because I am simply not familiar enough with the detailed considerations that enter into this, particularly because I have just returned from a year in Europe where I have been studying another economy, that I would prefer not to answer that.

Senator JAVITS. Could you tell us the differences between our tax approach and the tax approach in the European Common Market countries which are apparently stimulating a very considerably greater growth and very considerably greater economic activity of a progressive character in practically every sector of their economy? Particularly, one which is especially worrisome to me is reequipment, or retooling of their industrial plants. What are they doing that we are not doing, or vice versa?

Mr. ACKLEY. I have certainly not made a sufficient study of the tax systems of all of the Common Market countries to be able to comment very intelligently on the differences in their tax structure. I have the impression in many of these countries there is more reliance upon indirect taxes and less reliance upon direct taxes than we have. Whether this is intimately related to their better performance is another question. And I think it is a debatable question. It is conceivable that their tax structures are more stimulating to investment and to growth than ours, but I think this has to be studied and demonstrated.

The one thing I believe is important on the tax side which at least enters into the explanation of their better performance, though I don't think it by any means is the exclusive explanation, is the fact that these countries appear to be less concerned about deficits than we are in the United States. In the case of Italy, for example, which I have studied rather carefully this year, the Italian budget has shown consistently very large deficits, and, interestingly enough, businessmen in Italy seem either not to be aware, or, if they are aware, particularly concerned with these deficits.

I don't say that the fact that Italy has had large deficits over the entire postwar period is the sole cause of Italy's very remarkable economic performance. Their real output has grown at an average rate of almost 7 percent per year.

Senator JAVITS. Which is more than twice our own.

Mr. ACKLEY. Yes. And it has not been interrupted in any single year.

I think, however, among other things, the fact that there has been a good pressure of aggregate demand and a growing pressure of aggregate demand has been one factor affecting the growth performance, but certainly not the entire explanation.

I'm sorry that I really can't answer your question in any adequate way.

Senator PROXMIRE. Would the Senator yield on that point?

Senator JAVITS. Yes.

Senator PROXMIRE. I wonder if you would say that their performances have been better, period? I wonder if we should not also consider the depreciation of the currencies in those countries, the fact they have suffered much greater inflation. France had a 43-percent inflation in the last 10 years, compared to 13 percent in this country. Italy and Great Britain and West Germany have all suffered an increase in the cost of living much greater than ours.

Isn't this a consideration in weighing whether or not their performance has actually been better? Isn't this at least a qualification?

Furthermore, is it not also true that in regard to aggregate demand, the differences are perfectly enormous? Whereas we have 99 out of 100 people with refrigerators, they have less than half that in England and in the other countries; and whereas we have almost all homes with TV sets, they have very few, 20 percent or something like that on the average in Western Europe.

They have a terrific opportunity of unmet demand, and rising wages and an inflationary situation, which of course will result in a better percentage statistical record of growth.

Is this not all correct?

Mr. ACKLEY. I think it is not entirely correct to say their record has been better in terms of price level than ours.

Senator PROXMIRE. Worse than ours, I am saying.

Mr. ACKLEY. I'm sorry. Worse. In the Italian case I think the record has been better than ours.

Senator PROXMIRE. They have suffered more inflation than we have.

Mr. ACKLEY. No, they suffered less than we have in the last 10 years. The level of wholesale prices there is lower today than in 1953.

Senator PROXMIRE. So is ours. I am talking about the cost of living, not about wholesale prices.

Mr. ACKLEY. I think, though I would have to check these numbers, I think in the terms of the cost of living there has been less inflation in the cost of living in Italy than in the United States, if you take this 10-year period. I don't think the difference is significant.

In France certainly the comparison would go the other way. West Germany, I just don't know without checking. I would say that their record has been obviously better than ours in terms of growth, real growth. But it simply, by the numbers, certainly, the opportunities have been different, and I would certainly also stress the fact that in the United States we have been devoting a very substantial chunk of our resources to military purposes during this period. Those same resources in most of Europe are being devoted to productive investment, and it is not surprising that this productive investment should permit a much more rapid growth of total output than we have.

Senator PROXMIRE. I don't want to impose on the time of the Senator from New York, but this is a very interesting observation. We have been devoting more of our gross national product to military purposes than they have, and yet they are under the Communist gun. Their standard of living has been rising more rapidly and their tax rate is less. This is a great argument for reducing foreign aid to Europe, especially military assistance.

Thank you.

Senator JAVITS. I have just two other questions.

Are you familiar with the guidelines laid down by the Council of Economic Advisers on labor-management relations?

Mr. ACKLEY. In a very general way.

Senator JAVITS. Their idea that wages should not go up more than the average increase in productivity on an industry basis? Would you have any opinions on that you would care to share with us? As to the validity of establishing guidelines, as to the nature of the guideline which was established? It was an interesting effort, but apparently did not go very far.

Mr. ACKLEY. My comments have to be somewhat tentative. My understanding of the guidelines, as I recall reading them at the time, was that they did not relate to productivity on an industry basis, but rather the overall average of productivity.

Senator JAVITS. That is right. I beg your pardon. You are right. That is, there should not be an increase within an industry greater than the overall productivity.

Mr. ACKLEY. Right.

There were, however, a number of qualifications and exceptions laid down, as I would think there would almost have to be. The extent to which these guidelines have been successful is again a question that I would have to look into. My impression is that, on the average, wage settlements since that time have averaged out in this range, and thus that the record is not too bad. Whether the guidelines had much to do with this performance or not, I don't know.

As to the more general question you suggested, whether this was a useful exercise or whether we ought to pursue this direction, I think this gets us to the heart of one of the most difficult questions of economic policy today, both in the United States and in other relatively free economies. That is the question whether, with full employment it is necessary to do more than let the market freely set wages and prices. There is a strong feeling, I think more so today in Europe than in the United States, that under conditions of really full employment, even without any excess demand, there is almost an inevitable tendency for wages and prices to rise. There is some evidence which seems to suggest that this is a real problem.

The evidence in the United States in the years 1956–58 seems to suggest this conclusion. Some of the evidence in European countries is even stronger.

I think it is not demonstrated that this is a permanent problem, but it is serious enough that I think it is useful for our Government and other governments to be thinking about the whole problem of wage and price policies at full employment. I gather the wage-price guidelines were an effort in this direction, and, generally speaking, I am sympathetic with this approach to the problem.

Senator JAVITS. The last thing I would like to ask you is this: I have been convinced for a long time that some coordinating mechanism is required between the American private economic sector and Government, especially to bring the private enterprise system into the cold war effort. I have suggested and have legislation in for something called the Peace Production Board, along this line.

Now it doesn't have to be that particular formulation. But I wondered whether you saw any need for taking the President's Labor-Management Council and making something of it. For example, in the Eisenhower administration, we had what I thought was an excellent thing, the development of economic goals for our economic system, so as to develop these concepts within the goal idea, much along the lines you speak of, of guidelines relating to wages and prices. I am inclined to agree with you and the Council of Economic Advisers about that. I believe that the economic goal idea is a good substitute for planning, which all of us are very unhappy about being contemplated, and yet we know, at least I feel very strongly, that some medium over, above, and beyond the adjustments of the marketplace is necessary in this cold war situation.

I wondered if you had any thoughts along those lines at all?

Mr. ACKLEY. I am sorry I don't have any very constructive thoughts, Senator. I agree these are very challenging times and that the national interest in the performance of the economy is a very strong one, that everything that permits us to harness our resources to do the best production job we can do is called for, and I would be very interested to learn about your plan.

Senator JAVITS. We will have you before the Joint Economic Committee, of which a number of us here are members. I think we will have lots of time to develop that with you.

Thank you, Mr. Chairman.

The CHAIRMAN. Doctor, in 1940 you will recall we were thinking that we were going to be drawn into another world war, and we started increasing the draft and started borrowing money in a big way to step up production of war materials and to stimulate the heavy goods industry. So I think most economists take what has happened to the value of the dollar from what it was in 1940, and what it was since 1940, and I think they refer to that as the cost of inflation.

Is that correct?

Mr. ACKLEY. I would agree; yes, sir.

The CHAIRMAN. How much has inflation depreciated the value of the dollar since 1940?

Mr. ACKLEY. I don't have those figures sufficiently at the tip of my tongue to be certain. The 65-percent figure sticks in my mind, but whether that relates to 1940 as the base or some slightly earlier year, I am not sure.

The CHAIRMAN. From the standpoint of protecting the purchasing power of widows and orphans and pensioners, and protecting the potential drain upon a diminished gold supply, is prevention of inflation a major national policy?

Mr. ACKLEY. I would certainly say that prevention of inflation is one of our major national goals.

The CHAIRMAN. All right.

You are nominated to serve on the President's Council of Economic Advisers as created by the Employment Act of 1946. That Employment Act listed the things we should try to do within the framework of certain limitations, including those consistent with other essential considerations of national policy. That is correct; isn't it?

Mr. ACKLEY. I believe so.

The CHAIRMAN. You have said a major contribution of national policy is to prevent, if you can, inflation.

Is that correct?

Mr. ACKLEY. Yes, sir.

The CHAIRMAN. The act under which the Council was created says:

The Congress declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy, with the assistance and cooperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.

Today don't we have the maximum purchasing power in the history of our Government? National income is at an all-time high.

Mr. ACKLEY. I think that is correct, sir.

The CHAIRMAN. Isn't the gross national product, according to the way you economists have always figured it—and I think you have a few loopholes in it—but according to the way you figure it, isn't that at an all-time high?

Mr. ACKLEY. Yes.

The CHAIRMAN. Isn't employment at an all-time high?

Mr. ACKLEY. I believe that is right.

The CHAIRMAN. You refer to the fact that unemployment is now about 5½ percent of the potential work force. I believe you said that we shouldn't hesitate to engage in deficit financing to relieve that unemployment.

Do you mean to say that in a period of the largest income, the largest production, and the largest employment, we should risk inflation by deficit financing, tax cuts and what-have-you, to try to cut unemployment below what it is and ignore what may happen in the way of inflation?

Mr. ACKLEY. No, sir; I don't believe I did say that.

The CHAIRMAN. Let's clarify your position on that.

I understood that under this act you were going to give priority to relieving unemployment, and I mentioned two other guidelines in the act, one of them to promote production and the other to promote purchasing power. You certainly don't promote purchasing power by cutting the value of the dollar, do you?

Mr. ACKLEY. No, sir.

The CHAIRMAN. Please clarify your position on that.

Mr. ACKLEY. In the first place, Senator, I have not suggested that I was necessarily in favor of a tax cut, and a larger deficit under these circumstances. I think I suggested that there might be circumstances including a pessimistic prospect for developments in the economy in the coming months, that might justify a tax cut and therefore a deficit, a larger deficit than might otherwise occur.

But your question was framed, I think, in terms of risking inflation; and it seems to me if we are in the circumstances which would justify a tax cut, namely the circumstances of high unemployment and a threatening increase in unemployment, although we have high production, still substantially below our potential production and threatening to fall further below our potential production, that a deficit, carefully judged to be appropriate, would not threaten inflation. If it did, then it would not be appropriate. And it would threaten inflation, it seems to me, only if there were serious prospects that within a relatively short period our aggregate demand would be pressing against the limits of our productive capacity.

The CHAIRMAN. Mr. Ackley, there are two approaches to this problem. One approach is that you can get votes by deficit financing that gives people jobs, regardless of inflation. This approach means that there are more people who will vote for you if you give them jobs through deficit financing than will vote against you if you have inflation. All I am asking you to do, when you pass on this issue, is to approach it from the standpoint of an economist and not from that of a politician.

You understand what I mean, don't you?

Mr. ACKLEY. I understand what you mean. Politics is not my business. But I would not suppose it was good politics to generate inflation. It seems to me this is an issue on which the American public has convincingly shown itself as being very worried and disturbed, and inflation is politically very bad medicine.

The CHAIRMAN. The advocates of inflationary deficit spending have been pretty clever in denying any responsibility for inflation. As far as Senator Proxmire, and I, and Senator Tower and some others are concerned, we are going to make this an issue.

Any further questions?

Senator PROXMIRE. I would like to clear up one point.

I did dispute your figure and I think I am right.

I have before me the International Financial Statistics, prepared by the Statistics Division of the International Monetary Fund, July 1962, volume XV, No. 7, which the staff has just given me.

On page 169 it shows that Italy has had an increase in the cost of living, with 1953 as the base, from 100 to 122. Whereas, on page 271, the cost of living for the United States, with 1953 as the base, has gone from 100 to 113.

So their cost of living increased 70 percent more rapidly than ours and wages in this country have risen to 137, and in Italy, to 142.

The amount that our wages will buy—the real increase in wages—therefore in this country is better than in Italy. Certainly, the position of those who are on fixed incomes in this country is better than in Italy under these circumstances.

I am just suggesting this. I do not want to quarrel with you. I would not expect you to carry these figures in your head and I would never have come up with accurate statistics if I had not just been given them.

Mr. ACKLEY. I appreciate the correction, Senator.

Senator PROXMIRE. Just one other point: You refer to the national debt as a residual.

You said you would adopt whatever policies seem to be appropriate in terms of taxing and spending to get the economy moving and to provide stimulation and to prevent inflation where you can.

The national debt is something that is therefore of secondary consideration. It is not fundamentally important.

I don't want to misinterpret your position, but with a $300 billion national debt, with its interest being the second greatest cost of our Government, with the service costs on the national debt being in the neighborhood of $10 billion a year, it would seem to me this is a cost of very deep and real concern and hardly simply a residual consideration.

Mr. ACKLEY. I would certainly agree that I think we would all be happier, we would be better off, if we did not have a national debt. I think we would be all happier and better off if the economy proved to be so vigorous and had so much demand in it we could steadily reduce our national debt and reduce the interest charges associated with it.

But all I meant to say was that I would not feel that the objective of the reducing the interest charges on the national debt should take precedence over the what seems to me more important, more crucial objective, of coming as close as we can to the goals of the Employment Act of 1946, which Senator Robertson has just reminded us of.

These seem to me to be paramount objectives, along with the maintenance of maximum stability of prices, which is not specifically mentioned there, but incorporated I am sure by reference, and they seem to me to take precedence over the problem of interest on the public debt. I am not saying that this is not a problem. But just that it seems to me less important, less significant.

The CHAIRMAN. The Chair recognizes the Senator from Maryland, Mr. Beall.

Senator BEALL. Thank you, Mr. Chairman.

It is nice to see you, Doctor.

Doctor, in 1948 Congress reduced taxes, had a balanced budget, and also reduced the national debt, if I recollect correctly——

Mr. ACKLEY. My memory for the details is also somewhat hazy.

Senator BEALL. You recall it was very unusual, though. That was the first time in many years that happened, that we reduced taxes, had a balanced budget, and also reduced the national debt?

Mr. ACKLEY. I would say this is the best of all possible worlds, if we could find ourselves in that position again.

Senator BEALL. You think that is the thing we should continue to strive for?

Mr. ACKLEY. Yes, but I guess we do not do it simply by reducing taxes.

The CHAIRMAN. The chairman feels that, with all deference to who did what on the debt, there was a period following World War II when we borrowed for war purposes more than we needed. So we just paid it back on the debt, and that is a different thing from paying it on the debt now.

Thank you, Mr. Ackley, for appearing before us.

The committee will now go into executive session, gentlemen.

(Whereupon, at 11:20 a.m., the committee proceeded in executive session.)

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