

tion, at least for the purposes of restoring confidence in the dollar among our trading partners around the world.

If there is consistency in the advice we have been getting from our financial friends, it is that if we are going to restore confidence in the dollar we are going to have to do something about balancing our domestic budget. These people are perfectly candid with us, and I do not think that we can just ignore the advice of the people who have taken part in the International Monetary Fund, the agreements in Rio, and the other action that has been taken to stabilize the dollar, especially after the devaluation of the pound.

I found in Europe a very great concern about this part of our American financial situation at the present time especially as it relates to Government finances and in balancing the budget.

We have the resources to produce enough goods to pay our debts to other countries. This concern is not expressed. What they are afraid of is our liquidity will get to the point where we will have difficulty even in maintaining this kind of productive system and I share the concern, and I know there are a great many people who share that same concern.

This, in general, Mr. Chairman, is a quick summary of the major concerns which we have, as we have expressed in this statement which the committee has, and which I am sure you are going to consider and maybe you already have.

Thank you.

(The prepared statement of Mr. Graham follows:)

PREPARED STATEMENT OF HARRY L. GRAHAM

In his letter of transmittal of the Annual Report of the Council of Economic Advisers to the Joint Economic Committee of the Congress, the President pointed out some very substantial and spectacular gains in the general prosperity of the Nation during the last seven years. These show up in almost all areas with the highest number of employed people at the highest average earnings on record. The Report showed an unemployment rate of 3.8 percent, a rate that has not been lower except twice in 169 months. With total employee compensation up \$33 billion, and total consumer income after taxes up \$35.5 billion, combined with an all time high in industrial production with a yearly rate of growth in the Gross National Product of 4.5 percent, this is a continuation of the longest period of uninterrupted growth in our history.

On the industrial side, we see undistributed profits on the non-farm corporate businesses of \$20.5 billion and net working capital of \$196.3 billion. This is after bond yields have increased for the Aaa bonds by 38¢ and for the Bbb bonds by 60¢ during the last year with total liquid assets up \$47.1 billion.

These are solid economic accomplishments, brought about by the reluctance of the Administration to "rely primarily on the 'automatic stabilizers' built into our system or to wait for a recession or serious inflation to occur before measures are taken." However, all of these gains have not been without some losses, and there are some danger signals which have been hoisted into the air and possible gale warnings are ahead of us. One of these is the relaxing of the wage-price guidelines which were solidly based on increases in productivity. While average earnings of factory workers were increasing by \$4.80 per week, the automotive-industrial production index was down 13.7 percent and the machinery index was down 0.4 percent.

These figures, connected with the ones previously given concerning bond yields, indicate that both industry and labor are engaged in profit-taking actually beyond their real earnings in terms of production, and that these increased profits and wages are being passed on to the consumer in the form of higher prices—the underlying cause of the present inflationary pressure.