

real GNP leveled off and unemployment did not rise as one would expect it to do as the labor force grew, then I would conclude that the labor market for some reason had remained tight and that there was less room for compensatory expansion than one would have hoped there to be. And the same is true of utilization rates in manufacturing.

If, for instance, as at the present time, unemployment is low but utilization rates are high, there is some indication that the economy is off balance. We ought to be able to utilize plant and equipment better without putting a bigger strain on labor markets than we are already putting.

Senator MILLER. Getting back to this economic activity again and GNP, I think you were here one time when the committee went into this feature of it. I believe there was a conclusion on the part of the panel appearing before us that GNP—that is, just plain dollar GNP, is interesting, real dollar GNP is much more important, and per capita increased real dollar GNP is even more important.

Mr. WALLICH. That is certainly true, Senator. If we try to measure the growth of welfare, since welfare relates to the individual, we have to look at per capita GNP in real terms, not in inflated dollar terms.

When we look at the business cycle and ask ourselves, should money be eased or tightened, then we are dealing with total GNP. There I would add the qualifications that we have already talked about.

Senator MILLER. Might we go a step further and say that of even greater interest than real dollar increased GNP per capital would be that figure coupled with the real dollar increased per capita debt. I am talking about, now, all kinds of debt—National, State, individual, and private.

Mr. WALLICH. Debt can become a very serious problem when it becomes excessive. I think it quite evidently became excessive for some families in 1967, when interest rates rose high, when it became hard to get mortgages, and people who, for instance, had to refinance for some reason just were unable to do this. It just froze them into their existing home if they did not own their home outright and could not sell it for cash and buy another home.

Debt in the aggregate for the economy as a whole worries me less. I think we are in reasonably good shape there, among other things, for an unfortunate reason: the inflation is reducing the burden of debt. This year, the Government took about 4 percent off the Federal debt by inflating the price level by 4 percent. This is not a policy I recommend, but one has to recognize that is the result. So I would focus the debt problem principally on the individual households that are hit in particular periods by inability to refinance their debt, to pay off their debt, and to incur new debt.

Senator MILLER. So looking at the debt side of the picture, you would be more interested in the private sector of the debt and the increase therein than in the public sector of the debt?

Mr. WALLICH. That is certainly true even in the aggregate; not just speaking of households but looking at the total private sector. What has happened is that the private sector has greatly increased its indebtedness relative to the income base from which it must service that debt. The same happens to be true of States and municipalities. It is not true of business and it is least true of the Federal Government. It is the consumer, the homeowner, who has most heavily gone into debt.