QUESTIONS BY SENATOR MILLER

Question. In your testimony, you criticized former Treasury Secretary Humphrey for his "obsession with a balanced budget," which resulted in unbalancing the economy to the extent of a $12 billion deficit for 1959.

Does this statement mean that you fail to recognize that it was the Democratically controlled Congress which had the power to pass the revenue, appropriations, and other laws needed to prevent an unbalanced economy?

Answer. I was attempting to make an economic rather than a political point: namely, that misguided attempts to achieve balance in the budget can unbalance the economy with the result that the actual budget deficit can be vastly greater than the deficit sought to be avoided or reduced. It is pertinent to note, however, that under our system of government the leadership in budget-making is in the hands of the Executive and that Congress tends to follow that lead fairly closely regardless of whether the majority of its members are from the same Party as the President or from a different Party.

Question. Do you believe it is more fair for the Federal Government to take purchasing power away from the people by increased income taxes than by inflation?

Answer. Inflation is inequitable in its impact, disadvantaging some and benefiting others. In general, the disadvantages tend to fall most heavily on those least able to bear them, while the advantages tend to accrue to those who least need them. (This point is documented by some of the data in my prepared statement.) Unlike inflation, taxes on incomes based upon ability to pay can promote rather than impede equity and social justice.

Question. I invite your attention to the close relationship between deficits of the Federal Government and inflation. It has now reached the point that for every $1 billion of deficit under the Administrative Budget, there will be an accompanying inflation of $2 billion or more. Would you not therefore favor reduction, if not elimination, of these budget deficits—and, if so, what specific action by Congress should be taken to do so? (E.g., specific taxes to be increased or Federal expenditures to be reduced.)

Answer. As my prepared statement shows, there is no general excess of demand which needs to be soaked up either through tax increases or reduced government spending in order to avoid inflation. There is a substantial unused margin of idle human and physical resources which a budget deficit can help to employ productively. Such inflationary pressures as exist are selective and sectoral and should be combated by selective measures rather than by the blunt instrument of an overall fiscal policy aimed at reducing demand at a time when the objectives of the Employment Act call for increased demand.

Question. What is your definition of "living in poverty" in the context of your statement that 32.5 million Americans continue to live in poverty?

Answer. The definitions are those developed by the Social Security Administration after careful and detailed study. A household is classified as poor if its total money income falls below $1,570 for an unrelated individual, $2,030 for a couple, $3,200 for a family of four, and comparable figures for families of other sizes. In 1965, there were 32.7 million persons in households having incomes below those levels. They certainly fit within any reasonable definition of poverty since, in the words of the Council of Economic Advisers, their incomes clearly are "inadequate to provide even the basic essentials of a decent life in our society."

Question. Of the 800,000 members of the U.A.W., how many are covered by escalation clauses covering increases in the cost of living?

Answer. There are currently approximately 1,400,000 employed members of the UAW. Of these, we estimate that 85 to 90 percent are covered by cost-of-living escalator clauses. The 800,000 figure refers, in round numbers, to those who will be involved in negotiations with major automotive, agricultural implement, and parts supplier corporations this year.

Question. Of those covered, how much have these clauses meant in increased wages during *each* of the last five years?

Answer. While there are some variations, most UAW escalator clauses are the same as or closely similar to those in our contracts with the major automotive