

APPENDIX

The following material consists of questions raised by Senator Miller and submitted to Secretary Kennedy, and his subsequent answers:

Question 1. Reference first sentence, page 2, of your prepared statement. Is it not a fact that the low level of unemployment has been affected by the addition of 600,000 more Federal civilian employees over the last eight years, one million more men in the Armed Services, and employment of upwards of two million in industry because of the war?

Answer. The factors mentioned have certainly affected the distribution of employment between civilian and non-civilian pursuits and between defense and non-defense industries. There probably has also been some effect on unemployment rates as well, although this would be difficult, perhaps impossible, to estimate statistically with any precision. In recent years excessive demand came at a time when unemployment was already at relatively low levels and the main effect was to drive up costs and prices very sharply.

The question points to the necessity of insuring that a smooth economic transition is made when Vietnam expenditures can be reduced. President Nixon has requested a full review of this matter and studies are underway.

Question 2. Reference the next sentence. How do you reconcile your statement that "the dollar is strong" with the world market for gold? Also, since the dollar has fallen in value to 39 cents (compared to a 1939 dollar worth 100 cents), does this not show that the dollar has been growing weaker—rather than stronger?

Answer. In my statement I said: "The dollar is strong and respected in the world in spite of recent inflationary trends and a deteriorating trade balance." The dollar remains the most widely held currency and large balances are maintained in dollars both on private foreign account and by foreign monetary authorities in order to maintain the international value of their currencies in terms of dollars.

In short, the dollar remains the most convenient liquid asset on the international scene. Gold in the private market is not a real alternative to dollars for most persons. The gold market is thin and is affected by numerous special factors at this time.

This is not to say that the recent inflation in the United States may not have played some part in speculative pressure on the private gold market. We would, of course like to see the dollar even stronger than it is now, as my whole statement implies.

With respect to the second part of this question, the purchasing power of the dollar has fallen heavily as compared with the 1939 dollar. A substantial part of this decline in purchasing power took place during World War II and the immediate postwar period. Since 1963, however the cost of living had risen 16 percent as of November 1968. This is a result of the strong inflationary pressures to which I referred in my statement and which require corrective action.

As I said in my statement, "The economy must be placed under firm restraint until there are unmistakable signs that we are headed back on a non-inflationary path." This will strengthen the position of the dollar abroad as well as at home.

Question 3. You state that the budget should be kept in surplus (p. 3, last full sentence of statement), but the Council of Economic Advisers points to an objective of at least a "balance". How do you reconcile these two positions?

Answer. The two statements seem to amount to very much the same thing. Judging from its context, the statement by the Council of Economic Advisers was intended to emphasize that a budget deficit at this time might have direct inflationary effects and would create financial strains and expectations of continued inflation—hence the need for "at least" a balance. The Treasury statement simply stressed the desirability of keeping the budget in surplus rather