

The major task for economic policy today is to halt inflation while maintaining a high level of employment. It is true that we are enjoying the lowest unemployment rates in 15 years, although the fact this has been achieved during time of war reduces the pride we can take in this feat. But, despite repeated warnings from the minority of this committee and others, the previous administration failed to take the necessary measures to prevent rapid increases in our price levels. Our consumer price level soared almost 5 percent last year, the highest rate of inflation in almost three decades. Aside from redistributing purchasing power capriciously, excessive demand and the inflation it produces has caused major distortions in our economy.

For one, interest rates have risen to levels seldom seen before. Recently, commercial banks lifted their prime lending rate to 7 percent, a historical high. And the U.S. Treasury was forced to issue a medium-term refinancing note as the highest Federal Government coupon rate since 1865. We will want to know your assessments of the effects of these high interest rates on financing business, housing, and public facilities, and what the new administration feels should be done to relieve these pressures.

Inflation must be brought under control, and it must be done so in a manner consistent with ample employment opportunities providing adequate incomes—there need be no “price” in the form of substantially increased unemployment paid by society for a more stable economy. We will be most anxious to hear how the new administration plans to deal with this problem.

Inflation has also contributed heavily to continuing balance-of-payments disequilibrium. In 1968, our trade surplus—for a long time a source of strength in our international accounts—declined to the lowest level in more than 30 years. Our overall balance of payments for 1968 appears to show a surplus for the first time in more than a dozen years. However, this is a “soft” surplus, purchased at the high price of controls on our foreign investment and accounting gimmicks in the form of “special transactions,” which may not recur again. Moreover, abnormally high interest rates in this country have distorted normal international capital flows, providing us with an unusually large inflow of capital last year that will not continue. So, far from being able to take pride in our international payments position, we must now find ways to improve our international competitive position in a way which will allow us to remove controls and bring our balance of payments back into equilibrium.

After returning our price behavior and balance of payments to order, the most important task for economic policy is planning for the post-Vietnam war period. The transition from war to peace must be organized so as to produce the least disruption in the progress of our economy. We are pleased to hear that the administration has appointed a special interagency study group that will address itself to this issue. Further, what decisions are now being made to apportion the Vietnam peace dividend—the Federal financial resources that will be released by ending the war—among competing demands on the Government? How much of this dividend is available for civilian needs and not already committed to military programs?

Now is the time to plan how to best utilize these resources to meet urgent domestic needs, especially in our cities, which have too long