

Thank you for your letter regarding the size of the federal government and its effect on inflation and waste. While I share your concern about uncontrolled government expansion, blaming "Big Government" for the nation's ills overstates the case.

Federal spending most certainly contributes to the rising rate of inflation. I believe, however, that equal concern must be given both to the "outside" influences of inflation (including rising OPEC oil and farm product prices) as well as to the decline in the growth rate of U.S. workers' productivity witnessed in the 1970's. We must all come to accept the interrelated nature of these problems.

For the year of 1979, the production of goods and services per man hour of work fell 3%. Sadly, no policies, public or private, can allow us to consume any more than we produce. Thus, as Professor Thurow of MIT explains:

"In a world of price stability, wages and spending must move in parallel with the rate of growth of productivity. If productivity falls 3 percent, then wages must fall 3 percent. If wages do not fall, the cost of production rises, because it takes more hours of work to produce the same goods and services. The extra costs of less efficient production must be passed along to the consumer in the form of higher prices if wages and dividends cannot be cut. If productivity falls 3 percent, then inflation can only be prevented if everyone's income falls 3 percent."

Accompanying our productivity decline, 1979 witnessed a \$40 billion (or 2% of the GNP) increase in the United States' fuel bill. In other words, the various OPEC nations received an extra 2% of our goods and services for their oil. Once again, with less GNP available to U.S. consumers a drop in real standards of living must occur. The combined effect of U.S. productivity declines and oil cost increases require a 5% decline in the U.S. standard of living.

Inflation, then, becomes imbedded in our economic system because, understandably no one wants to accept wage cuts. Instead, production cost increases are passed on, prices climb faster than wages, and the American consumer experiences the decline in living standard without a direct wage cut. The situation worsens as consumers recognize upward trends in prices. Families begin to buy new goods, cars, television, stereos, before <sup>necessary</sup> as a hedge against inflation. This, of course, only exacerbates the situation, the price of goods climb more quickly and we find ourselves always losing ground.

Recession, and a hearty dose of it, is what many noted economists including Milton Friedman recommend. They argue, simply, that inflation can only be controlled by reducing the rate of monetary growth thereby causing a temporary economic downturn in order to avert inflation. This is the policy presently being pursued by Paul Volker, Chairman of the Federal Reserve Board.

I must confess, however, that I am not at all convinced that such draconian measures are prudent. A closer look at monetary policy reveals a weapon which is at best a blunt instrument. As Robert Solow MIT economist explains:

A monetary policy designed to stop inflation by inducing a downturn — such as the action by the Fed in more tightly restricting the amount of money available for borrowing and spending in the American market — can only reduce total spending. It cannot control whether that reduction results in lower rates of inflation or lessened production. The evidence, unfortunately, suggests that most of the impact is on production and employment. The effect on prices is small and long delayed. To try effectively to wipe out hard-core inflation by squeezing the economy is possible but disproportionately costly. It is burning down the house to roast the pig.

What can be done about inflation short of creating a major economic downturn? I believe we must look to inflation's root causes, in particular productivity declines and energy cost increases, and concentrate efforts in these areas. It is essential that an integrated national policy be developed -- one that balances energy conservation initiatives and programs designed to stimulate productivity and one that incorporates a responsible level of fiscal restraint. I intend to participate actively in efforts directed towards such programs.

Specific legislative initiatives that I am actively pursuing include the following:

I am involved in a careful evaluation of the problems of <sup>productivity</sup> productivity and innovation in the U.S. I have established a "Productivity, High Technology" advisory ~~staff~~ and I hope to design legislation intended to provide the incentives necessary to stimulate productivity in American.

I am also exploring several taxing or rationing schemes for gasoline. We must consume less petroleum in the coming years in order to reduce our outlays to OPEC. Associated with such a tax I believe should be some general tax relief for lower income groups burdened by the ever increasing ~~cost~~ cost of energy.

While I do oppose attempts to cut what I view as vital programs, I strongly endorse efforts to increase efficiency and to eliminate federal waste. Toward those ends, I am cosponsoring two bills, the Sunset Act of 1979 (S.2) and the Legislative Oversight Act of 1979 (S. 1304).

S. 2 requires reexamination of all Federal programs every ten years so that no program could last longer than ten years unless specifically reauthorized. This bill would establish a method to locate and eliminate wasteful excess spending for government programs which no longer provide the services for which they were intended. *Until they intended purposes.* S. 2 also establishes a Citizens' Commission on the Organization and Operation of Government to study and recommend ways to improve the efficiency and effectiveness of Government agencies.

S. 1304, the "Sunrise Bill," mandates a higher standard of legislative oversight when a new program of tax expenditure is established. It prohibits funding of any program for more than five years, requires federal agencies to report to Congress on the effectiveness of all programs, and requires Congress to consider how well a program has met its stated objectives before reauthorizing it.

Once again, thank you for sharing your views with me. Please be assured that I will continue my support of efforts to curb inflation and to cut wasteful government expenditures in the 96th Congress.