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United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS
WASHINGTON, D.C. 20510

November 10, 1981

Mr. John C. Whitehead
GOLDMAN SACH & COMPANY
55 Broad Street
New York, New York 1004

Dear John:

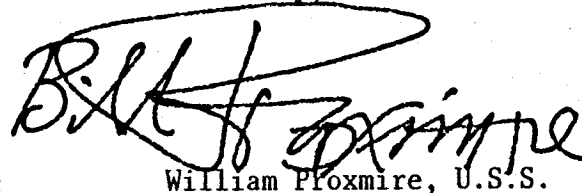
Thank you for your recent letter concerning the effect of high interest rates and for enclosing your key to a healthy economy.

I agree that the key to a healthy economy is to bring interest rates down. The principle reason why interest rates are high is that continued huge government deficits require funding in the capital markets in competition with private demand at a time of monetary restraint. The result is that demand for money far exceeds the supply and the price of money is driven up.

In my judgment, the way to reduce interest rates and improve the health of the economy is to reduce the deficit. Unfortunately, the Congress and this Administration have refused to make the budget cuts necessary to bring the budget into balance. Huge deficits appear likely for several more years. As a result, investors expect more inflation and higher interest rates in the future so they have refused to invest their money without very high rates of return. I have consistently fought for the position that tax cuts and increased military spending should be paid for by budget cuts. In every one of the last 3 years - 1979, 1980 and 1981, I have introduced amendments on the floor of the Senate to balance the budget the following year. The Senate has rejected each amendment. Small business, housing, thrifts, auto dealers, agriculture, and consumer goods manufacturers suffer greater than others.

I realize the hardship that high interest rates work on citizens such as yourself. And I shall continue to fight vigorously in the Senate for policies that will lower rates.

Sincerely,


William Proxmire, U.S.S.

WP:lmk