

There is the factor of slowing down. I must admit I am trying to make some sense of the statements that Mr. Reuther made, because I know he is a very intelligent person.

Representative RUMSFELD. Thank you, gentlemen; and thank you, Mr. Chairman.

Chairman PROXMIRE. Thank you, Mr. Rumsfeld.

Dr. Wallich, I would like to follow up on something that I let you escape from the last time we talked. That is the soundness of following fiscal and monetary policies for the purpose of restraining inflation, that is by keeping the unfortunate consequences which you and I recognize—that unemployment would remain at a very high level.

When we have no analysis and no agency that I know of in or out of Government that I know of trying to make analysis of the impact of this restraint on specific commodity prices. In other words, it seems to me that we are talking through our hat.

Governor Martin, when he appeared before this committee, said that they had no idea what restraint, monetary restraint, what effect it would have on particular commodity prices. His agency made some kind of a study years ago for the Commission on Money and Banking. Indeed they do have a general feeling that monetary restraint under demand-pull circumstances will keep prices down, but he couldn't give me any documentation, let alone qualitative analysis. He couldn't break it down in the food category and in the medical category, the interest rate category, that would give us any kind of a precise picture.

Now, isn't it desirable, if we are going to have a better economic policy in the future, in view of the enormous importance and the weight to be placed on restraining inflation, the burden of unemployment that we impose on the country in doing so, that we have at least an effort to try and get at the effect of these policies on specific commodity prices?

Mr. WALLICH. I think this is a very good thought. All I can do is to respond with what little knowledge there is, which is probably very familiar to you, Mr. Chairman. As you know, monetary policy works principally against investment, and there principally against housing, and, to a smaller extent, against borrowing by small business, perhaps State and local. It touches least, plant and equipment spending.

Fiscal policy works principally against consumption. Therefore, if we are going to talk about the impact on commodities, then I suppose fiscal policy is the first thing to study—what happens to prices as demand is reduced.

This resolves itself, I suppose, into a question such as this. If a tax increase were to be introduced now, what are the personal budget items that consumers are most likely to cut back on? And to that, I think a competent economist could give quite a few answers, because we know the behavior of people with respect to their household budget as their income rises or falls.

Chairman PROXMIRE. Then we would want to relate that, wouldn't we, to the particular situation. We would know, for example, to reverse it a little bit because this is so clear in my mind, if we do have an increase in social security benefits, much of which will be spent on