The original documents are located in Box D21, folder "Business Council, Hot Springs, VA, October 22, 1966" of the Ford Congressional Papers: Press Secretary and Speech File at the Gerald R. Ford Presidential Library.

BUSINESS COUNCIL - HOT SPRINGS

To establish my non-partisan credentials, let me tell a story that can be told either way. To my Democratic friends in the audience can be at ease I'd temporarily be in their ranks:

I AM EXTREMELY PLEASED TO BE HERE. THE INVITATION TO APPEAR BEFORE YOU IS AN HONOR AND A CHALLENGE.

THE NATURAL TOPIC FOR ANY GUEST SPEAKER HERE IS ECONOMICS. IT IS DIFFICULT TO FIND SOMETHING FRESH TO SAY ON THAT SUBJECT, BUT I DO HAVE SOMETHING NEW AND QUITE DIFFERENT. IT IS A THEORY ADVANCED BY A NEWS REPORTER FRIEND OF MINE.

OVER A LONG PERIOD OF TIME THIS NEWSPAPER CHAP HAS STUDIED THE LENGTH OF WOMEN'S SKIRTS. THIS WAS A SCIENTIFIC PROJECT INVOLVING THE MOST COMPLICATED MYSTERIES OF ECONOMIC CYCLES. SO HE TOOK NOTES ON ALL HIS OBSERVATIONS. RECENTLY HE CONFIDED TO ME THE RESULTS OF THE STUDY. HE SAID THAT BY CLOSE AND UNCEASING HEMLINE WATCHING, HE HAD COME TO AN UNSHAKABLE AND UNSWERVING CONCLUSION.

THAT CONCLUSION WAS THAT THE HEMLINE OF ~~WOMEN~~ a ladies'S SKIRTS RISES IN GOOD TIMES -- YOU KNOW, THINGS ARE LOOKING UP, AS THEY SAY -- AND THE HEMLINE FALLS IN BAD TIMES.

IN 1927, MY FRIEND REPORTS, GIRLS WHO BLUSH EASILY WERE AFRAID TO SIT DOWN. MY FRIEND SAYS THOSE WERE REAL GOOD TIMES.

IS THERE REALLY SOMETHING TO MY FRIEND'S THEORY?

JUDGING BY WHAT'S HAPPENED IN THE STOCK MARKET LATELY, I HAVE THE FEELING HIS HEMLINE IDEA DOESN'T REALLY HOLD UP. OR MAYBE serious minded GOVERNMENT OFFICIALS HAVE BEEN KEEPING TOO CLOSE AN EYE ON HEMLINES INSTEAD OF ~~ON~~ THE DOW-JONES AVERAGES OR OTHER VALID ECONOMIC INDICATORS.

WHATEVER FIGURES FEDERAL OFFICIALS HAVE BEEN STUDYING IN RECENT MONTHS, THE TREMORS WHICH HAVE SHAKEN THE

ECONOMY IN 1966 POINT UP THE FACT THAT THEY GAVE YOU A LESS THAN ACCURATE READING OF THE INDICATORS AT YOUR ANNUAL MEETING EXACTLY ONE YEAR AGO.

BECAUSE I PRIZE THIS OPPORTUNITY TO SPEAK TO YOU, I HAVE THOUGHT LONG AND HARD ABOUT WHAT I WOULD SAY.

FIRST, I THOUGHT OF DISCUSSING AIR AND WATER POLLUTION. BUT COMING DIRECTLY FROM CAPITOL HILL AT THIS POINT, I'M NOT SURE AIR POLLUTION IS A TENABLE TOPIC! AND THIS SPOT, FAMED FOR ITS MINERAL WATERS, WAS HARDLY THE PLACE TO STRESS WATER POLLUTION.

I DALLIED OVER TRUTH IN PACKAGING -- AND THE POSSIBILITY OF RELATING IT TO THE CREDIBILITY GAP, IN A NONPARTISAN WAY, OF COURSE. BUT THEN MY FRIENDS ON THE HOUSE COMMERCE COMMITTEE TOLD ME EVEN TRUTH WAS OFF LIMITS BECAUSE OF BUSINESS CONCERN OVER "TRUTH IN PACKAGING" AND

"TRUTH IN LENDING." I BELIEVE YOUR DISTINGUISHED CHAIRMAN, AMONG OTHERS I SEE HERE, EXPERIENCED SOME DISCOMFORT IN THIS AREA WHEN HE CONTEMPLATED WHAT MIGHT HAVE HAPPENED IF THE CONGRESS HAD APPROVED WHITE HOUSE RECOMMENDATIONS ON PACKAGING LEGISLATION.

BECAUSE MY HOME IS THE GREAT STATE OF MICHIGAN, THE HUB OF THE AUTOMOTIVE INDUSTRY, I CONSIDERED THE POSSIBILITY OF DISCUSSING AUTO SAFETY LEGISLATION. BUT SINCE SOME REPRESENTATIVES OF THAT INDUSTRY ARE HERE, FOR BUSINESS AND A PLEASANT WEEKEND, I DIDN'T WANT TO UPSET THEIR PLANS BY REMINDING THEM OF THE HORRORS OF THE PROPOSALS ADVANCED BY THE EXECUTIVE BRANCH OF THE GOVERNMENT IN AUTO SAFETY, ~~SO-CALLED~~.

I FINALLY TURNED TO A TOPIC CERTAIN TO BE NONPARTISAN AND INOFFENSIVE -- A REVIEW OF WHAT ADMINISTRATION SPOKESMEN

TOLD THE BUSINESS COUNCIL 12 MONTHS AGO ~~HERE~~ at the Homestead AND AN APPRAISAL OF WHAT HAS ACTUALLY HAPPENED IN THE INTERIM.

WISDOM IS OFTEN DISCOVERED IN HINDSIGHT. SOUND PERSPECTIVE FOR THE FUTURE OFTEN RESTS ON WISDOM GARNERED IN ECONOMIC AUTOPSIES. LET'S TAKE A LOOK BACKWARD SO WE MAY LOOK FORWARD WITH CLEAR VISION.

LAST YEAR ALMOST EVERY ONE OF THE GOVERNMENT SPEAKERS APPEARING HERE RHAPSODIZED OVER "THE PREVIOUS FIFTY-SIX MONTHS OF CONTINUED EXPANSION."

NOT ONE OF THEM MENTIONED THAT DURING THAT 56-MONTH PERIOD THE USE OF CREDIT INCREASED AT A RATE MUCH MORE RAPID THAN THE INCREASE IN INCOME. AND NOT ONE OF THEM MENTIONED THAT THE LIQUIDITY OF CORPORATIONS AND COMMERCIAL BANKS HAD BEEN REDUCED FROM YEAR TO YEAR.

IT IS INTERESTING THAT SUCH BASIC INFORMATION WAS

SLIPPED OVER BY THESE EXPERT OBSERVERS.

ONE CANNOT BUT WONDER WHETHER OUR CURRENT ECONOMIC PROBLEMS--TIGHT MONEY, HIGH INTEREST RATES AND RISING CONSUMER PRICES--COULD POSSIBLY BE RELATED TO THESE IMPORTANT CONSIDERATIONS SO CURIOUSLY UNMENTIONED A YEAR AGO.

SOME OF THE OTHER STATEMENTS ADMINISTRATION SPOKESMEN DID MAKE LAST OCTOBER WERE JUST AS CURIOUS.

EXACTLY ONE YEAR AGO ECONOMIC COUNCIL CHAIRMAN GARDNER ACKLEY WAS QUOTED AS SAYING, "I AM OPTIMISTIC ABOUT THE CONTINUED STABILITY OF COSTS AND PRICES." HE ALSO SAID: "GOVERNMENT HAS THE WEAPONS AND THE WILL TO MAINTAIN EXPANSION WITHIN NON-INFLATIONARY BOUNDS." HE EVEN HELD OUT HOPE FOR FURTHER TAX CUTS FOR LOW-INCOME FAMILIES IN THIS YEAR OF 1966.

IN ALL FAIRNESS, I MUST SAY THAT MR. ACKLEY

HEDGED HIS BETS. HE ACKNOWLEDGED THAT OUTLAYS FOR THE VIETNAM WAR MIGHT OVERHEAT THE ECONOMY. TREASURY SECRETARY FOWLER SAID SOMEWHAT THE SAME THING A WEEK EARLIER--THAT IF VIETNAM WAR COSTS RAN TO $10 BILLION OR MORE IN 1966 HE'D BE THINKING ABOUT AN INCOME TAX INCREASE. BUT, OF COURSE, MR. FOWLER WENT ON TO INDICATE THAT HE WASN'T REALLY THINKING ABOUT A TAX INCREASE AT ALL.

IN REVIEWING THESE REMARKS, DON'T YOU FIND IT PUZZLING THAT THE PRESIDENT'S TOP ECONOMIC ADVISOR AND EVEN THE SECRETARY OF THE TREASURY SEEMED SO MUCH IN THE DARK ABOUT OUR MILITARY SPENDING IN THE IMMEDIATE FUTURE, AND WHAT TO DO ABOUT IT?

WE IN CONGRESS HAD STRONG INDICATIONS AS TO RISING VIETNAM WAR COSTS, AND WE MADE THEM KNOWN PUBLICLY AND WITH EMPHASIS FROM TIME TO TIME.

I HESITATE TO CONCLUDE THAT NONE OF THE ADMINISTRATION'S

CIVILIAN LEADERS HAD KNOWLEDGE OF OUR MILITARY PLANNING AND THE COSTS INVOLVED.

YET THE ONLY OTHER CONCLUSION ONE CAN COME TO IS THAT THEY KNEW BUT DIDN'T SAY. AND THAT IS WORSE.

IN FEBRUARY, 1965, PRESIDENT JOHNSON CALLED FOR A STEP-UP IN THE VIETNAM WAR. ESCALATION CONTINUED THROUGH-OUT THE YEAR. IT SHIFTED INTO PERCEPTIBLY HIGHER GEAR IN JULY, 1965, AND IS STEADILY CONTINUING.

IN VIEW OF THE OBVIOUS IMPACT OF THAT ESCALATION ON THE ECONOMY--AND IT IS GOVERNMENT'S JOB TO ASSESS SUCH EFFECTS--THE PRESIDENT CLEARLY SHOULD HAVE SUBMITTED A more TIGHTLY RESTRICTED DOMESTIC SPENDING BUDGET TO CONGRESS LAST JANUARY.

NOW--EVEN NOW--ADMINISTRATION OFFICIALS STILL ARE SAYING THEY DON'T KNOW HOW MUCH THE VIETNAM WAR WILL COST OR HOW WE WILL PAY FOR IT.

YOU MAY HAVE GATHERED BY NOW THAT I DON'T BELIEVE ALL WISDOM RESIDES IN THE EXECUTIVE BRANCH OF THE FEDERAL GOVERNMENT. AND NEITHER DO I AGREE WITH THE INFERENCE OF SOME THAT ALL ELECTIVE OFFICIALS ARE BLOKES, INCAPABLE OF SOUND JUDGMENT AND TOTALLY DEDICATED ONLY TO GETTING THEMSELVES RE-ELECTED.

I SUBMIT THAT INFORMATION, EXPERIENCE AND OPINIONS GATHERED AND DISSEMINATED ON CAPITOL HILL ARE INVALUABLE TO THE EXECUTIVE BRANCH AND TO THE PEOPLE.

I BELIEVE THERE ARE TIMES WHEN LEGISLATIVE COMMITTEES AND INDIVIDUAL CONGRESSMEN CAN OFFER BETTER ADVICE TO THE WHITE HOUSE THAN THAT OF ITS OWN EXPERT ADVISERS. UNFORTUNATELY, THAT LEGISLATIVE ADVICE IS OFTEN SPURNED.

WE IN THE CONGRESS HAVE BEEN WATCHING WITH GREAT INTEREST THIS NATION'S EXPERIMENT IN NEW ECONOMICS. WE

KNOW IT CANNOT WORK PROPERLY IF IT IS USED ONLY WHEN IT IS POLITICALLY ADVANTAGEOUS AND IS IGNORED WHEN POLITICAL FALLOUT THREATENS.

ITS MAJOR PREMISE IS THAT WE MUST BE AGGRESSIVE IN USING BROAD FISCAL POLICY TOOLS AS WELL AS MONETARY POLICY TO MAINTAIN A STEADY, NON-INFLATIONARY RATE OF GROWTH IN THE ECONOMY. ITS MAIN QUARREL WITH THE PAST IS NOT NECESSARILY THAT WE HAVE DONE THE WRONG THINGS, BUT THAT WE HAVE NOT DONE ENOUGH OF THE RIGHT THINGS AT THE RIGHT TIME.

I SUBSCRIBE TO JOHN MAYNARD KEYNES'S THEORY THAT THE MODERN CAPITALIST ECONOMY DOES NOT AUTOMATICALLY WORK AT PEAK EFFICIENCY AND THAT ITS EXCESSES OR DEFICIENCIES MAY BE ADJUSTED BY WISE AND TIMELY GOVERNMENTAL ACTION. I WOULD EMPHASIZE THAT KEYNES WAS PRIMARILY CONCERNED

WITH COUNTERACTING BUSINESS SLUMPS. BUT HE ALSO WARNED AGAINST INFLATION AND THE DEBASING OF A NATION'S CURRENCY.

THE THREE MAIN TOOLS IN THE KEYNESIAN ECONOMIC CHEST ARE TAX POLICY, CREDIT POLICY AND SPENDING POLICY. IT IS INTENDED THEY BE USED TO COUNTERBALANCE UNDESIRABLE TENDENCIES IN THE PRIVATE SECTOR OF THE ECONOMY.

DR. WALTER HELLER, FORMER CHAIRMAN OF THE PRESIDENT'S COUNCIL OF ECONOMIC ADVISERS, HAS REPEATEDLY TOLD US THAT TO BE EFFECTIVE THE NEW ECONOMICS SHOULD WORK BOTH WAYS. IT SHOULD BE USED TO STIMULATE THE ECONOMY WHEN NECESSARY, TO RESTRAIN IT WHEN REQUIRED.

DR. HELLER RECENTLY SAID: "ESSENTIALLY, THE JOB IS TO MAINTAIN STABILITY WITHOUT RESORTING TO OBNOXIOUS CONTROLS AS WE DID IN WORLD WAR II AND KOREA."

WE HAVE IN CONGRESS A GENTLEMAN WHO IS EXTREMELY KNOWLEDGEABLE IN THE FIELD OF ECONOMICS -- REP. TOM CURTIS

OF MISSOURI, AN OUTSTANDING MEMBER OF THE HOUSE WAYS AND MEANS COMMITTEE AND THE JOINT ECONOMIC COMMITTEE.

CURTIS HAS, LIKE HELLER, SOUNDED THE WARNING THAT THE NEW ECONOMICS IS A TWO-WAY STREET.

HE AND HELLER WERE AMONG THOSE WHO EARLY THIS YEAR RECOGNIZED THE PERIL OF INCREASING INFLATION AND PLEADED FOR RESTRAINING ACTION BY THE ADMINISTRATION.

THE ADMINISTRATION DISREGARDED PLEAS BY CURTIS, HELLER AND MANY OTHERS FOR RESTRAINT EARLY IN 1966. THAT/IS WHY WE ARE IN TROUBLE TODAY. OUR TROUBLE IS NOT WITH KEYNESIAN ECONOMICS BUT WITH "Administration ~~JOHNSON~~ ECONOMICS."

?

WHAT FAILS US IN THE Administration ~~JOHNSON~~ ECONOMICS? IT IS A PARALYSIS OF POLICY, A RELUCTANCE TO MAKE TIMELY APPLICATION OF TAX, CREDIT AND BUDGET POLICY WHEN THAT APPLICATION BECOMES POLITICALLY PAINFUL.

IT'S TRUE THAT TIMING OF GOVERNMENT ECONOMIC POLICY

IS A DIFFICULT QUESTION. IT IS ONE ON WHICH ECONOMISTS CAN BE EXPECTED TO DISAGREE HONESTLY, REGARDLESS OF THEIR POLITICAL LOYALTIES.

HAVING SAID THAT, LET ME CALL YOUR ATTENTION TO A NEW YORK TIMES STORY OF LAST MARCH 13. THE TIMES REPORTED THAT THREE OUT OF FOUR FORMER CHAIRMEN OF THE PRESIDENT'S COUNCIL OF ECONOMIC ADVISERS FAVORED EITHER FEDERAL SPENDING CUTS OR A TAX INCREASE. IT WAS IN MARCH THAT THEY URGED SUCH ACTION. THOSE HOLDING THESE VIEWS WERE RAYMOND SAULNIER, ARTHUR BURNS AND DR. HELLER.

LET ME FURTHER CITE A SURVEY OF THE VIEWS OF LEADING ECONOMISTS MADE BY THE WASHINGTON POST IN EARLY 1966.

THE POST POLLED THESE ECONOMISTS IN MARCH. OF THE 30 WHO REPLIED, 22 FAVORED AN IMMEDIATE TAX INCREASE. THE 22 INCLUDED DR. HELLER, JOHN K. GALBRAITH, PAUL A. SAMUELSON / & many others JAMES TOBIN OF YALE, WHO IS A FORMER MEMBER OF THE

COUNCIL OF ECONOMIC ADVISERS, JOSEPH A. PECHMAN, PROF. E. CARY BROWN OF M.I.T., AND PROF. HARVEY BRAZIER OF THE UNIVERSITY OF MICHIGAN, A FORMER TREASURY OFFICIAL.

COMMENTING IN SEPARATE REPORTS MARCH 17 ON THE PRESIDENT'S 1966 ECONOMIC REPORT, BOTH THE REPUBLICAN AND DEMOCRATIC MEMBERS OF THE JOINT ECONOMIC COMMITTEE SAW THE NEED FOR A TAX INCREASE.

THREE MEMBERS OF THE FEDERAL RESERVE BOARD--CHAIRMAN MARTIN, MR. ROBERTSON AND MR. DAANE--CAME OUT FOR A TAX INCREASE IN OR PRIOR TO MAY OF THIS YEAR. SO, TOO, DID PIERRE-PAUL SCHWEITZER, MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND.

THE SAME GENERAL VIEWS WERE EXPRESSED BY PRIVATE ECONOMISTS.

CHARLS WALKER, EXECUTIVE VICE-PRESIDENT OF THE AMERICAN BANKERS ASSOCIATION, SAID THE "PREPONDERANCE OF

OPINION" FAVORED A "COMBINED SPENDING CUT AND TAX INCREASE."

WILLIAM F. BUTLER, VICE-PRESIDENT OF CHASE-MANHATTAN BANK, SAID HE EXPECTED A TAX INCREASE BECAUSE "AS DISAGREEABLE AS TAX INCREASES ARE, THEY ARE PREFERABLE TO INFLATION."

PLEASE NOTE THE SIMILARITY BETWEEN MR. BUTLER'S STATEMENT AND THIS QUOTATION FROM PRESIDENT JOHNSON'S 1966 ECONOMIC REPORT, DATED JANUARY 27:

"IF IT SHOULD TURN OUT THAT ADDITIONAL INSURANCE [AGAINST INFLATION] IS NEEDED, THEN I AM CONVINCED THAT WE SHOULD LEVY HIGHER TAXES RATHER THAN ACCEPT INFLATION--WHICH IS THE MOST UNJUST AND CAPRICIOUS FORM OF TAXATION."

YET WHEN FLEETING TIME DEMANDED DECISION--SHALL WE SAY IN MARCH--THE PRESIDENT IGNORED THIS CONSENSUS FOR RESTRAINT THROUGH THE USE OF FISCAL POLICY--EITHER A SHARP REDUCTION IN NON-ESSENTIAL, NON-MILITARY SPENDING OR A

TAX INCREASE. HE IN EFFECT TURNED HIS BACK ON THE NEW ECONOMICS IN FAVOR OF HIS OWN BRAND--A DANGEROUS MIXTURE OF POLITICS AND ECONOMICS. IT WAS A RETURN TO THE OLD ECONOMICS. THE ECONOMICS OF UPS AND DOWNS IN THE ECONOMY, THE ECONOMICS OF BOOM, INFLATION, RECESSION AND PERHAPS EVEN DEPRESSION.

SAID THE NEW YORK TIMES EDITORIALLY ON MARCH 13:

"BY NOW, A WIDE RANGE OF ECONOMISTS, BANKERS AND OTHERS ARE CALLING FOR A TAX INCREASE TO HELP FINANCE THE ARMS BUILDUP IN VIETNAM AND RESTRAIN INFLATIONARY FORCES IN THE ECONOMY."

MR. JOHNSON IGNORED THOSE VOICES. HE SPURNED THE PLEAS OF MOST OF THE NATION'S FOREMOST ECONOMISTS. HE TURNED A DEAF EAR TO THE ADVICE OF CONGRESS'S JOINT ECONOMIC COMMITTEE.

? YET WHAT HAD LEADING ADMINISTRATION SPOKESMEN TOLD

THE BUSINESS COUNCIL APPROXIMATELY ONE YEAR AGO TODAY? MR. ACKLEY TOLD YOU THAT EITHER A LAGGING ECONOMY OR AN OVERHEATED ONE WOULD BE DEALT WITH BY THE GOVERNMENT.

SOME OF YOU MEN HAD VOICED CONCERN ABOUT INFLATION, AND THIS IS WHAT VICE PRESIDENT HUMPHREY TOLD YOU THEN:

"WE MUST PROVIDE FOR WHATEVER EXPANSION OF OUR DEFENSE EXPENDITURES THE SITUATION REQUIRES. BUT WE SEE NO PRESENT LIKELIHOOD THAT EXPENDITURES WILL RISE ENOUGH TO BRING THE THREAT OF INFLATION. IF THEY DID, THE PRESIDENT OF THE UNITED STATES WOULD TAKE APPROPRIATE FISCAL AND MONETARY ACTION AND BUDGETARY ACTION TO THROTTLE THAT INFLATION. I CAN ASSURE YOU OF THAT TONIGHT. HAVE NO DOUBT ABOUT IT."

? I ASK YOU--HAS EFFECTIVE GOVERNMENTAL ACTION OF THE KIND DESCRIBED BY THE VICE PRESIDENT BEEN EMPLOYED TO THROTTLE INFLATION? THERE HAVE BEEN NO MEANINGFUL VETOES

OF EXCESSIVE SPENDING MEASURES PASSED BY A RUNAWAY MAJORITY IN THE CONGRESS. NO WITHHOLDING OR EARMARKING OF APPROPRIATED LOW-PRIORITY FUNDS BY THE WHITE HOUSE.

LET ME MAKE IT CLEAR. WE IN THE MINORITY HAVE CONSISTENTLY EMPHASIZED THAT FEDERAL SPENDING CUTS ARE THE BEST WEAPON AGAINST INFLATION. WE SPELLED THIS OUT IN OUR OWN STATE OF THE UNION MESSAGE LAST JANUARY WHEN WE SAID: "TO HALT INFLATION WE MUST CURB FEDERAL SPENDING. THIS REQUIRES THE PRESIDENT AND THE CONGRESS TO SET PRIORITIES. IT IS IMPERATIVE THAT THE PRESIDENT IN HIS BUDGET CLASSIFY HIS SPENDING PROPOSALS ACCORDING TO NECESSITY AND URGENCY. IF HE FAILS TO DO SO, WE CALL UPON THE DEMOCRATS IN CONGRESS TO JOIN US IN ELIMINATING, REDUCING OR DEFERRING LOW PRIORITY ITEMS."

THE TIME WHEN A TAX INCREASE MIGHT PROPERLY BE USED TO COOL OFF THE ECONOMY MAY WELL HAVE PASSED. I HAVE THE

FEELING THAT NOBODY IN THE ADMINISTRATION QUITE KNOWS WHAT TO DO right NOW--EXCEPT RIDE OUT THE STORM.

THE ~~JOHNSON~~ ADMINISTRATION HAS NOT LIVED UP TO ITS PROMISES TO YOU.

POLICIES UNENFORCED, DECISIONS AVOIDED, AND CHOICES PASSED OVER. THIS IS THE OTHER SIDE OF THE NEW ECONOMICS, AS PRACTICED BY THE ADMINISTRATION. THUS IT IS THAT THE NEW ECONOMICS HAS BECOME A CASUALTY OF ELECTION-YEAR POLITICS. THUS IT IS THAT WAGES AND PRICES ARE CAUGHT UP IN AN INFLATIONARY SPIRAL WHOSE END WE CANNOT SEE.

WE ALL KNOW THAT THE JOB OF TAMPING DOWN THE ECONOMY THIS YEAR WAS THRUST ALMOST ENTIRELY ON THE FEDERAL RESERVE BOARD. THAT TASK WAS ALMOST HOPELESS IN THE FACE OF GROWING COMMITMENTS IN VIETNAM, LARGER OUTLAYS FOR THE GREAT SOCIETY, AND RISING CONSUMER DEMAND.

I THINK AN INCOME TAX INCREASE NOW WOULD PROBABLY

GIVE THE ECONOMY A SEVERE JOLT. BUT IF THE ADMINISTRATION DEMANDS IT, IT WILL BE IN THE NAME OF THE VIETNAM WAR.

IN THAT LIGHT, LET ME CALL YOUR ATTENTION TO AN OCTOBER REPORT ON TIGHT MONEY PUBLISHED BY THE BANK OF AMERICA'S RESEARCH STAFF. THIS REPORT STATES THAT WHILE MILITARY SPENDING IN THE FIRST SIX MONTHS OF 1966 EXCEEDED THAT FOR THE COMPARABLE PERIOD IN 1965 BY $5.1 BILLION, NONDEFENSE SPENDING FOR THE SAME PERIOD ROSE BY $4.5 BILLION.

background

WITH THAT, BANK OF AMERICA EXECUTIVES CONCLUDE THAT THE ADMINISTRATION SHOULD RESTRAIN LOWER PRIORITY SPENDING PROGRAMS AND FUND NO NEW PROGRAMS UNTIL CURRENT INFLATIONARY TRENDS ABATE. THIS IS WHAT SENATOR DIRKSEN AND I HAVE BEEN ADVOCATING FOR MONTHS. LESS FEDERAL SPENDING ON LOW-PRIORITY, NON-MILITARY PROGRAMS MIGHT WELL HAVE COOLED OFF INFLATIONARY PRESSURES AND AVOIDED THE PROSPECT OF ADDITIONAL FEDERAL TAXES.

ONE OF THE DANGERS NOW FACING THE ECONOMY IS THAT LABOR WILL GO FOR BROKE ON ITS 1967 WAGE NEGOTIATIONS. WE SORELY NEED A WAGE-PRICE STABILIZATION PLAN--A WORKABLE ONE. THE ADMINISTRATION TORPEDOED ITS CONTROVERSIAL ~~3.2 PER CENT~~ WAGE-PRICE GUIDEPOSTS BY INDULGING IN THE FICTION THAT THE PRESIDENTIALLY-ENDORSED PROPOSAL FOR SETTLING THE AIRLINES STRIKE WAS NON-INFLATIONARY.

IS IT MISCALCULATION OR POLITICS ALONE WHICH HAS DERAILED THE NEW ECONOMICS? I SHALL LEAVE THAT FOR YOU TO JUDGE.

HAVING REVIEWED THE STATEMENTS MADE BY ADMINISTRATION SPOKESMEN A YEAR AGO, IT IS DIFFICULT TO SEE HOW THEY PROVIDED YOU WITH MUCH USEFUL KNOWLEDGE ABOUT THE FUTURE COURSE OF YOUR GOVERNMENT AND THE ECONOMIC DEVELOPMENTS TO BE EXPECTED AS A CONSEQUENCE.

THIS HAS BEEN A PRETTY GRIM MESSAGE, ~~AND~~ I ~~AM~~ will NOT

~~GOING TO TRY TO~~ PREDICT WHAT LIES AHEAD.

THE JOB OF FORECASTING THE FUTURE IS A TOUGH ONE, AS MR. ACKLEY WILL ATTEST.

THERE ARE HITS AND ERRORS IN NEARLY EVERY PERFORMANCE, AND THIS IS TRUE OF THE CONGRESS AS WELL AS THE EXECUTIVE BRANCH.

I'D LIKE TO TELL YOU A LITTLE STORY NOW--A TRUE STORY--ABOUT CAPITOL HILL AND ONE OF ITS GREAT HUMORISTS, SENATOR NORRIS COTTON OF NEW HAMPSHIRE. THIS HAPPENED DURING THE 1966 WORLD SERIES.

COTTON AND A HALF DOZEN OTHER SENATORS WERE CLIMBING INTO A SENATE SUBWAY CAR TO GO TO THE FLOOR FOR A VOTE WHEN THE OPERATOR OF THE CAR REMARKED THAT THE LOS ANGELES DODGERS HAD COMMITTED SIX ERRORS THAT DAY. THIS, THE OPERATOR SAID, WAS AN ALL-TIME RECORD FOR ERRORS BY ONE

TEAM IN A WORLD SERIES GAME.

"WELL," SAID COTTON WHEN HE HEARD THE NEWS. "THE ONLY THING I CAN FIGURE OUT IS THAT ALL THE MEMBERS OF THE DODGERS BALL CLUB MUST BE REPUBLICANS--BECAUSE ONLY REPUBLICANS COULD DROP THE BALL THAT OFTEN."

HAVING JOINED SENATOR COTTON IN POKING A LITTLE FUN AT MYSELF AND MY COLLEAGUES, LET ME SAY THAT REPUBLICANS IN CONGRESS MAY HAVE COMMITTED POLITICAL ERRORS IN WASHINGTON IN 1966, BUT I SINCERELY BELIEVE THEY WERE RESPONSIBLE POLITICAL ERRORS--A WILLINGNESS TO FACE HARD ECONOMIC REALITY EVEN THOUGH IT MAY BE TEMPORARILY UN-POPULAR. THAT KIND OF ERROR IS LIKE A CHAMPION BALL PLAYER TRYING TO MAKE THE BIG PLAY IN A regular season BALL GAME. THIS IS THE KIND OF ERROR THAT MAKES PENNANT-WINNERS AT THE END OF THE SEASON--WHEN IT COUNTS--AND THAT DAY OF RECKONING IS NOT FAR AWAY.

*** [END] ***

MANUFACTURERS HANOVER TRUST COMPANY
350 PARK AVENUE, NEW YORK, N.Y. 10022

GABRIEL HAUGE
PRESIDENT

October 19, 1966

Dear Jerry,

I received the draft of your Business Council speech this morning and have just finished reading it. Because you indicated you wanted my comments by tomorrow morning at 10, I am dictating these few notes immediately and getting them into the mail, together with the draft on which I have made a couple of very minor editing points.

I think it's a very good draft and my main comment would relate to an additional way of approaching the new economics.

First of all, I think it is desirable that you have taken a constructive attitude toward the so-called Keynesian approach because one gets nowhere in just consigning the whole analysis to perdition. The one suggestion I would make is this: you attribute Johnson's failure to call for more adequate fiscal measures in 1966 pretty much wholly to politics. I would not disagree with that and I think that it is very likely true. I would add this thought: to the extent that his decision was not wholly political it was an outgrowth of a fatal miscalculation made by his advisors and himself last year when they prepared their recommendations for the Congress in January 1966. The miscalculation relates to the consequences of Johnson's call in July 1965 for a step-up of the war over in Viet Nam. Had the impact of that announcement been properly foreseen, and that is the job of government, he should have come forward with proposals for much tighter spending recommendations and very likely also with tax recommendations in January.

What I am saying, Jerry, is that I think you can hit him with a one-two punch. You can charge him with either or both miscalculation and politics.

Warm regards.

Sincerely yours,

Gabe

The Honorable Gerald R. Ford
House of Representatives
Washington, D. C.

MINORITY LEADER

United States
House of Representatives

October 18, 1966

Dear Gabriel,

Attached is a copy of the first draft of a speech which I am to give to The Business Council Saturday evening, October 22, at Hot Springs.

I would appreciate your suggestions as to any corrections, deletions or additions; and I would be grateful for any comment.

It would be helpful if I could receive your copy along with your comments by 10 o'clock on Thursday morning.

Sincerely,

Jerry Ford

/lr

FOR RELEASE NOON
THURSDAY OCTOBER 20 1966

REMARKS BY DR RAYMOND J SAULNIER, PROFESSOR OF ECONOMICS, BARNARD COLLEGE, COLUMBIA UNIVERSITY, PREPARED FOR THE ECONOMIC SYMPOSIUM AT THE ANNUAL MEETING OF THE AMERICAN LIFE CONVENTION, DENVER HILTON HOTEL, DENVER COLORADO
THURSDAY OCTOBER 20 1966

We are here today to talk about the economic and financial problems of the United States. I need not tell you that they are numerous. And I need not add that they will not be easy to solve. Let me begin by giving you my assessment of what these problems are.

AN ACCUMULATION OF PROBLEMS

FIRST, we have price inflation in the U.S. economy. We had to deal with this problem in the nineteen fifties, but by 1960 it had been overcome. Now we are again faced with inflation. So far this year wholesale prices of industrial goods have been rising at an annual rate close to 3 percent. In the first eight months of 1966 the consumer price index rose at a rate which if continued for a full year, would raise the cost of living 3-3/4 percent. Food prices are rising fastest of all, but the costs of services are going up nearly 4.5 percent a year and prices of commodities other than food are rising significantly faster than in the previous two years.

SECOND, we have cost inflation in the U.S. economy. We had to cope with this problem, too, in the nineteen fifties, but by 1961 labor cost per unit of output had been stabilized. Now we are again faced with rising costs per unit of output. In the past six months increases in wages and fringe benefits have been outstripping productivity improvement to an increasing extent. As a result labor cost per unit of output for the corporate economy as a whole is rising at an annual rate which exceeds 4 percent.

THIRD, the balance of the U.S. economy has been upset by unsustainable increases in capital goods spending. Between the second quarter of 1965 and the second quarter of 1966, plant and equipment expenditures rose nearly 20 percent while GNP rose just under 9 percent. Simple arithmetic tells one that this disparity cannot continue indefinitely.

FOURTH, the deficit in the U.S. balance of payments remains uncorrected. Indeed it has become larger. On the "liquidity" basis its seasonally adjusted annual rate was $1.4 billion in the first half of 1966 as compared with $940 million in the first half of 1965. On the "official reserve transactions" basis similarly expressed for the same periods, it was up nearly 15 percent. The longer this deficit continues the higher our short-term dollar liabilities to foreigners mount, and the lower our gold supply drops.

In short, we have not been solving problems. We have been producing problems, and stockpiling them.

HOW THEY CAME ABOUT

The question -- How did these problems come about? -- is by no means an academic one. It has obvious relevance to the question: How can they be corrected?

Basically this new inflation and this imbalance came about because in an economy heavily affected by rising defense expenditures expansionist fiscal and monetary policies were pushed too hard and continued too long.

The extent of expansionism can be judged from the following: comparing the five calendar years 1961-65 with the previous five years, the rate of increase of federal spending nearly doubled; the total of administrative budget deficits was up four times; and these recorded spending and deficit increases would be even greater if it were not for the veiling of many billions of dollars of expenditures by the sale of financial assets. Multiplying the impact of this fiscal ease, average annual increases in the money supply also quadrupled.

Expansionism on this scale is a sure recipe for trouble. And it would have caused trouble even sooner but for the fact that fiscal and monetary restraint in the second half of the nineteen fifties had restored cost and price stability in the U.S. economy by the end of the decade and prepared the way for a reasonable degree of expansionism. Indeed, policy was already being shifted to the expansionary side in 1959. But in the nineteen sixties it was pushed too hard. And, sin of sins, the closer the economy got to full employment the more expansionary policy became. Thus, in the second half of 1965 -- surrounded by evidence of emerging cost and price inflation, with an exceptionally large expansion of capital goods spending in full swing and with U.S. military forces more and more deeply involved in warfare halfway round the world -- the pressure of expansionist policies was intensified when it should have been moderated. Moderation then would have avoided a good part of the problems that confront us now.

Ultimately, a shift in policy had to come -- and it did. But it was late in coming about nine months late, I would say, and when it came it was one-sided. With fiscal policy increasingly expansive monetary policy was left alone to hold the fort. Moreover there appears to have been enough division of opinion among the monetary authorities to allow money supply expansion to accelerate for several months after the December 1965 increase in the discount rate. But, beginning around the first of May 1966, monetary policy turned abruptly restrictive. With the economy charging ahead, and with the commercial banking system loaned up to a degree unheard of for forty years, the inevitable result was last summer's skyrocketing of interest rates, a collapse of stock prices, and a serious impairment of confidence. All in all, a destructive and damaging experience; moreover, an unnecessary one.

So much for what has happened. Looking to the future, we have four principal problems:

FIRST - How to finance rising defense expenditures so as to prevent inflation from accelerating.

SECOND - How to work our way back to cost and price stability.

THIRD - How to move to a rate of increase of capital goods spending that is sustainable, without interrupting the economy's overall growth.

FOURTH - How to bring the deficit in our international payments within manageable limits.

These are formidable problems, to be sure. And it goes without saying that we must solve them without bringing on recession in the United States and without precipitating deflation abroad. But they are not impossible of solution. Naturally, approaches to them must be developed on the basis of definite assumptions concerning the economic outlook. Since I propose to conclude these remarks with some policy suggestions, let me turn briefly to the near-term outlook for the U.S. economy.

THE NEAR-TERM OUTLOOK

Essentially the evidence is telling two stories. For some months this year business cycle indicators have been saying that the economy was approaching a cyclical peak. On the other hand, the outlook for defense spending has been telling us that the economy would be under heavier and heavier upward pressure.

As it stands, defense spending has the upper hand. It was evident in the August figures that this factor in the economy was smothering the tendencies to cyclical slowdown. Weekly figures show this was also the case in September. And it continues in October. Accordingly the large GNP increase just reported for the third quarter was no surprise and we can expect another in the fourth quarter. Moreover, because I expect defense expenditures to continue to rise strongly, I expect a continuation of quarterly GNP increases in the first half of 1967.

Currently there is a good deal of debate as to what will happen after mid-1967. There are cyclical factors on the minus side so to speak; and the importance of defense spending in the economy makes the situation doubly precarious. But because I can only assume that our economy will be increasingly engaged in supplying military forces in Vietnam throughout the year, I am proceeding in the belief that there will be no overall downturn in 1967 in production or income. On the contrary, I expect the economy to continue -- in the second half of 1967 as well as in the first -- to be under a high and rising pressure.

In the circumstances, the balance of policy should be on the side of moderating the expansion of demand. The reasons are twofold: this is the way to resist inflation; and this is the way to improve our posture for resuming a more civilian-oriented growth in that happy and devoutly-hoped-for time when defense requirements recede.

But here let me express a word of caution. Although we need an anti-inflation program -- what in Western Europe would be called a stabilization program -- in view of the precariousness of our cyclical position it will be important not to carry it too far, not to over-react. While stabilization measures should be applied firmly the best strategy will be one that corrects our accumulation of problems in easy stages. Moreover, we will be well advised to stay flexible in policy.

POLICY SUGGESTIONS

FIRST, new budget estimates for the current fiscal year are needed at once. Especially, we need a realistic assessment of defense spending requirements, which have been consistently underestimated. In what is to all intents and purposes a war economy, it is impossible to plan monetary policy, let alone fiscal policy, without having a candid assessment of what military operations are going to cost. Actually, a revised budget was needed several months ago when it became evident that the assumption on which the January budget was based, namely, that military operations in Vietnam would be over by July 1967, was no longer valid. The fact that Congress had not finished its work on the original budget requests was no basis for delay. Guessing what Congress will do is far from our most difficult estimating problem. Nor should the political calendar be a consideration in such matters.

SECOND, based on an up-to-date and realistic budget the Administration should propose to Congress a fiscal program that will significantly reduce and ultimately eliminate the inflationary effect of deficit federal spending. Beyond that it should be a fiscal program that will permit an easing of monetary policy. The object should be to move the federal budget toward balance. And, in figuring whether this is being accomplished or not net sales of federally-held financial assets should be added to the deficit as presently reported in the administrative budget.

THIRD, efforts to hold down, and ultimately to eliminate the federal budgetary deficit should start with limitations on federal spending Defeatism is the typical mood on this subject, but it needn't be. As an illustration of expenditures that could be re-examined to advantage, let me recall that federal credit programs alone are budgeted to disburse $8 billion in fiscal 1967.

FOURTH, if the executive branch concludes that it cannot take enough of the inflationary effect out of the budget by expenditure limitation -- and I trust it will not reach that conclusion -- it should propose a broadbased temporary tax increase that will do the job. Because what we face is basically a problem in war finance, it is consumption not investment, that needs to be curbed. The tax program if there is to be one should be designed with that in mind.

In this connection let me remark that the suspension of the investment tax credit was not only badly timed -- because there was evidence already of a slowing down in the increase of new orders for machinery and equipment -- but as an anti-inflationary fiscal measure it was totally unsuited for our present needs. And coupling the suspension with a promise of reinstatement in January 1968 can only produce a kind of "new orders airpocket" in an industry which at this time we should be trying to stabilize, not destabilize

FIFTH, our economy needs a moderate easing of monetary policy. As I have already stated, an adequate fiscal program would permit such an easing. In the absence of fiscal restraint, monetary policy has been severely restrictive Although last summer's abrupt move from money supply inflation to money supply deflation will not go down as one of the Federal Reserve System's most skilful operations responsibility for what was a near-crisis in U.S. financial markets -- with serious repercussions abroad -- rests more heavily on fiscal policy. While the monetary authorities were belatedly trying to slow things down fiscal policy was all the time pulling in an inflationary direction. Our long-suffering economy has endured all of this tug-o-war it can safely stand.

SIXTH, competition for savings should be restored as soon as possible by eliminating the ceilings imposed recently on savings account interest payments. We should be doing everything possible to encourage thrift, not putting ceilings on what people can be paid for their savings.

SEVENTH, although it was a year late in coming the decision to abandon financial asset sales was a good one. But it created a new debt-management problem and to ease this problem it should have been coupled with a request to Congress to abandon the 4-1/4 percent statutory interest rate ceiling on long-term federal debt. In order to permit rational noninflationary debt management a request for the elimination of this relic of Populist sentiment should be made promptly.

EIGHTH, labor cost increases must be brought back to parity with average productivity improvement. This is not a job for guideposts. It should be clear now that they are futile unless backed up by an adequate fiscal and monetary policy. And if monetary and fiscal policy is adequate they aren't needed. Thus, the most helpful thing government can do to stabilize labor cost per unit of output is to avoid inflationary fiscal and monetary policies. Next government should take steps to find equitable ways to equalize the competitive positions of labor and management in contract bargaining. A Presidentially-appointed Citizens Commission -- its members without commitment either to labor or management -- to make recommendations to this end would be a constructive move.

Finally, the Administration must stand firm on two principles: (i) it is inflationary to include cost-of-living increases in wage settlements; (ii) the only workable standard for noninflationary wage settlements is the average rate of productivity improvement across the economy not in specific industries. Deviations from these two principles accelerate inflation; and not a word should be spoken by government and not an action taken, that will lead anyone to believe anything else.

NINTH, noninflationary fiscal and monetary policies are also essential to help bring our international payments closer to balance. It is already clear -- as U.S. interest rates have moved closer to those abroad -- what monetary policy can do. The next move is up to fiscal policy.

Beyond that, there are many specific approaches to be pursued. Our present program is a mixture of positive and negative elements. We must put more stress on positive elements: on increasing exports in which the avoidance of cost inflation is crucial and attracting foreign capital and visitors to the

United States. The principal negative element -- limitations on private capital outflow -- if continued for long will seriously undermine our international economic position. Moreover, limitations on the free flow of capital constitute a retreat from the liberal international commercial policy in which the United States should provide world leadership. One imperative of U.S. policy must be to eliminate these backward-looking and self-defeating measures as soon as possible.

There are possibilities within the sphere of government transactions. With the deficit what it is the tying of foreign assistance must unfortunately be continued. It should be strengthened wherever necessary. And every encouragement should be given to moves to reduce U.S. military forces in Western Europe.

TENTH, it must be obvious now that we must learn to reduce the hardcore unemployment that remains even at high-employment levels not by overheating the entire economy with aggregate demand but by lifting the employability of the unemployed through programs designed specifically for this purpose. More and more of this is being done but still not enough. We should be spending on such programs every dollar that can constructively be used in them. This is the structuralist approach to the reduction of residual unemployment. To help make it effective we need a thoroughgoing census of unemployment and continuing information on job vacancies.

A REFORM MOVEMENT COMING UP?

You will judge from these remarks that my major quarrels with economic policy are (i) that it has pushed the economy when it needed no pushing; (ii) that it has tried to do with guideposts and so-called voluntary restraints what it should have done with monetary and fiscal policy; and (iii) that when it came to restraint, it left the job to all intents and purposes entirely to monetary policy.

I should like to think it possible to start a reform movement on each of these three points. And, seriously I expect policy to move in that direction. Indeed my final forecast for today is that policy in 1967 will follow pretty much the lines implicit in the suggestions made in these remarks. Not, mind you, because I have suggested them, but because they are the only lines of policy that make sense in the circumstances. And I am enough of an optimist to believe that what makes sense will eventually come out on top. If it does, we have a good chance of achieving, in the remaining years of this decade and in the nineteen seventies the spectacular advances of which our economy is capable. If it doesn't the next list of problems will be a longer one. We shall see.

New York City
October 17 1966

Raymond J Saulnier

First Draft
10/17/66
Gerald R. Ford

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But I do prize your invitation, and I thank you for it. And because it is at once honor, challenge and opportunity, I have thought long and hard about an appropriate message.

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For instance, my first impulse was to explore with you the political inflation and questionable credit that accompany the escalating dues to the President's Club.

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So, gentlemen, in some desperation I then retreated to the politician's standby -- Truth. I got into this project with enthusiasm, happily examining the credibility gap -- of course, in a non-partisan way. Then various of my friends on the Commerce and Banking and Currency Committees said even Truth has gone off limits, because of business concern over "Truth in Packaging" and "Truth in Lending." I believe your distinguished Chairman, among others I see here, experienced recent discomforts in this area.

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I have turned, therefore, to a topic certain to be bland and inoffensive -- a reminder of what your Council was advised here 12 months ago by Administration leaders, contrasting this with what has actually happened. Doing so may offer us perspective on what they are advising now.

So let me refresh your memory.

Last year almost every one of your government speakers rhapsodized over "the previous fifty-six months of continued expansion." But strangely, not one thought to mention, first, that during all this period the use of credit had to be increased at a rate much more rapid than the rate of expansion of income or, second, that the liquidity of corporations and commercial banks had been reduced year by year. It is interesting -- and not a little worrisome -- that these basics escaped the attention of such expert observers. One wonders if our present concerns over tight money, high interest rates and rising prices paid by consumers could possibly relate in any way to these underlying considerations so curiously unmentioned a year ago.

Last year Economic Council Chairman Gardner Ackley was quoted as saying, "I am optimistic about the continued stability of costs and prices." He also said, "Government has the weapons and the will to maintain expansion within non-inflationary bounds." Some of you may also recall that he was reported to hold out hope for further tax cuts for low income families in this year of 1966.

These views of the President's top economic advisor, I must say in fairness, did include a reservation. He acknowledged the possibility that outlays required to carry forward the part-time Great Society program -- the Viet Nam war -- might over-heat the economy.

And a week previously Secretary Fowler had said that, if the prospective Viet Nam costs were $10 billion or more, he would be thinking about a tax increase. But lest anyone be too disturbed, the Secretary quickly went on to indicate that he was not really contemplating such an increase after all.

Now, in reviewing these remarks, isn't it puzzling -- certainly I find it so -- that the President's top economic advisor and even the Secretary of the Treasury were apparently so much in the dark on prospective military expenditures and what to do about them. We at the Capitol, I may say, had strong indications as to those figures and publicly voiced them time and time again. One hesitates to conclude that none of the Administration civilian leaders understood what was being planned or what was to be required. The alternative conclusion -- that they knew but didn't say -- is even worse.

It is true that Mr. Fowler was exercised over deepening troubles in the international monetary mechanism. You recall what he said here: "Despite its many and great virtues and accomplishments, our international monetary system stands at a crossroads. Since 1958, the United States' balance of payments deficits have supplied the principal source of additional liquidity to the world monetary system. About three-quarters of the new official reserves of other nations have been built out of these deficits, and large foreign private holdings of dollars have added to the potential strain on United States' reserves."

Actually, quite a few financial experts have grown apprehensive over the kind of liquidity mentioned by Secretary Fowler. Some of them advise me that the liquidity which we have produced in the world monetary system has been -- and still is -- one of the principal elements in world price inflation. It is well known that both friendly and not-so-friendly central banks have drawn upon our gold reserves to protect themselves against the consequences of the political finance which we employ.

Yet, even in this area Secretary Fowler was not all gloom and doom. Indeed, he radiated optimism saying: "We are now well along in the process of ending our deficits and bringing our international payments into sustainable equilibrium. The President, the Congress and informed financial authorities around the world all are agreed that the United States must put its international accounts in order, and keep them so . . . . . . to arrest drains of the United States' reserves that have flowed from some portion of these deficits being paid off in United States' gold. That erosion cannot go on indefinitely. It must be, and is being, stopped now."

How good it was to have those reassuring words last year. Now, however, let's take a look. The Foreign Trade Council estimates the deficit in the United States international accounts as approximating $2.5 billion in 1966. This compares to $1.3 billion reported on an Official Transactions Basis in 1965. Has something gone wrong with our firm pledge to put our international accounts in order? What happened to the ending of the drain of gold which, as the Secretary said twelve months ago, cannot go on indefinitely? As a matter of fact, do we find here a parallel with the touted fifty-six months of continued expansion, -- an expansion, however, financed by an unsustainable reduction in corporation and bank liquidity and a similarly unsustainable increase in credit use greatly exceeding the increase in income payments? It was good to have such categorical reassurances a year ago. Today one wonders why and how they could have been made. One wonders if the nation is getting not commitments, not candid predictions, but perhaps hopeful expressions related not necessarily to fact but to hoped-for public attitudes.

Events do seem to have borne out Secretary Fowler's statements in one important respect. I refer to the opinion he stated here that: "Our international monetary system stands at a crossroads."

Now, one could agree with that opinion a year ago. We could all agree with the same statement if repeated today. This raises a couple of interesting questions. What new road is to be traveled if and when the crossroad is crossed? Also, just where has the crossroad gone? Apparently we have been immobilized there for 52 weeks.

Last year Vice President Humphrey also shared some helpful ideas with your Council. He said here, "We see no present likelihood that expenditures are rising enough to bring the threat of inflation. If they did the President of the United States would take appropriate fiscal and monetary action and budgetary action to throttle that inflation. I can assure you of that tonight. Have no doubt about it."

After these happy thoughts, the Vice President discoursed for a time on the wealth of the nation and the size of the gross national product. You may recall his conclusion: "Not only will we be able to press ahead, therefore with the necessary defense, but we will also be able to move ahead prudently with some of the programs that your Government and this Administration have sponsored for the Great Society."

Well, we had to wait a few months for the President's budget before we found out what this reassurance meant. We found that the Great Society programs, immense as they already were, were being expanded. We found that tax collections would be accelerated. We discovered that the heavy expenditures reported would be politically defused by refinancing conducted by Federal agencies. And we were surprised to note that the war in Viet Nam would end precisely and completely on June 30, 1967, if the Federal budget could be accepted as a guide.

Taken all together, we made a fascinating discovery. Here in the United States were were adopting the ancient practice of the Chinese war lords who required that taxes be paid five years in advance. This is a fiscal delight for people in government whose aspirations exceed current income, but it has one weakness. It develops a vacuum in tax receipts later on unless the tax rates are increased.

We also found that many businessmen had not read the Vice President's reassurances as perhaps he intended, hence they were unprepared for accelerated tax payments. These unfortunates were forced to borrow the required funds. The result was in full harmony with the economic axiom. When bank and corporate liquidity has been brought to the lowest levels in decades, and when businessmen are thus obliged to borrow to pay their taxes, interest rates are bound to go up.

As a matter of fact, as one reviews these official statements of a year ago, it becomes very difficult to see how they provided your Council much useful knowledge about the probable conduct of public affairs or the economic developments to be expected as a consequence. Nevertheless, after your meeting the newspapers reported that you were optimistic. If this viewpoint was fairly reported, I presume you were optimistic because you believed that aggregate income would go up and that the sales of many businesses would expand. I suspect you also exercised your prerogative of drawing your own conclusions from what you had been told by people in high places and, possibly more specifically, from what you were not told.

Now, just a word here to reposition ourselves in the situation that prevailed 12 months ago.

A year ago, for various reasons, most businessmen were deciding to raise their investment in plant and equipment. Government policy was obviously to spend more, probably considerably more than the amounts officially stated, so a lusty demand for goods seemed assured. Industry was operating at boom levels. It was a time of substantially full employment. So businessmen by and large continued to pour more spending into plant and equipment. It is this combination of circumstance that brought investment in plant and equipment to levels which I understand a number of reputable economists consider unsustainable.

It was in the same period, as you know, that labor leaders recognized a good thing when they saw it. With industry booming, with corporate profit margins at the most satisfactory level in years, and with deeply obligated officials in charge in Washington, Labor saw little reason not to press for sharp wage increases. Since then, guidelines or no guidelines, wages have been increased beyond the rate which can be offset by increased productivity. Moreover, we should note here our habit of dealing in national aggregates. This obscures an important fact -- that changes in the rate of productivity in different industries and different businesses are quite different. The fact is, these national aggregates mean little unless the wage and productivity rates of specific businesses and products have been determined in the operation of a real market economy in which no participant is permitted to use force. To some extent this truth was recognized in the President's Economic Message of January, 1962, when the concept of wage-price guidelines was first presented. Since then, however, reservations about the use of guidelines have been more or less forgotten, and now the guidelines themselves have become virtually ignored.

Well then -- with government spending skyrocketing, with larger investments in plant and equipment and with larger wage demands, income payments and consumer expenditures of course have gone up. Well and good, except for one thing -- despite the pledges made here a year ago, the resulting economic expansion has been accompanied by inflation. This misfortune has been indulged to the point that it has reduced not only the value of the higher wages, but it has also cut deeply into the value of all savings accumulated during the long past by literally millions of hard-working, self-reliant and productive Americans. I will simply say, it has been a cruel thing for Mr. Average American that the Administration has done.

I am sure it is generally appreciated that the Administration has forced the Federal Reserve to bear the brunt of responsiblility for restricting inflationary expansion. All the while it has increased expenditures while imploring others to exercise restraint.

I suppose that in a previous time this might have worked better. But, in the present, it seems increasingly evident that high and progressive tax rates have reduced the effectiveness of monetary policy. The economic reformers who advocated the use of high and progressive tax rates to redistribute income probably never foresaw that the tax procedure, which they proposed, would reduce the cost of borrowed money to those who pay high tax rates on current income. On the other hand, if interests costs are not deductible in computing taxable income, it is at least doubtful that a high volume of ~~interest,~~ investment income and employment can be maintained. I am sure I don't need to spell this out in detail. But I do invite your attention to this fact -- efforts to reform the distribution of income by use of tax policy seem to have impaired the effectiveness of monetary policy as a means of restraining inflationary expansion.

Actually, it is a good question whether fiscal policy, so esteemed by many businessmen, bankers and economists, can really produce results we want and need in the present situation. A year ago many people called for higher tax rates to provide funds required to finance the war. Secretary Fowler told you here, as noted earlier, that he would propose higher taxes if he thought the prospective cost of Viet Nam would be $10 billion or more.

I must say, however, that the current widespread belief in the effectiveness of fiscal policy, as a means of restricting inflation, seems somewhat naive. Surely, if we raise taxes simply to get into government hands funds which are then to be spent, the result can only be to transfer income or funds from the taxpayers to other recipients of income. This kind of fiscal policy serves only to pour tax water from one jug into another, while Uncle sips off his portion in administrative cost.

Are we to believe that an inflationary spiral can be brought under control by such means? It would seem that the fiscal policy we need to restrict inflationary expansion would be one which assures a surplus large enough to offset the effects of deficit financing in the non-government sectors of the economy. But, even if we should try this restrictive fiscal policy -- which the present Administration, I suspect, has neither the desire nor the political courage to apply -- we would have problems.

In the first place, businessmen will borrow money to finance accelerated tax payments. It will be interesting, by the way, to see how much will be borrowed for this purpose next Spring. Second, I am sure it is no news to you, and certainly not to your accountants, that taxes on income are a cost. It follows that your prices will go up as costs go up and as it becomes possible to raise prices. Those who call for a tax increase, therefore, ought to at least own up to the fact that prices will be thereby forced up for consumers if the goods they want are to be available.

I increasingly believe that our basic trouble is this: we insist on thinking of how monetary and fiscal policies could have been used in the kind of economy which existed in the past. Such an economy no longer exists. It has been reformed or restructured, no doubt with good intentions, to the point where now our bright and shiny fiscal and monetary procedures produce effects quite different from what we expect. If that statement sounds extreme, I suggest a rereading of the official pronouncements of a year ago at this meeting.

In a few more weeks -- perhaps soon after November 8 -- you may hear a good deal more about the character and dollar cost of this bloody war. Candor may come easier then for those charged with administration. With these matters out in the open, I think you may expect an Administration whimper for more tax revenue. Even if our new-found friends -- our Communist enemies -- decide to de-escalate the war in return for the bonanzas recently proferred by the President, large scale spending for military operations will not suddenly stop on June 30, 1967. These costs will stay high for an appreciable period, come what may. Even an undeclared and computerized war, directed by political rather than military leaders, is costly from the viewpoint of the Bureau of the Budget -- as well as the viewpoints of the men doing the fighting and dying, their families and those persons who are conversant with these matters.

So, gentlemen, I have to suggest caution, though I should much prefer to emulate those who see only sunlight and paradise ahead. I also suggest prudence in again adopting the cheery expectations which you are reported to have developed a year ago on the basis of what you were told here.

The period of comfortable inflation with higher sales and profits seems to be ending. It has already terminated for some. Possibly you will wish to take a good hard look at the situation in which you will likely find yourselves in a few more weeks when the government may feel a bit freer about leveling with the folks at home. As usual, we will hear that the gross national product will be larger. But nowadays the gross national product goes up even during periods of recession. I trust, for this reason, that you will not let these large amorphous numbers or statements like those uttered here a year ago give too rosy a hue to your views.

You may remember another point made here by Vice President Humphrey last year. He said we are not "changing to methods of socialism."

Now, that was ever so comforting. I do not profess to understand all of the varieties of socialism which have been advocated, but I for one accept his statement because I do not yet see signs that the Administration wants to nationalize industry. Also I recall that even the National Socialists in Germany found it much more efficient to control industry than to try to own and operate it. With that exception, however, I do not see why many good socialists should disagree overmuch with the direction and pace of the Great Society now under way. It is my view -- and my Party's view -- that these trends are baleful for business and baleful for America's system of free enterprise and individual responsibility. Perhaps at this meeting this year your Administration spokesmen can be induced to project these political and economic trends for you over the decade ahead. If they do, and if their anticipations are more accurately and candidly stated than those presented to you a year ago, I fear not for November 8, but I do fear for the future of the President's Club.

From Bryce Harlow

Too political?

First Draft
10/17/66
Gerald R. Ford

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These views of the President's top economic advisor, I must say in fairness, did include a reservation. He acknowledged the possibility that outlays required to carry forward the part-time Great Society program -- the Viet Nam war -- might over-heat the economy.

And a week previously Secretary Fowler had said that, if the prospective Viet Nam costs were $10 billion or more, he would be thinking about a tax increase. But lest anyone be too disturbed, the Secretary quickly went on to indicate that he was not really contemplating such an increase after all.

Now, in reviewing these remarks, isn't it puzzling -- certainly I find it so -- that the President's top economic advisor and even the Secretary of the Treasury were apparently so much in the dark on prospective military expenditures and what to do about them. We at the Capitol, I may say, had strong indications as to those figures and publicly voiced them time and time again. One hesitates to conclude that none of the Administration civilian leaders understood what was being planned or what was to be required. The alternative conclusion -- that they knew but didn't say -- is even worse.

It is true that Mr. Fowler was exercised over deepending troubles in the international monetary mechanism. You recall what he said here: "Despite its many and great virtues and accomplishments, our international monetary system stands at a crossroads. Since 1958, the United States' balance of payments deficits have supplied the principal source of additional liquidity to the world monetary system. About three-quarters of the new official reserves of other nations have been built out of these deficits, and large foreign private holdings of dollars have added to the potential strain on United States' reserves."

Actually, quite a few financial experts have grown apprehensive over the kind of liquidity mentioned by Secretary Fowler. Some of them advise me that the liquidity which we have produced in the world monetary system has been -- and still is -- one of the principal elements in world price inflation. It is well known that both friendly and not-so-friendly central banks have drawn upon our gold reserves to protect themselves against the consequences of the political finance which we employ.

Yet, even in this area Secretary Fowler was not all gloom and doom. Indeed, he radiated optimism saying: "We are now well along in the process of ending our deficits and bringing our international payments into sustainable equilibrium. The President, the Congress and informed financial authorities around the world all are agreed that the United States must put its international accounts in order, and keep them so . . . . . . to arrest drains of the United States' reserves that have flowed from some portion of these deficits being paid off in United States' gold. That erosion cannot go on indefinitely. It must be, and is being, stopped now."

How good it was to have those reassuring words last year. Now, however, let's take a look. The Foreign Trade Council estimates the deficit in the United States international accounts as approximating $2.5 billion in 1966. This compares to $1.3 billion reported on an Official Transactions Basis in 1965. Has something gone wrong with our firm pledge to put our international accounts in order? What happened to the ending of the drain of gold which, as the Secretary said twelve months ago, cannot go on indefinitely.? As a matter of fact, do we find here a parallel with the touted fifty-six months of continued expansion, -- an expansion, ~~however,~~ financed by an unsustainable reduction in corporation and bank liquidity and a similarly unsustainable increase in credit use greatly exceeding the increase in income payments? It was good to have such categorical reassurances a year ago. Today one wonders why and how they could have been made. One wonders if the nation is getting not commitments, not candid predictions, but perhaps hopeful expressions related not necessarily to fact but to hoped-for public attitudes.

Events do seem to have borne out Secretary Fowler's statements in one important respect. I refer to the opinion he stated here that: "Our international monetary system stands at a crossroads."

~~Now, one could agree with that opinion a year ago.~~ We could all agree with the same statement if repeated today. This raises a couple of interesting questions. What new road is to be traveled if and when the crossroad is crossed? Also, just where has the crossroad gone? Apparently we have been immobilized there for 52 weeks.

Last year Vice President Humphrey also shared some helpful ideas with your Council. He said here, "We see no present likelihood that expenditures are rising enough to bring the threat of inflation. If they did the President of the United States would take appropriate fiscal and monetary action and budgetary action to throttle that inflation. I can assure you of that tonight. Have no doubt about it."

After these happy thoughts, the Vice President discoursed for a time on the wealth of the nation and the size of the gross national product. You may recall his conclusion: "Not only will we be able to press ahead, therefore with the necessary defense, but we will also be able to move ahead prudently with some of the programs that your Government and this Administration have sponsored for the Great Society."

Good

Well, we had to wait a few months for the President's budget before we found out what this reassurance meant. We found that the Great Society programs, immense as they already were, were being expanded. We found that tax collections would be accelerated. We discovered that the heavy expenditures reported would be politically ~~defused~~ de-fused by refinancing conducted by Federal agencies. And we were surprised to note that the war in Viet Nam would end precisely and completely on June 30, 1967, if the Federal budget could be accepted as a guide.

Taken all together, we made a fascinating discovery. Here in the United States ~~wexx~~ were adopting the ancient practice of the Chinese war lords who required that taxes be paid five years in advance. This is a fiscal delight for people in government whose aspirations exceed current income, but it has one weakness. It develops a vacuum in tax receipts later on unless the tax rates are increased.

We also found that many businessmen had not read the Vice President's reassurances as perhaps he intended, hence they were unprepared for accelerated tax payments. These unfortunates were forced to borrow the required funds. The result was in full harmony with the economic axiom. When bank and corporate liquidity has been brought to the lowest levels in decades, and when businessmen are thus obliged to borrow to pay their taxes, interest rates are bound to go up.

As a matter of fact, as one reviews these official statements of a year ago, it becomes very difficult to see how they provided your Council much useful knowledge about the probable conduct of public affairs or the economic developments to be expected as a consequence. Nevertheless, after your meeting the newspapers reported that you were optimistic. If this viewpoint was fairly reported, I presume you were optimistic because you believed that aggregate income would go up and that the sales of many businesses would expand. I suspect you also exercised your prerogative of drawing your own conclusions from what you had been told by people in high places and, possibly more specifically, from what you were not told.

Now, just a word here to ~~reposition~~ re-position ourselves in the situation that prevailed 12 months ago.

A year ago, for various reasons, most businessmen were deciding to raise their investment in plant and equipment. Government policy was obviously to spend more, probably considerably more than the amounts officially stated, so a lusty demand for goods seemed assured. Industry was operating at boom levels. It was a time of substantially full employment. So businessmen by and large continued to pour more spending into plant and equipment. It is this combination of circumstance that brought investment in plant and equipment to levels which I understand a number of reputable economists consider unsustainable.

It was in the same period, as you know, that labor leaders recognized a good thing when they saw it. With industry booming, with corporate profit margins at the most satisfactory level in years, and with deeply obligated officials in charge in Washington, Labor saw little reason not to press for sharp wage increases. Since then, guidelines or no guidelines, wages have been increased beyond the rate which can be offset by increased productivity. Moreover, we should note here our habit of dealing in national aggregates. This obscures an important fact -- that changes in the rate of productivity in different industries and different businesses are quite different. The fact is, these national aggregates mean little unless the wage and productivity rates of specific businesses and products have been determined in the operation of a real market economy in which no participant is permitted to use force. To some extent this truth was recognized in the President's Economic Message of January, 1962, when the concept of wage-price guidelines was first presented. Since then, however, reservations about the use of guidelines have been more or less forgotten, and now the guidelines themselves have become virtually ignored.

Well then -- with government spending skyrocketing, with larger investments in plant and equipment and with larger wage demands, income payments and consumer expenditures of course have gone up. Well and good, except for one thing -- despite the pledges made here a year ago, the resulting economic expansion has been accompanied by inflation. This misfortune has been indulged to the point that it has reduced not only the value of the higher wages, but it has also cut deeply into the value of all savings accumulated during the long past by literally millions of hard-working, self-reliant and productive Americans. I will simply say, it has been a cruel thing for Mr. Average American that the Administration has done.

I am sure it is generally appreciated that the Administration has forced the Federal Reserve to bear the brunt of responsiblility for restricting inflationary expansion. All the while it has increased expenditures while imploring others to exercise restraint.

I suppose that in a previous time this might have worked better. But, in the present, it seems increasingly evident that high and progressive tax rates have reduced the effectiveness of monetary policy. The economic reformers who advocated the use of high and progressive tax rates to redistribute income probably never foresaw that the tax procedure, which they proposed, would reduce the cost of borrowed money to those who pay high tax rates on current income. On the other hand, if interests costs are not deductible in computing taxable income, it is at least doubtful that a high volume of interest, income and employment can be maintained. I am sure I don't need to spell this out in detail. But I do invite your attention to this fact -- efforts to reform the distribution of income by use of tax policy seem to have impaired the effectiveness of monetary policy as a means of restraining inflationary expansion.

Actually, it is a good question whether fiscal policy, so esteemed by many businessmen, bankers and economists, can really produce results we want and need in the present situation. A year ago many people called for higher tax rates to provide funds required to finance the war. Secretary Fowler told you here, as noted earlier, that he would propose higher taxes if he thought the prospective cost of Viet Nam would be $10 billion or more.

I must say, however, that the current widespread belief in the effectiveness of fiscal policy, as a means of restricting inflation, seems somewhat naive. Surely, if we raise taxes simply to get into government hands funds which are then to be spent, the result can only be to transfer income or funds from the taxpayers to other recipients of income. This kind of fiscal policy serves only to pour tax water from one jug into another, while Uncle sips off his portion in administrative cost.

Are we to believe that an inflationary spiral can be brought under control by such means? It would seem that the fiscal policy we need to restrict inflationary expansion would be one which assures a surplus large enough to offset the effects of deficit financing in the non-government sectors of the economy. But, even if we should try this restrictive fiscal policy -- which the present Administration, I suspect, has neither the desire nor the political courage to apply -- we would have problems.

In the first place, businessmen will borrow money to finance accelerated tax payments. It will be interesting, by the way, to see how much will be borrowed for this purpose next Spring. Second, I am sure it is no news to you and certainly not to your accountants, that taxes on income are a cost. It follows that your prices will go up as costs go up and as it becomes possible to raise prices. Those who call for a tax increase, therefore, ought to at least own up to the fact that prices will be thereby forced up for consumers if the goods they want are to be available.

I increasingly believe that our basic trouble is this: we insist on thinking of how monetary and fiscal policies could have been used in the kind of economy which existed in the past. Such an economy no longer exists. It has been reformed or restructured, no doubt with good intentions, to the point where now our bright and shiny fiscal and monetary procedures produce effects quite different from what we expect. If that statement sounds extreme, I suggest a rereading of the official pronouncements of a year ago at this meeting.

In a few more weeks -- perhaps soon after November 8, -- you may hear a good deal more about the character and dollar cost of this bloody war. Candor may come easier then for those charged with administration. With these matters out in the open, I think you may expect an Administration whimper for more tax revenue. Even if our new-found friends -- our Communist enemies -- decide to de-escalate the war in return for the ~~bonanza~~ trade bonanzas recently proferred by the President, large scale spending for military operations will not suddenly stop on June 30, 1967. These costs will stay high for an appreciable period, come what may. Even an undeclared and computerized war, directed by political rather than military leaders, is costly from the viewpoint of the Bureau of the Budget -- as well as the viewpoints of the men doing the fighting and dying, their families and those persons who are conversant with these matters.

So, gentlemen, I have to suggest caution, though I should much prefer to emulate those who see only sunlight and paradise ahead. I also suggest prudence in again adopting the cheery expectations which you are reported to have developed a year ago on the basis of what you were told here.

The period of comfortable inflation with higher sales and profits seems to be ending. It has already terminated for some. Possibly you will wish to take a good hard look at the situation in which you will likely find yourselves in a few more weeks when the government may feel a bit freer about leveling with the folks at home. As usual, we will hear that the gross national product will be larger. But nowadays the gross national product goes up even during periods of recession. I trust, for this reason, that you will not let these large amorphous numbers or statements like those uttered here a year ago give too rosy a hue to your views.

You may remember another point made here by Vice President Humphrey last year. He said we are not "changing to methods of socialism."

Now, that was ever so comforting. I do not profess to understand all of the varieties of socialism which have been advocated, but I for one accept his statement because I do not yet see signs that the Administration wants to nationalize industry. Also I recall that even the National Socialists in Germany found it much more efficient to control industry than to try to own and operate it. With that exception, however, I do not see why many good socialists should disagree overmuch with the direction and pace of the Great Society now under way. It is my view -- and my Party's view -- that these trends are baleful for business and baleful for America's system of free enterprise and individual responsibility. Perhaps at this meeting this year your Administration spokesmen can be induced to project these political and economic trends for you over the decade ahead. If they do, and if their anticipations are more accurately and candidly stated than those presented to you a year ago, I fear not for November 8, but I do fear for the future of the President's Club.

THE BUSINESS COUNCIL

888 SEVENTEENTH STREET, N.W.
WASHINGTON, D.C. 20006

October 3, 1966

Memorandum for All Council Members, Guests and Their Wives
Attending the October 1966 Meeting at
The Homestead, Hot Springs, Virginia

I. Enclosed are:

a. Schedule of social events.

b. First names and home addresses of Council members, as of September 1966.

c. List of new Council members, 1963-1966.

d. Tentative agenda for business sessions.

e. Notice on Ladies' golf.

f. List of expected Council guests, with brief biographies.

II. a. The Tower Lounge, opposite the Tower elevator, will be set aside for the exclusive use of Council members, Council guests and their wives from 8:00 p.m. Thursday until 8:00 p.m. Sunday.

b. Due to space limitations, members and their wives are requested not to invite non-Council guests into the Tower Lounge or to the receptions before dinner.

c. In order to eliminate embarrassment to anyone, it is requested that attendance at the Friday and Saturday night dinners be limited to Council members and official Council guests.

d. As in the past, it is requested that Council members refrain from holding private social functions at times which conflict with scheduled Council events, particularly cocktail parties before the Council dinners.

e. Dress will be optional on Thursday evening, black tie on Friday and Saturday evenings.

f. With the exception of the Head Table, seating for the Friday and Saturday night dinners will be by drawings from the bowls located between the Georgian and Commonwealth Rooms.

g. Gratuities in the Tower Lounge and for service at the scheduled receptions and dinners will be taken care of by the Council. Service in the main dining room, the Casino, in rooms and in getting to and from the airport should be taken care of by the individual.

h. With reference to the Men's Golf Tournament on Saturday at The Homestead Course:

(1) The entry fee of $15.00 (for prizes) should be paid to the Club Pro before teeing off.

(2) The starter will assist those members and guests so desiring to make up foursomes.

(3) For the personal pleasure and convenience of the participants, it is important that they arrange for starting time with the Golf Shop well in advance.

i. You will notice from the enclosed announcement on ladies' golf that Mrs. William Allen has agreed to serve as Chairman and to help out with any arrangements that may be necessary.

j. Again, a round-robin, doubles tennis tournament will be held, to begin at 1:30 p.m. on Friday afternoon on the Casino Courts. It is urged that all those wishing to play please sign up in the Writing Room, as soon after arrival as possible, where appropriate entry slips will be provided. Mr. Preston Hotchkis has kindly agreed to act as Chairman for this event and will be glad to assist the players in making arrangements. A reasonable entry fee will be established.

k. IT WOULD BE GREATLY APPRECIATED IF MEMBERS WOULD ADVISE EITHER THE EXECUTIVE SECRETARY OR MRS. BURKE OF ANY LAST MINUTE CHANGES IN DINNER PLANS OR DEPARTURE TIMES. MESSAGES MAY BE LEFT AT THE DESK OR AT THE COUNCIL STAFF HEADQUARTERS IN THE WRITING ROOM, JUST OFF THE TOWER LOUNGE.

III. Piedmont Airlines has commercial air service direct to Ingalls Field, Hot Springs, Virginia. The following schedule will be in effect at the time of the October meeting. All times given are Eastern Daylight Time

<u>Flight 411 - Daily</u>

Lv Washington	1:25 p.m.
Ar Hot Springs	2:47 p.m.
Lv Hot Springs	2:52 p.m.
Ar Roanoke	3:14 p.m.

<u>Flight 791 - Daily</u>

Lv Washington	7:15 p.m.
Ar Hot Springs	8:20 p.m.
Lv Hot Springs	8:25 p.m.
Ar Roanoke	8:47 p.m.

<u>Flight 702 - Daily</u>

Lv Roanoke	2:10 p.m.
Ar Hot Springs	2:33 p.m.
Lv Hot Springs	2:38 p.m.
Ar Washington	3:56 p.m.

<u>Flight 790 - Daily Ex. Sunday</u>

Lv Roanoke	7:20 a.m.
Ar Hot Springs	7:43 a.m.
Lv Hot Springs	7:48 a.m.
Ar Washington	9:06 a.m.

<u>Flight 902 - Sundays Only</u>

Lv Roanoke	10:45 a.m.
Ar Hot Springs	11:08 a.m.
Lv Hot Springs	11:13 a.m.
Ar Washington	12:31 p.m.

(Note: All Washington departures and arrivals at National Airport)

IV. The Homestead has recently changed its telephone number and can now be reached at the main switchboard by calling Code 703, 839-5500.

V. The Homestead is on Eastern Daylight Time and all scheduled and programs for The Business Council meeting are printed in EDT.

VI. Chairman and Mrs. Murphy are very hopeful that they can count on the members to arrange their schedules, insofar as possible, to attend the entire program at The Homestead.

John W. Burke, Jr.

John W. Burke, Jr.
Executive Secretary

Enclosures

THE BUSINESS COUNCIL

The Homestead
Hot Springs, Virginia

October 20th-23rd, 1966
EASTERN DAYLIGHT TIME

SOCIAL EVENTS

Thursday, October 20th

6:45 p.m.	Chairman's Reception - Dress Optional	Empire Room
	(Main Dining Room Open for Dinner)	
8:00 p.m.	Tower Lounge Open for Council Members and Council Guests	

Friday, October 21st

10:30 a.m.	Ladies' Coffee Hour	Tower Lounge
12:30 p.m.	Buffet	Tower Lounge
	(Main Dining Room and Casino Open for Luncheon)	
1:30 p.m.	Tennis Tournament	Casino Courts
6:45 p.m.	Reception and Dinner - Black Tie	Commonwealth Room
	Speaker -- Sir Robert G. Menzies, K.T. Former Prime Minister of Australia	

Saturday, October 22nd

10:30 a.m.	Ladies' Coffee Hour	Tower Lounge
12:30 p.m.	Buffet	Tower Lounge
	(Main Dining Room and Casino Open for Luncheon)	
1:30 p.m.	Tennis Tournament - Continued	Casino Courts
1:30 p.m.	Men's Golf Tournament	The Homestead Course
6:45 p.m.	Reception and Dinner - Black Tie	Commonwealth Room
	Speaker -- The Honorable Gerald R. Ford Minority Leader of the House of Representatives	

Sunday, October 23rd

Tower Lounge Open - No Formal Council Activities

THE BUSINESS COUNCIL

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Address by
Secretary of Agriculture Orville L. Freeman
The Business Council Meeting
Hot Springs, Virginia
May 14, 1966

As I was casting about for an appropriate opening thought for today's talk, a certain line kept running through my mind ...

The time has come to talk of many things ... The time has come to talk of many things.

There was something familiar about that line, and suddenly it came to me.

Remember "Through the Looking Glass," which most of us knew as "Alice in Wonderland"?

"'The time has come,' the Walrus said, 'to talk of many things.'"

The walrus wanted to talk about shoes and ships and sealing wax, of cabbages and kings, and why the sea is boiling hot, and whether pigs have wings.

Now I really don't have much to say about ships and sealing wax and kings, but if I haven't said much lately about cabbages and pigs with wings, I have had recent occasion to comment on shoes ... and hide export quotas... lettuce ... and fluttering pork prices.

And as for the sea being boiling hot, that holds no particular fascination for Secretaries of Agriculture .. who traditionally have a working familiarity with hot water.

Seriously, today I do want to talk to you of many things, of things vitally important to you, to me ... and to this great Wonderland.

Like the lyrical Walrus, I want to talk to you of factory whistles and whippoorwills ... of manufacturing plants and meadowlarks ... and of their compatibility.

I want to talk about space-starved cities and job-starved countrysides ... of the dangerous paradox of 70 percent of our people living on 1 percent of our land ... of urban blight ... and of rural right to a more equitable share of our national prosperity.

I want to take direct issue with those who say the mass migration from country to city is inevitable, inexorable, and desirable ... and with those who predict that tomorrow's America should consist of a few huge megalopolitan complexes strung together by superhighways running through endless miles of empty land.

I say that this is not desirable. And I contend that it is neither inevitable nor inexorable.

And I'm hopeful that you, as Americans deeply interested in the welfare of our country, can be persuaded that it is folly to stack up three-quarters of our people in the suffocating steel and concrete storage bins of the city ... while a figurative handful of our fellow citizens rattle around in a great barn full of untapped resources and empty dreams.

I believe there is only one way to right the maldistribution of people and opportunity in America ... and that's by putting jobs where there is space ... in rural America.

We can help. But only you can put those jobs in the countryside. And that's why I am here today.

I'm here as a pitchman to sell you on the opportunities awaiting industry in rural America ... opportunities for you who represent business and industry to do right by yourselves ... and right by your country.

I'm here to argue that modern transportation and communication facilities, coupled with the ready availability of unemployed or under-employed trained and trainable rural labor, refute the traditional case for locating business and industry only in the big cities.

In today's America, few industrial plants need be more than an hour or so away from raw materials and sales markets, nor more than minutes away from power supply and manpower ... no matter where they are located.

The Federal Government, working in close cooperation with the States and local communities, can provide valuable assistance to those of you who wish to open new plants in the rural areas.

We invite you to come to us for whatever help you need ... and that help, as I'll detail to you, can be both substantial and significant.

But let me make something crystal clear at the outset so there will be no misunderstanding of what I have to say today.

We are _not_ ... I repeat ... _not_ encouraging "runaway" plants, industrial "piracy" or the exploitation of the job-hungry countryside.

We are _not_ encouraging any industry to pack up, leave the city, and move lock, stock and barrel to the countryside.

What we are encouraging is the establishment of sound, new plants, either by existing businesses or new organizations, which can operate profitably in the countryside ... and promise rural Americans parity of income and opportunity.

Now let me examine for a few minutes what has happened in this Wonderland of America to turn it into a land of crowded cities and vacant countryside.

Just last week I hailed a new era in American agriculture.

I did this because it is now apparent that the days of burdensome surpluses are all but over, and a new era of the Ever-Normal Granary is all but here.

Just 5 years ago, we had on hand 1.4 billion bushels of wheat -- more than a full year's domestic commercial sales and Food for Freedom requirements -- and a new crop was about to be harvested.

Who would have believed then that in just 5 years such a tremendous supply of wheat would have been reduced to a point where the President and the Secretary of Agriculture could proudly announce, as we did last week, a 15 percent increase in wheat acreage allotments?

I called the announcement of the wheat acreage allotment increase an example of the new flexibility and adaptiveness of our great agricultural production plant.

It _is_ flexible. It _is_ adaptive. For we have now reached the point where we can move millions of acres of land in and out of production with efficiency and economy ... and we can do it without huge, costly surpluses to gouge the taxpayer and depress farm income.

And how _is_ farm income? The best in many years.

Gross farm income will be nearly $10 billion more this year than it was in 1960.

Net income per farm will approximate $4,600 in 1966, compared with only $2,956 six years ago.

And the products moved into foreign markets from our farms will return 5 billion hard dollars this year ... a dollar sales figure more than 50 percent greater than in 1960.

And while the American farmer has been improving his own income by cooperating with the major farm programs of the past 5 years, he has continued to provide domestic consumers with abundant and varied diets for a steadily diminishing percentage of their takehome dollars.

Americans spend a lower percentage of their incomes for food than any other people on earth, a fact all of us should keep in mind in the current concern over inflationary pressures.

And so you see, we are well on our way to solving the farm problems which appeared so frustrating less than a decade ago ... And now it is time to turn our attention, and our efforts, toward brightening the entire picture of rural America today.

Let us see why this must be done.

In a relatively short span of history, the productive genius of the American farmer has allowed us to move from what was once basically an agrarian society to what is now basically an industrial society.

As the farmer began to produce more than enough for his own needs, some were freed for other pursuits. For as technological advances were made in agriculture, fewer and fewer farmers were required to feed more and more people. In our technologically-oriented society, we know this trend will continue.

In earlier times, this presented no great economic or social problems. Farmers left the land to move to the settlements and become artisans and tradesmen, merchants and teachers.

This was the beginning of the exodus from rural to urban America ... and in the beginning ... and for generations after ... it was a healthy trend, for the growth of the great urban areas was undoubtedly a key factor in the phenomenal economic development of this nation.

We all know we must have healthy, thriving cities. We know that our economy could not exist without them. And we know that every effort must be made to strengthen the cities and cure their ills. For too many of our big cities are in deep, deep trouble.

Aristotle once said that people live in cities "in order to live the good life."

But President Johnson has said: "It is harder and harder to live the good life in American cities today."

And it will become even harder to live the good life in our cities unless the forced migration of millions of Americans from rural America to the urban centers is slowed, stopped ... and reversed.

By the year 2000, demographers tell us, 4 out of 5 Americans will live in metropolitan areas.

Two hundred and forty million people will live in 8.7 percent of the Nation's land area, while only 60 million will occupy the remaining 91.3 percent.

Imagine, if you can, American cities more densely populated than the most crowded countries in the world. Again, if the planners are right in their predictions, the average population density of the urban areas of the United States will be 774 people per square mile by the year 2000. Japan, crowded as it is, has only 672 people per square mile.

Plagued already by the multiple problems of too many people for too little space, how can our cities hope to keep pace if these predictions materialize?

My friends, we simply cannot afford, sociologically or economically, to continue to let all of the fall-out from the population explosion settle on our urban centers.

More people moving to the cities means more problems, more waste, more loneliness and more despair.

It means more smog in the air and more filth in the water. It means more traffic, taxing and education snarls, frustrations and failures. And it means more human demands against less human incentive.

Do we, as Americans vitally interested in the welfare of our Nation, really want this?

Of course we don't.

Then what can we do about it?

Bev Murphy answered that in these words: "This picture of greater and greater population concentration is, to me, unpleasant and expensive, and, I would hope, not inevitable ... If jobs are available in the thousands of small towns and cities away from metropolitan areas, I think most of the people in these rural areas will not move. They will prefer to live in the circumstances in which they were reared."

Bev Murphy backs words with action. The Campbell Soup Company now has 20 of its 26 plants in rural areas, and he has told us the results have been splendid.

I am pleased by his report ... but not surprised. The Campbell Soup Company's experience with rural locations is being duplicated with equally encouraging results by other large and small companies.

I say I am pleased, but not surprised, because I have all the confidence in the world that there is a "right" rural area for any industry looking to new sites for new plants or expansion.

Rural America has so much to offer business and industry.

It has the tangibles: clean air, abundant pure water, relatively low land costs, building costs, utility costs, and service costs.

Some areas offer additional tangibles. I speak of those responsible communities where, in the absence of industry, home owners and small businessmen have willingly shouldered heavy tax burdens to provide good schools and teachers for their children, to support the best possible police force, to carry out sound local welfare programs, and to build excellent community health facilities.

And I speak of those communities scattered throughout our Nation which have organized local development committees to work for new industry for their towns and to help industry find sites.

And then there are the other, perhaps less tangible, advantages offered by rural America. Freedom from congestion. Space to breathe. Space to live. Space to grow. Space to play. Space to drive and space to park. Recreational opportunities of exciting variety minutes from home and work. Community identity. Community pride.

Many Americans yearn for these blessings.

A Gallup poll published in March of this year revealed that while only about a third of the people actually live in small towns or rural areas, nearly half of all persons surveyed in the poll said that if they had their choice, they would like to live in a small town or on a farm.

Dr. Charles N. Kimball, President of the Midwest Research Institute in Kansas City, Missouri, recently declared that "many Americans would move away from the metropolis if given half a chance."

And so they would. But the catch phrase here is "given half a chance."

For the unpleasant truth is that for far too many years rural America has not been able to give its people "half a chance."

Despite its many blessings, the countryside traditionally has offered little but discouragement to widely disparate segments of its society -- the gifted and well-educated ... and the unwanted and untrained.

The gifted were unable to find the challenges and the opportunities their spirit and training required. The unwanted and the untrained were simply unable to find work to earn a bare livelihood.

Thus the exodus to the megalopolis. A steady stream of millions of young people with each passing year. Some in search of the mystical urban touchstone of success. Others, pushed aside by the technological revolution on farms and in mines, untrained for jobs in strange places, or the victims of racial discrimination, moved to the cities in desperate search for little more than food, clothing and a roof over their heads.

So you see, my friends of business and industry, that while rural America has much to offer you ... you have much to offer rural America.

It is my hope that you will help each other to your mutual benefit.

And it is my contribution to call to your attention, the tools "creative Federalism"can supply to help you help speed the economic development of rural America.

Encouraging this effort is not just the personal whim of the Secretary of Agriculture. It is a national effort spelled out by President Johnson when the Rural Community Development Service of the Department of Agriculture was born a little more than a year ago.

"It is not easy," the President said, "to equitably distribute Federal assistance to a scattered rural population ... A method must be developed to extend the reach of those Federal agencies and programs which should, but do not now, effectively serve rural areas."

The President then urged each Department and agency of government to make sure its programs reached both urban and rural areas on equal terms.

The President also directed the Secretary of Agriculture to put the facilities of his field offices at the disposal of all Federal agencies to assist them in making their programs effective in rural areas.

The Rural Community Development Service now maintains a continuing liaison in Washington with all Federal agencies offering services which can be used in rural America ... and it uses the Department of Agriculture's field staff to carry to community leaders information about the full range of Federal services, the relationship of one to the other, and the procedures for achieving their use.

As we have sought to help rural America develop a broader range of economic and social opportunities, we have learned that many smaller communities -- working alone -- cannot muster enough of the skills and capital resources required to effectively help themselves, or even to avail themselves of State and Federal assistance.

To meet this problem, the President this year proposed legislation which would create Community Development Districts. Already approved by the Senate, and now before the House Agriculture Committee, this proposal, if enacted, would lean heavily upon the planning and development agencies of State government for effective implementation.

One of its major purposes is to help rural communities which are linked together in a natural commuting pattern to pool their skills and resources to develop a physical, social and public service environment which would be more attractive to industrial, business, and personal service institutions.

These programs, and a new program I will introduce to you today, supplement the Rural Areas Development effort which since its inception in 1961 has mobilized more than 150,000 rural leaders to work to create new job opportunities and improve rural living conditions.

These leaders have organized and promoted no less than 20,000 projects -- projects ranging from industrial parks which bring new jobs to communities, to the construction of community facilities to make these communities more attractive to industry.

And now I want to announce the establishment of an even <u>more</u> specific program to hasten the economic development of rural America ... and I can think of no more appropriate forum to make this announcement.

The Department of Agriculture is now ready to launch a Rural Industrialization Program which, I am confident, can make a valuable contribution to the well-being of our entire Nation.

Through this program, we hope to bring the profit opportunities in America's smaller communities to the attention of industry.

To help businessmen investigate that potential, the Department's Rural Industrialization staff will consult with businessmen ... in Washington or in their own offices.

Whenever asked, we will also serve as liaison in arranging whatever financial and technical assistance is needed.

To promote this program, we are preparing a brochure which will spell out the advantages for industry in the countryside, and will detail the Federal, State and local assistance available to industry.

This brochure discusses rural labor pools, details the training programs financed by the Government, offers specific information on Federal, State and local industrial financing programs, discusses industrial sites, water, natural resources, and transportation facilities available in rural areas, and specifically describes how the United States Department of Agriculture can help businessmen open new plants in rural areas.

I hope you find it interesting and informative.

In summary, then, let me quickly review the problem ... and the potential solution.

Three-quarters of our people are jammed onto 1 percent of our land ... and still the migration to the cities continues.

The problems and the costs of the cities will continue to increase until that migration is stopped.

Without opportunity in the countryside, the farmers who are no longer needed in an agriculture in technological revolution, the well-educated of the towns and small cities, and the unwanted and untrained will continue to move to the cities.

To keep people in rural America, opportunities must be created for them.

Specifically, jobs must be provided.

You who represent business and industry can provide those jobs, and, at the same time, serve the best interests of your country by helping to cure both the ills of the countryside and the ills of the city.

I have tried to spell out the advantages of industrial expansion in rural America, and our new Departmental program to encourage rural industrialization will continue that effort.

We want you to be aware of the acres of choice industrial land which will accommodate your present needs and future expansion, help improve service to regional and local markets, service growing new markets created by an expanding and mobile population ... and, at the same time, reduce operating costs.

We want you to know that most rural communities have an abundant supply of water for industrial needs and recreational pursuits or developments, a ready source of industrial fuel and power, access to rail, highway, air, and in some cases water, transportation facilities, and a ready-made labor pool of skilled and trainable people.

We want you to know that there are three broad classes of training programs financed by the government to train workers for new and existing plants.

We want you to know that an economically healthy rural America, a rural America which provides jobs and opportunity, can offer you and your workers convenience, contentment, serenity, pleasure and that personal fulfillment and enrichment which comes to those in close accord with Nature.

We want you to know that "creative Federalism" is working to make the small communities of our Nation better places to live, to work, to produce and to play.

And we want you to know that all of the considerable resource assistance of the Federal Government is at your disposal in any effort you make to bring more economic opportunity to rural America.

If we cooperate. If we work together. If we pool our resources, then the day will come, gentlemen, when meadowlarks fly over manufacturing plants, and the call of the whippoorwill will blend with the cry of the factory whistle.

Address by
The Comptroller General of the United States,
Elmer B. Staats
The Business Council Meeting
Hot Springs, Virginia
May 13, 1966

The Importance of the General Accounting Office to American Business

The central issues in this conference understandably are Viet Nam and the inflationary pressures which stem in large part from Viet Nam. I cannot claim that the General Accounting Office, which I head, plays a crucial role with respect to either. What I can claim, however, is that this Office plays a vital role in the integrity of Government operations, in economy and efficiency of governmental operations, in the interpretation of laws affecting expenditures, and in the way Government contracts are administered.

What I should like to do briefly is tell you who we are and how we carry out our job. It is important that you as businessmen know more about us. It is important to us that we have your support and know your viewpoints on Government spending.

The concept of the independent and impartial review or audit of Government expenditures is deeply founded in the American and Anglo-Saxon history. Our organization was not established, however, until 1921 -- some forty-five years ago.

The concept of independence was deeply imbedded in that legislation.

... The Comptroller General is an agent of the Congress.

... While appointed by the President, he can be removed only by impeachment or joint resolution by the Congress.

... Both he and the Assistant Comptroller General are appointed for terms of 15 years.

... The Comptroller General cannot be reappointed.

... The Comptroller General and his staff are appointed on a nonpolitical basis; every Comptroller General has emphasized the nonpartisan nature of the organization.

Now, what do we do -- what are our functions?

<u>First</u>, the Comptroller General's rulings are final -- except for recourse to the courts or the Congress -- with respect to the legality of expenditures. When in doubt, agencies or contractors seek our legal advice in advance; otherwise, the GAO rules after contracts are let or expenditures are made. We pass on bid protests, adequacy of agency contracting procedures, and claims against defaulting contractors.

<u>Second</u>, our Office reviews claims filed by the Federal Government against another party and reviews claims against the Government when these cannot be settled by the agencies concerned or which involve doubtful questions of fact or law. Last year, we handled over 50,000 claims in both categories involving just under $100 million.

<u>Third</u>, as an agency of the Congress, we provide a multitude of services to the Congress -- assisting in the drafting of legislation -- handling inquiries from Members as well as committees -- making factual investigations -- testifying before committees -- furnishing operational and financial audit reports. Currently we have over fifty professional staff people assigned to congressional committees.

<u>Fourth</u>, the GAO has the legal responsibility for approving all agency accounting systems. This means that we provide professional and advisory assistance to the agencies in developing financial control systems which meet our standards and principles. We review and evaluate their systems in operation, and we make certain that they are kept up to date to meet changing circumstances.

<u>Fifth</u>, and finally, our Office is responsible, with limited exceptions, for audit of all programs, activities, operations and financial transactions of the Federal Government. The scope of our work extends to the 11 major executive departments and some 60 independent agencies and commissions.

My remarks today will focus on this latter function since our basic role is to check on the effectiveness of the system of management and internal control of each Federal agency. This requirement extends to the negotiation and administration of Government contracts for seeing that

> ... the contracts are made with due regard to the "lawfulness and justice" of public accounts,
>
> ... the prices paid to the contractors are reasonable,

... the contractors properly discharge their responsibilities under the contracts, and

... the administrative contracting practices are effective and efficient.

Our audits of negotiated Government contracts directly affect the business community.

Before developing this point further, let me say a brief word as to how we carry out our functions:

1. We are located in 16 regional offices and 30 suboffices, and 2 offices overseas.

2. We have a total staff of approximately 4200 people, including about 2300 professional accountants and auditors.

3. We have a staff of about 100 attorneys, highly trained and with an outstanding reputation in and out of Government for competence and objectivity.

4. We have one of the most active recruiting and training programs for accountants and auditors in the country, affecting some 400 colleges and universities where we limit interviews to the top 25 percent of the class.

It is my purpose to maintain -- and improve, if possible -- the professional competence of our personnel. As critics of agencies' and contractors' operations, we have to develop the facts correctly, and we have to interpret them fairly to all parties.

Examples of Work

In a Government as big as ours, you might reasonably ask how do we decide what areas to investigate? What priorities do we establish?

Our first priority, of course, is to serve the Congress in terms of direct requests or in areas where, because of congressional hearings or investigations, we can either anticipate a request or develop useful and pertinent reports. We attempt to keep closely in touch with the staffs and chairmen of the legislative committees, particularly the Appropriations Committees and the Government Operations Committees. Altogether we furnished Congress last year over 500 reports, in addition to the hundreds of reports which we sent to agencies suggesting specific improvements.

Second, we try to focus on areas of major expenditures. Appropriately, over fifty percent of our staff is assigned to work directly concerned with the Defense Department, with the heaviest emphasis on procurement, construction, and pay and utilization of manpower.

Let me emphasize at this point that we have had fine cooperation from the Department of Defense. Secretaries McNamara, Vance, Morris and Ignatius have been strong supporters of the GAO. While we may have differences from time to time in a given situation, there is no reluctance on their part to seek out the facts and to act accordingly. This is not to imply a lack of cooperation from other agencies, but the strong and vigorous efforts exerted in the Defense Department in the past few years have been particularly dramatic and have made our work more productive.

Third, we report on new areas where there may be a clear tangible savings payoff -- however small it may be -- frequently developed in connection with a general review of financial transactions.

Fourth, we seek ways to improve operations through auditing programs which have balance of payments implications.

Fifth, we have given high priority to utilization of excess foreign currencies developed as a result of our Government's "Food for Peace" and other programs.

Sixth, we are emphasizing the relative costs of contracting out or producing directly commercial and industrial products and services -- the old "make-or-buy" problem.

Let me cite a few examples just to make these statements more specific.

Supply Management in the Defense Department

Acquisition and management of personal property in the United States Government requires vast resources in manpower and procurement and maintenance dollars. At June 30, 1964, the latest date a compilation was made, worldwide inventories of equipment and supplies totaled approximately $177 billion, 75 percent of which was in the Defense Department.

The magnitude and complexity of the management and operations of the military supply systems is without parallel. Our reviews have embraced a variety of aspects of supply management -- determination of stock requirements, control and management of the supply inventory, use and disposal of excess stocks, interservice utilization of supplies, acquisition of storage facilities and storage practices, administration of the Defense Standardization Program, and control over drawings and technical data, to name a few. Our audit efforts in the supply area are directed, of course, toward improving management and operating controls and financial administration of the complex supply operations.

In one recent review we found that the supply system of the Department of Defense included hundreds of thousands of low-volume minor items of the type which are readily available from commercial sources and could be procured directly by the users as needed rather than be kept in stock in the military warehouses. These items included such things as screws, nuts, bolts, washers, pins and the like. We estimated that direct procurement of such items would reduce management costs by about $50 million a year and the investment in supply inventories by about $275 million. The Department of Defense revised their supply management policy with respect to low-volume minor items substantially along the lines recommended by us.

Defense Department Procurement Program

Procurement contracts for goods and services constitute about one-third of our national budget. Because of the need for new and complex items, particularly weapons systems acquired by the Department of Defense, a large part of the contracts awarded by the Government are awarded pursuant to negotiation. Negotiated prices must be based largely on actual or estimated costs of producing the articles required. Such cost information, therefore, must be sound and realistic to provide for the negotiation of reasonable prices.

Government agencies, in response to our reports over the years, have strengthened the Federal Procurement Regulations and the Armed Services Procurement Regulations in many areas, particularly the regulations covering negotiation and administration of prime contracts and subcontracts. These actions, we believe, have promoted an increased awareness by administrative personnel of their individual responsibilities and of the pitfalls that may be encountered in the use of the authority to negotiate contracts. Our reviews also contributed substantially to enactment of Public Law 87-653 which amended the Armed Services Procurement Act to require more emphasis on competitive procurement and, in the case of negotiated contracts, to require "truth-in-negotiation" through the submission of current, accurate, and complete cost or pricing data upon which to base negotiations.

The position of the Department of Defense on the potential for savings through increased competitive procurement was expressed in hearings held in February 1964 on the Department of Defense appropriations for fiscal year 1965. In testimony before the House Committee on Appropriations, the Secretary of Defense stated that in 1961 the Department of Defense had studied a large number of General Accounting Office and congressional committee reports which concluded that millions of dollars were being wasted because of the failure to obtain price competition more extensively in the procurement of spare parts and small end items. He stated further that the Department's own analysis of procurement procedures fully confirmed those conclusions and that as a result he had instructed the military departments to increase the proportion of the total value of contracts awarded on the basis of price competition. The Secretary reported in July 1965 that during fiscal year 1965, the Department of Defense would achieve annual savings of $550 million through increased competition.

Review of Civilian Agency Programs

Apart from our extensive reviews of the military operations and activities, our work extends into practically every other department and agency of the Government. We make selective examinations of significant programs and activities in which opportunities appear to exist for potential savings.

In 1965 we recommended the inclusion of a provision in the Internal Revenue Code to give the Internal Revenue Service authority to collect self-employment taxes on a pay-as-you-go basis to ease the end-of-the-year tax payment burden on self-employed individuals and, at the same time, reduce the administrative problems encountered by the Service. Collection of such taxes during the current year would provide the Government with the use of tax monies at an earlier date, enabling the Government to save at least $5 million a year in interest on borrowed funds. The Treasury Department concurred in our proposal and the Congress enacted such a provision in the Tax Adjustment Act of 1966.

On the basis of reviews we made of the Coast Guard's operations, we expressed the belief that its basis for replacing high-endurance vessels was questionable and that the stated requirements could be reduced, thereby saving about $100 million in construction costs and about $7.4 million annually in vessel operating costs. In developing its vessel requirements, the Coast Guard did not use actual operational data to determine the number of new high-endurance vessels needed. These vessels are used primarily for search and rescue operations and ocean-station duties.

We proposed that the Coast Guard reexamine its plans and consider revising its program to relate acquisitions to needs based on actual utilization data and current operating standards. The Commandant of the Coast Guard concurred with our proposal and has taken the necessary action to provide for a new and critical review of vessel requirements.

Recently we noted that the Post Office Department had awarded several contracts for postal supplies and equipment to sole bidders without obtaining effective competition. After we brought this to their attention, the Department used competitive negotiation procedures in awarding the next contract for stamped envelopes with an estimated savings over the four-year period of this contract of about $6.25 million.

We also noted that the Post Office Department had adopted an improper cost allocation practice which resulted in the Department's selling stamped envelopes at a substantial loss. The Department is required by law to sell stamped envelopes as nearly as possible at cost, but not less than cost. We estimated that the cost of selling stamped envelopes exceeded revenues for the four-year contract period by $7.5 million, compared with the Department's reported loss of $1.3 million. The Postmaster General has advised us that the Department would discontinue the improper practice and, shortly thereafter, he announced that effective September 11, 1965, there would be a substantial increase in the price of stamped envelopes.

International Programs

The General Accounting Office in 1963 established a separate International Operations Division to devote increased effort to such programs as "Food for Peace", development loans, technical cooperation, the Alliance for Progress, and military assistance.

Our reviews have disclosed that in some instances the amount of economic assistance furnished has been excessive in relation to the capability or willingness of the recipient countries for effective utilization. In another review, the agency agreed with our proposal to curtail use of aid funds for imported commodities of a non-essential character.

Our interest in the balance of payments issue has resulted in major savings in dollar expenditures in foreign countries. Two examples from a large number of reports will suffice. As a result of our examinations, we reported that United States agencies had expended about $2.3 million annually to buy air tickets for official travel to or from eight countries instead of utilizing available excess United States-owned foreign currencies. This situation has now been corrected.

We also found that excessive dollar expenditures were incurred in ocean transportation of "Food for Peace" commodities because of piecemeal shipments or because shipments were routed to high-rate instead of lower-rate ports. The agency recognized that there was an imbalance of shipments between ports. There subsequently has been some adjustment to correct this imbalance.

Our Office frequently has made reviews of foreign aid on a country program basis. That is, we have selected segments of the country programs and examined into such matters as validity of the requirements, timeliness of deliveries, and effectiveness of utilization of the equipment or services. We plan to give continuing attention also to the practices and procedures relating to procurement of equipment, supplies, and services for foreign aid programs, and to the administration of loans.

Transportation Activities

The Comptroller General has three special responsibilities in the transportation area: making rate audits of paid transportation bills, reviewing commercial traffic routing by Government agencies, and prescribing standard transportation forms and procedures for ordering, billing, and paying for these services.

The Federal Government is the largest single customer in our economy for the major modes of transportation. This fiscal year we will examine about $1 billion of Government payments for commercial freight services and over $400 million for commercial passenger services, representing a substantial portion in total revenues of the airline, steamship, and household goods moving industries. Since 1950 we have collected nearly $500 million from carriers as a result of our rate audits, including approximately $250 million from a reaudit of World War II transportation payments.

We are most conscious of the fact that our role in the Government's transportation operations has an important impact on the carriers. This means that we must have extensive coordination with the industry to resolve mutual problems of rate interpretations and documentation. We meet frequently with representatives of individual carriers and of the carrier associations, such as the Association of American Railroads, the Air Transport Association, several steamship associations, and various branches of the trucking industry.

One of our activities in this area which is, perhaps of greatest interest to industry is the development of simplified transportation forms and procedures. Working closely with the major Government traffic management organizations, we are currently evaluating a system of simplified documentation for small shipments that will provide a minimum degree of uniformity for Government transportation and accounting operations, while permitting carriers to generally move the small shipments on their normal commercial paper. This system is being tested now and, if it is proven sound, we anticipate that it will be extended through coordinated efforts with carrier groups to cover most of the Federal Government's freight shipments.

Savings in the Government's Use of Automatic Data Processing Equipment

Exclusive of computers used for military and space operations and those used by Government contractors, the Government today is spending more than a billion dollars to operate approximately 2500 computers. In 1950, there were virtually none. The total annual bill direct and indirect for computers is today $3 billion.

The Comptroller General is obviously interested in this matter. The computer has brought with it tremendous savings in many areas and the ability to undertake functions that could not have been dreamed of without it. Our concern with the matter -- aside from the costs involved and the potential payoff -- is twofold:

1. Should the Government buy or lease computers?

2. Are we obtaining the maximum use of the computers whether they be leased or purchased?

Beginning in March 1963, the GAO has issued numerous reports on the subject starting at a time when only about 15 percent of the equipment was purchased. As a result of our efforts and those of the Bureau of the Budget, the General Services Administration, and the House Committee on Government Operations, this percentage has increased to 50 percent. The resultant savings over a five-year period are over $200 million with annual savings thereafter of $100 million.

Some Thoughts About the Future

It is a dangerous thing for a new Comptroller General -- in office for only two months as of tomorrow -- to speculate or forecast the program of an organization 45 years old and headed by four distinguished incumbents ahead of him. With this underlying qualification, let me outline some of my current thoughts:

1. We will make a special effort to relate our activities more directly to the work of the committees of the Congress. We will do

this by more intensive contacts with the committee chairmen and their staffs to program our work to a maximum degree to deal with subjects of interest and concern to these committees.

2. We will do our best to adapt our capabilities to new problems and new opportunities as governmental programs and policies change. In the area of Government procurement, value engineering, two-step advertising, multi-year procurement, and total package procurement are all relatively new concepts. These, and such new procurement practices and major trends in contracting as the increased use of negotiated fixed-price contracts and contracts having incentive provisions, will require our attention. The burgeoning Federal programs in the fields of health, education, transportation, welfare, and the like will also require ever increasing attention. We will devote further efforts to reviews of the Government's space and research programs.

3. We will devote greater attention to the subject of Government competition with private industry for goods and services which the Government requires for its own use. The recent Presidential statement and Bureau of the Budget policy circular on this issue are significant steps forward. We will be supporting the Bureau of the Budget in its follow-up efforts, particularly with respect to such important areas as communications and service and maintenance contracts.

4. We will work with the agencies to strengthen internal audit and inspection machinery. The GAO cannot hope to do the entire job itself; it must rely on the primary responsibility of the agencies. We plan to report to the Congress our evaluation of the adequacy of the audit and inspection machinery of the major agencies. The establishment of the Defense Contract Audit Agency is an example of a major step in this regard.

5. We will step up our efforts to improve the financial management practices of the agencies. We will offer greater technical assistance to them. Sixteen years ago Congress directed that accrual accounting systems be established in all agencies. Less than one-third of the civilian agencies today have accounting systems approved by our Office. The Defense Department system will not be ready until fiscal year 1969. This is not a good record and we will try to improve upon it.

6. We will continue to seek every opportunity to find savings which will improve our balance of payments situation. Our role here cannot be the major one, but every bit helps and we must do our part.

7. While specific dollar savings cannot tell the whole story as to the effectiveness of our organization, we will continue to highlight the specific savings which accompany our recommendations. We take pride in the more than $180 million saved as a result of our efforts last year. But I suspect that the real savings can be attributed to the fact that there is a GAO which is on the job and which is going to be taking a second look at Government operations. This provides a discipline and a deterrence which otherwise would not exist in our large and sprawling Federal Government.

The critic's role which we play is not an easy one. There will always be those who charge that we specialize in 20/20 hindsight; there are many who feel that it is easy to be critical if one does not have the operating responsibility. Of course, our auditors find and report that at times what is needed is a little more foresight on the part of agencies or contractors! Seriously, though, we can only say in response to these criticisms that we pledge our best efforts to present our facts in a fair and objective manner and that the agencies and contractors will have full opportunity to state their views which will be reflected in our reports. However, we have an important responsibility to carry out, and we mean to discharge our responsibility fully and effectively. When I was sworn into my present post, the President indicated that he hoped I would carry out my new duties without "fear, favor, or fuss." It is my intention to do just that.

Summary of Remarks by
The Honorable William McC. Martin, Jr.
Chairman, Board of Governors
Federal Reserve System
at The Business Council Meeting
Hot Springs, Virginia
October 16, 1965

Summary of Business Conditions
October 1965

Industrial production declined in September, but non-farm employment increased and the unemployment rate edged down. Retail sales declined slightly. Bank credit changed little after a very large increase in August. The money supply increased sharply, while the rise in time and savings deposits slackened. Common stock prices advanced to a new high in active trading.

Industrial Production

The Board's index of industrial production declined 1 per cent in September to 142.8 per cent of the 1957-59 average, which was about the level in June. The decline resulted mainly from a sharp cutback in steel output, but strikes also curtailed the production of aircraft, autos, newspapers, and coal.

Iron and steel production declined 13 per cent in September and continued to fall in October as steel users reduced inventories following the wage settlement in the steel industry. Output of construction materials was maintained, but production of nondurable materials declined largely as a result of work stoppages in the coal industry and curtailments in crude oil output because of Hurricane Betsy.

Consumer goods production continued to change little from levels prevailing since the beginning of the year. Auto assemblies declined 3 per cent because of a work stoppage early in the month. However, output of home goods and apparel was maintained, and consumer staples increased somewhat. Production of business equipment increased further to a level 12 per cent higher than a year earlier.

Construction

Construction expenditures in September remained at the advanced July-August level and near the record annual rate of $69 billion reached in June. Residential construction continued to decline moderately, but business and other private construction increased further. Public construction, revised downward in August, edged above its high June level.

Employment

Nonfarm employment continued to expand in September but the increase in manufacturing was slowed by a reduction in steel employment. Gains in durable goods were concentrated in machinery, electrical equipment and ordnance. Employment increased in most nonmanufacturing industries and rose sharply in state and local government with schools back in session. The average workweek in manufacturing was unchanged from August and a half-hour below the high first quarter average. The unemployment rate, at 4.4 per cent, was down slightly from August.

Commodity prices

The industrial commodity price index edged up from mid-September to mid-October. Advances occurred in fuel oils and some chemicals and paper products. Prices of newly introduced 1966 model cars, adjusted for excise tax reductions and added safety features, were about the same as those for new models a year ago. Average wholesale prices of foodstuffs changed little although meats declined somewhat.

Distribution

Sales at retail stores declined 1 per cent in September, according to advance estimates, and were nearly 2 per cent below the record July volume. The September decline was concentrated in durable goods, particularly in autos which were affected by later introductions of new models this year.

Bank credit, money supply, and reserves

Commercial bank credit showed little change in September following a sharp rise in August. Most major categories of loans increased substantially while holdings of U. S. Government securities and security loans declined. Following a small increase in August, the money supply rose sharply in September in association with an unusually large reduction in Treasury balances at commercial banks. Time and savings deposits increased further, but less rapidly than in July or August.

Net borrowed reserves averaged about $150 million and member bank borrowings about $550 million in September. Both were little changed from the average of other recent months. Total outstanding reserves also showed little change as reserves freed by a sharp decline in Government deposits were used to support further expansion of privately-held demand and time deposits.

Security markets

Yields on corporate and state and local government bonds continued to rise from mid-September to mid-October, when corporate bond yields reached the highest levels since early 1960 and municipals the highest since late 1961. Yields on U. S. Government securities fluctuated more than usual, rising in the latter part of September and declining in the first half of October. In mid-October the three-month Treasury bill was about 4.00 per cent, compared with 3.90 per cent a month earlier.

Common stock prices advanced in very active trading. In mid-October, average prices were slightlyabove the previous record set in mid-May.

Remarks by
The Honorable Alan S. Boyd
Under Secretary of Commerce for Transportation
The Business Council Meeting
October 16, 1965

It is getting to be somewhat of a tradition for the Under Secretary of Commerce for Transportation to address this fall meeting of The Business Council here in Hot Springs.

And the task seems to get more enjoyable each time as the economy continues to perform like that famous fullback for the Cleveland Browns -- Jimmy Brown, who sets a new record of achievement each time he tucks the pigskin under his arm.

Our economy, now in its 56th month of continued expansion, also is setting new records with every tick of the clock and every jangle of the cash register. The latest Department of Commerce business indicators show personal income, gross national product, corporate profits before taxes, and our industrial production index all at new peaks.

These are good times for the American businessman and the American consumer, but we can't afford to be smug or complacent about our good fortune. Each day that brings a new economic record of achievement brings with it new responsibility.

As President Johnson remarked recently in outlining the goals of the Great Society:

"In the remainder of this century, urban population will double, city land use will double, and we will have to build homes, highways and other facilities equal to all those built since the country was first settled."

We face that same challenge in the field of transportation, which today represents nearly one-fifth of our gross national product.

Based on reasonable projections of freight traffic over the next 20 years, freight traffic and freight carrier investment will increase at least as fast as the national economy.

The Council of Economic Advisers sees a potential economic growth of at least 4 percent a year. Thus, a doubling of the GNP in constant dollars, should bring a doubling of freight movement over that 20-year span.

In overall intercity ton miles of freight, that means our transporation system will be hauling between 2.6 and 3 trillion tons a year. Compare this to the stagnant level of about 1.3 trillion which was the range of activity for the late 1950s and early 1960s. Three trillion tons a year is three thousand billion tons, a figure most of us find a little hard to comprehend.

What does this mean in terms of investment? Let's use our railroads as an example. They are valued on the books today at about $33 billion in plant and equipment with a replacement value approximating some $75 billion.

That represents only one mode in our vast and complex transportation network. Think what that will mean in terms of doubling our investments in water, air, highways, pipelines, all forms of transport.

Reflect, too, if you will, what this will require in terms of Governmental policy and regulation.

Our primary assignment in the Office of The Under Secretary of Commerce for Transportation is to develop a coordinated system of transport which will assure the availability of fast, safe and economical services to meet these increasing needs.

Mr. Webster's dictionary defines coordination in this respect as "to bring into common action; regulate and combine in harmonious action."

When you think of that doubling of services which President Johnson has warned us about, you get the feeling that Mr. Webster's word isn't big enough to describe the task. Walt Disney's writers coined a better one for the musical "Mary Poppins." It starts out something like this: "supercalifragilistic," etc. I can't remember all of it, but the word, itself, comprises most of the lyrics for the whole song in the show.

There are at least two dozen Federal Departments and Agencies with major interests in the field of transportation -- Defense, Budget, Agriculture, Commerce, Treasury, Housing and Home Finance Agency, Federal Aviation Administration -- to name just a few.

There is a natural tendency for each of these units of Government to pursue its own course, hew to policies which are most useful and serving to their own responsibilities.

This, of course, can lead to fragmentation, conflict and confusion -- misallocations that we simply can not afford in the months and years ahead if we are to forge the kind of transportation policies which enable us to make maximum use of all the means for moving goods and people.

These varying Governmental interests must be tied together, must be unified if we are to keep the channels of commerce flowing without waste or discrimination.

The ability of our transportation system to handle our own commerce and keep us competitive around the globe is a vital part of the larger struggle we find ourselves in today, the struggle to show the world the way to a free and open society where man is his own master and government is his servant.

As a part of that philosophy, this administration is pursuing a transportation policy which places maximum reliance on unsubsidized privately-owned facilities, a system of transport that operates under the incentive of private profit and responds to the checks as well as the stimuli of free competition.

Such a policy also must rely upon competition rather than regulation to as great extent as possible consistent with the public interest. And where regulation is necessary, broad policy guidelines are preferable to detailed regulations of private operations, thus leaving to management the widest latitude for exercising its own judgment and making its own decisions.

Our transportation system must remain a combination of common carrier service available without discrimination to the general public, and it must be equally amenable to contract carriers and private carriers as well.

To the extent possible, the users of our transportation service must bear the full cost of those services, be they private or public in nature.

The entire system must operate as efficiently as possible without interfering with other social or economic resources, and it must be able to support our national security objectives in normal times and in periods of emergency.

The present system of transport has evolved without comprehensive policy guidelines to direct it. And we are fortunate that it has brought us to the unprecedented peak of prosperity which we enjoy today.

But it is clear that we can no longer be satisfied with such a fragmented approach. If we are to sustain the economic pace required for full employment and an ever increasing standard of living, we must achieve a highly-efficient, fully-integrated, well-coordinated system of transportation.

This means removing the technological and regulatory barriers which impede the free flow of cargo and passengers at the lowest cost, utilizing the most efficient modes or combination of modes. This will require improvement in such areas as joint rates, through routing and the full utilization of such concepts as containerized freight movement.

To compete at home and around the world, we simply must be able to take advantage of the most advanced transportation technology. In the past, the United States has been able to improve its economic position by intensive use of capital and the most up to date and efficient technology. The pressure of competition demands that this course be continued.

These technological advances may well have a disrupting impact on the transportation labor force. And this will call for national policies which insure that the drive for efficiency does not snuff out human rights. The Government and private industry will have to meet these issues head on, will have to be ready to deal with such problems as dislocation of workers, training and retraining -- to a degree not witnessed thus far in our economic history.

If handled with wisdom and foresight and compassion, however, these technological wonders can become opportunities rather than threats to the well-being and security of our workers.

To help industry and governmental policy makers at all levels keep abreast of new technological breakthroughs in transportation, the Office of The Under Secretary for Transportation is engaged in a widening program of research and development. This is imperative if we are to cope with rapid changes of today and the increasing demands of tomorrow.

The path of progress is not always easy. It is not difficult to get agreement on what the objectives of our national transportation policies should be. It is something else again to gain accord on all the details of all the problems and all the changes that ultimately will be required.

The Interagency Maritime Task Force, of which I am chairman, recently suggested a series of policy changes designed to strengthen our merchant fleet by making it more productive, more efficient and more responsive to foreign competition.

The Task Force report, incidentally, will be familiar to many of you members of The Business Council, for it includes recommendations advanced by your Maritime Evaluation Committee's report of a few years ago.

The suggested changes met stern resistance from those most concerned with maintaining the status quo, but this has not veered us from our course.

We remain convinced that the trend to more and more subsidization of our merchant fleet (whose share of the world's shipping business continues to ebb) must be reversed. We are equally convinced that our fleet, to achieve the degree of efficiency that will keep it competitive, must be the best-equipped and most modern flotilla that we can send to sea.

This means our merchant marine must be able to utilize the latest technology available, that automation must be accelerated at as fast a rate as possible, that government and labor must find equitable solutions that will permit these advances.

There is and will continue to be a need for subsidization of the fleet to meet national security needs and help it become more modern, more efficient and remain competitive. But it is hard to justify continuance of some of the indirect subsidies -- such as cargo preference under which we guarantee our ships a certain percentage of our international trade at freight rates which are higher than rates in the unsubsidized world. In the final analysis, this simply adds to our cost of doing business, and as I said before, we can not afford this kind of extravagance forever.

The job of utilizing some of these technological advances is difficult of itself without having to buck the resistance of self interest groups. The development of more efficient and wider use of containers is a case in point here.

The most successful form of containerization in use today is the piggybacking of truck trailers on railroad cars.

Arbitrary rules and requlations and the defenders of the status quo delayed piggybacking for at least 20 years. But once its advantages became clear, it has enjoyed remarkable acceptance.

Ten years ago, the railroads carried only 168,000 carloads of piggyback freight. This year the total will surpass one million carloads, and if this sustained growth is maintained for another decade it might well transform the entire freight carrying industry in this country.

The use of containers in our sea-going trade is in about the same position piggybacking was a decade ago. There are some 120,000 containers of varying sizes now in use by American shippers. Of these, about 21,000 are engaged in sea-going trade; 7,000 of these are of standard size as prescribed by the International Standards Association.

There have been two important developments in this field recently which can almost be described as break-throughs. Last month, an agreement was reached through the International Standards Association on hardware fittings for the containers, thus ending a long, long debate. And over the past 18 months, we have been able to get this overall maze of container planning and development and negotiation centered in a single desk in Washington and keyed into our National Facilitation Committee.

Our goal is to establish the simplest possible flow of continental and inter-continental container traffic.

In early December, we will join in discussions in Geneva looking at such problems as:

--Customs penetration -- especially those procedures involving container shipments from inland U.S. points to inland points in Europe.

--Health inspection problems -- involving the handling of fruits, vegetables, meats and other perishables and refrigerated containers.

--Technical specifications -- with a view to establishing a central registry of containers.

--The marking of the containers to facilitate handling and record-keeping.

--The adaptation of tariff conditions of carriers with a view to promoting container traffic. Problems here involve the fact that containers can't be dead-headed in the United States but can in Europe; also the fact that European containers can't be used for our domestic hauls.

--Regulatory problems -- this involves fitting the container traffic into the foreign institutions which correspond, for example, to our own Interstate Commerce Commission and other regulatory bodies.

--Documentation, with a view to simplification.

This documentation represents a paper barrier to integrated and coordinated container transport. It represents one of our biggest challenges. Today, many shipments -- container or bulk -- may require as many as 77 documents out-bound and 46 documents in-bound. These are maximum figures, but the average is at least 15 to 20 documents.

We are planning a pilot project early next year in conjunction with Great Britain which we hope will make some slashes into this paper barrier.

Container shipments which move from pier to pier in foreign trade are moving rather satisfactorily. There also is a smattering of plant to plant movement, especially by our auto manufacturers to subsidiaries abroad. Volkswagen of Germany is active in plant-to-plant movement, too.

Still needing refinement, however, is the shipment from inland U.S. cities to inland cities abroad. Currently, containers must be inspected at dockside here, at dockside abroad and at the final destination. Common sense and efficiency suggests that one inspection should suffice, but these are problems that require long and sometimes complicated negotiations.

Undoubtedly we will eventually have to have coordinating points around the United States -- places like Chicago, Cleveland, St. Louis and along the coasts -- where containers can be stuffed for shipment and perhaps inspected finally.

The National Facilitation Committee has scheduled a meeting for this coming Tuesday in Washington with all modes of shipping to review the progress and plan the next steps in the containerization program.

The containerization situation represents the latest and most important development in the potpourri of transportation developments. A collection of these kinds of related activities and developments will be necessary to produce the fast, low cost, coordinated transportation service which is a key to our continued domestic economic progress and world leadership in commerce.

We are making progress -- slow and painstaking as it is.

What we need, I suggest, is the same sense of urgency in our earth-bound travels that we are applying in the race to the moon.

Down here, we are racing to the market place, and if we don't win that contest, a victory in space may have a hollow ring.

Remarks by
The Honorable Henry H. Fowler
The Secretary of the Treasury
at The Business Council Meeting
Hot Springs, Virginia
October 15, 1965

Mr. Chairman, Members of The Business Council, Colleagues in Government, and Gentlemen: You are more aware than most of our citizens of the interdependence of the American economy and the rest of the Free World -- and the dependence of both on an effective world monetary system which, in turn, depends on the soundness and stability of the U. S. dollar.

You are familiar with the problems this nation faces in bringing its balance of international payments into equilibrium, and the need for all the nations of the Free World to move toward agreement on ways of assuring the financial resources and monetary system needed to support increasing international trade and economic development.

These financial challenges transcend the economic sphere. We must never forget that the ability of the United States to shoulder adequately the burdens of Free World leadership -- however unsought but now a reality -- in the political, military, and diplomatic spheres, as well as the economic one, depends on the firm foundation of a strong dollar and a viable Free World monetary system.

The solution of our balance of payments difficulties and the strengthening of the international monetary system are crucial matters which must deeply concern you as businessmen and bankers -- as they concern every American. But you have a special responsibility for understanding and helping in meeting these challenges.

Therefore, I want to take advantage of this opportunity to bring you hard up against the opportunities and difficulties we face together.

At the outset of my remarks, let me say of our present balance of payments situation that I think there is undue pessimism now where there was undue optimism earlier. In July, we were succeeding in our drive to bring our payments into sustainable equilibrium, the job was not yet done, and we warned of less favorable circumstances later in the year; in October, the job is still far from done, and the less favorable circumstances we foresaw have become realities.

I think that debate over what improvement is needed in our international monetary arrangements, and how best to go about making changes, is often lamed by inadequate discussion of the system within which our international payments are made, and their domestic and national policy contexts. I would be the last to suppose that in one small speech we could clarify -- let alone agree upon -- so much contentious matter: were we to do so it would surely have to be said of us that never did so few labor so little to bring forth so much.

As you know, since last July, with the authorization and encouragement of President Johnson, I have been trying to assess the thinking of the international monetary community on the workings of the Free World monetary system, on what needs exist for changes as the stimulus of large annual dollar balance of payments deficits is withdrawn, and on how we could go about making needed improvements. In talks in Washington, and in visits last month to the principal financial centers of Western Europe, we added to our information, and assisted, I think, in increasing general awareness and appreciation of the problem.

Finally, during the meetings in Washington late in September of the governors of the World Bank and the International Monetary Fund -- who include most of the Free World's monetary authorities -- procedural agreements were reached which -- optimistically -- may make possible fundamental agreements upon substance within another year. That, in our opinion, would be timely, for we see no problems arising within the next year that present international monetary arrangements are not adequate to handle.

These would be, in essence, agreements aimed at reinforcing international monetary stability, and at providing for the growth of reserves in good relation to real needs for them, without reliance as in the past upon deficits by reserve currency countries, at the same time reducing the present tendency for conflict between international and domestic objectives.

The international monetary system that we have is a very good one. Like the improvement of it that we now seek, it was not invented, but evolved to fit evolving practical needs, economic and otherwise. It reflects the necessities of private trade and finance, and it reflects the existence of governments with domestic and international policies of varying kinds that must be served. It likewise reflects -- and this is primary -- the growth in the Free World of a disposition to seek the means for the solution of economic problems in an increase in the economic resources available for use -- bigger helpings for all, from a bigger pie, rather than a new division of the existing pie.

Our international monetary system stands on two pillars which, I would emphasize, will remain unchanged. The first is stable exchange rates, based upon the United States commitment to buy or sell gold at $35 an ounce. Second, international reserves include not only gold, but also foreign currency holdings -- chiefly dollars and pounds sterling. Additionally, it is becoming common practice to count among reserves drawing rights -- rights to medium term credits -- upon the International Monetary Fund that are virtually automatic.

Stability of exchange rates reduces the risks run by the trader and financier operating across international boundaries more or less to the same factors business judgment contends with domestically. The admixture of foreign currency holdings and credits with gold in national reserves reflects the practical desirability of holding private and official balances in the reserve currencies of countries with production facilities and financial institutions that have given them a leading position in the world's trade and finance.

Two major developments since World War II have added to the system's unfeeling heart of gold a sensory apparatus of consultation and cooperation. This permits us not only to know when something has gone wrong, but also to find means of correction that put the carrot ahead of the stick.

The first of these is the International Monetary Fund, established in 1945. The Fund's principal task is to help stabilize world monetary affairs, by providing medium term credit to smooth out balance of payments adjustments, and by promoting sound international financial conduct.

The Fund's resources are increased by enlargement of national subscriptions to its capital -- national quotas. The latest increase, now in process of approval, will bring its capacities to $21 billion. Every member has virtually automatic rights to borrow reserves from the IMF equivalent to 25 percent of its quota. As I have already indicated, the unused portion of these drawing rights -- currently some $5 billion -- have come to be counted among international reserves. The Fund can provide other conditional credit, at its discretion, up to the full amount of a nation's quota. This contingent type of IMF credit presently totals some $12-1/2 billion.

Secondly, upon the margins of the IMF, there has grown up since 1958 a network of cooperative and consultative arrangements that has substantially increased the Free World's ability to maintain international monetary stability. These include the Fund's General Arrangements to borrow up to $6 billion from the Group of Ten nations -- Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States -- just renewed for a further four years; arrangements by which central banks swap currencies for short periods of time to meet exchange requirements; the sale of foreign currency bonds by the United States; the operations of an international, cooperative gold pool in London, and cooperation and consultation carried on through such institutions as the Bank for International Settlements and the Organization for Economic Cooperation and Development.

The Free World international monetary system has performed truly Herculean tasks of providing required amounts of money, at the right time and place, in the postwar era. In addition to the huge task of repairing the damages of war, the Free World has carried out the greatest economic advance, benefitting the most people, by the widest margin, in history.

Moreover, the Free World monetary system has showed itself capable of fast and effective action at time of crisis. By contrast with the 1930s, when the world financial system could not rally a few hundred million dollars to keep it from crumbling, on four occasions in recent years the present system has produced credits ranging up to several billion dollars -- when necessary, in a matter of hours -- to help the Canadian dollar, the Italian lira and the British pound.

By this type of cooperation we can -- and will-- effectively protect currencies in a temporarily vulnerable position from being tipped over by the force of speculation. But there is nothing automatic about it: help can be denied if the nation in question does not take action to strengthen its money. It thus is cooperation and assistance that can help a nation survive attacks upon its currency from the outside, while it insists upon correction of weaknesses from the inside.

This is a big, practical, fast and flexible international monetary system, a system aware of its duty to protect national currencies, but never to keep them in sin, responsible for keeping liquid funds adequate at all times to float the world's commerce, but cautious never to sponsor a flood. It is our objective to make certain that the system continues to evolve so that it can discharge these tasks as well under different conditions in the future as it has done in the past. Chief among the differences in the future will be the fact to which I will now turn: the absence of large annual U. S. balance of payments deficits.

Despite its many and great virtues and accomplishments, our international monetary system stands at a crossroads. The answer, if you ask why, goes to the heart of the matter. This is, that since 1958, United States balance of payments deficits have supplied the principal source of additional liquidity to the world monetary system. About three quarters of the new official reserves of other nations have been built out of these deficits, and large foreign private holdings of dollars have added to the potential strain on U. S. reserves. We are now well along in the process of ending our deficits and bringing our international payments into sustainable equilibrium. This fact gives rise to a new situation.

The President, the Congress, and informed financial authorities around the world all are agreed that the United States must put its international accounts in order, and keep them so. It must do so to preserve the integrity of the dollar at home and abroad, so that the more than $27 billion held in foreign official reserves and in private commercial hands abroad can continue to function as an essential part of the world's monetary system. It must do so to arrest drains of United States reserves that have flowed from some portion of these deficits being paid off in U. S. gold. That erosion cannot go on indefinitely. It must be, and is being, stopped now.

<u>That</u> the world must know, and <u>that</u> the world expects, because it requires that the dollar be as good as gold.

If, despite the ending of the long period of large U. S. deficits, growth is to continue and trade is to expand, we must provide an effective and adequate substitute for the creation of additional reserves, when needed.

The growth of reserves deriving from U. S. deficits has taken two forms -- dollar balances held as such, and dollars acquired and converted into gold. The latter development, of course, resulted in a substantial decline in United States reserves. We estimate that as of the end of 1964 more than a quarter of the official reserves of the remainder of the Free World were held in the form of dollars.

In addition to this single lodestone fact -- that the necessary and desirable actions of the United States to correct its balance of payments situation will soon end the process by which most additions to official reserves have been made in recent times -- there is a second flaw, which is under special study by the OECD. This is the fact that the Free World monetary system requires more satisfactory machinery for the adjustment of payments deficits or surpluses.

A process for the adjustment of payments imbalances that could be called satisfactory would have, in my opinion, at least two features. First, the process would both enforce timely adjustment, and make enforcement palatable, by avoiding harsh losses of employment or profits. Second, the process would require adjustment by surplus as well as deficit nations.

At present, there is an imbalance in the system as a whole. On one side of the scale is the fact that a deficit nation does come to a point where it must adjust its economy or its international payments, or both, because it reaches the limits of its reserves and of its power to borrow. On the other side is the fact that there are no comparable limitations enforcing adjustment of its policies by surplus nations.

With primary reliance for correction by deficit nations, the path to economic equilibrium may lead to economic restriction.

Deficit countries must, certainly, be obliged to cure their imbalances. If they are reserve currency countries, such as the United States, loss of confidence in their money following upon failure to end their deficits results eventually in conversions of the reserve currency into gold. In this process, world reserves are reduced because the amount of currencies held in national reserves is reduced. This, like achievement of equilibrium by restrictive policies, is unacceptable because it tends to depress the world economy.

What is wanted, instead, is a circulation of reserves that facilitates the maintenance of equilibrium at rising levels of production and trade. Let me specify that this is an argument for sound economic growth, such as we have been experiencing in this country now for years, in which incentives to save are preserved, making possible high and rising investment to expand production and increase productivity, in turn permitting rising private and public consumption with little or no change in the general price level.

It is also an argument for laying an obligation upon surplus nations to adjust their policies so as to open the way to a return circulation of the reserves they accumulate. This adjustment could be in the rate of domestic growth or consumption, in foreign trade policies, in policies affecting the flow of capital to foreign parts, including economic assistance, and in the sharing of Free World defense costs. Such adjustments encourage the reestablishment of equilibrium, by deficit and surplus countries alike, at higher levels of production and trade, by contrast with the groping for equilibrium at lower levels that has so often proved disastrous in the past.

The United States seeks no change in the international monetary system that we have just been examining that would relieve us, or others, of the obligation the system now imposes to bring our international payments into equilibrium. We do seek agreement upon changes designed to permit continued growth of reserves to underwrite the continued sound economic growth of the Free World without depending on large and chronic United States payments deficits which might eventually endanger the whole system. And we seek adjustment processes promoting steady and general Free World economic growth with stable exchange rates.

I believe that the others with whom we are entering into discussion of improvement of our international monetary system have these same fundamental objectives, even though there are deeply held differences of emphasis and approach. I am, consequently, confident of success.

A further reason for this confidence is the fact that our own determination can insure success in making one of the principal improvements needed in the system as it now stands: an end to United States balance of payments deficits. I have already indicated to you our general view of our balance of payments situation at present: we have been making good progress indicating that we are on the right tract, we are continuing to do so, and we see no reason to think that we will not succeed in good time by vigorous and constantly improved and refined use of our present methods.

I will add what little detail that I can to that, without venturing onto the shaky ground of predictions based upon incomplete and preliminary data.

You have seen published information that our balance of payments deficit for the first six months of 1965 was at an annual rate of $1.3 billion, compared to $3.1 billion in 1964, both figures on a regular transactions basis. I am not in position to confirm whether a projection of our experience in the first half of the year will be duplicated in the second half. You are aware of our warnings that our excellent showing in the second quarter, when there was the first quarterly surplus since 1958, was due in part to benefits that could not be repeated, at least, in such large degree, such as the repatriation of deposits abroad. And you are aware of our further warnings that results for the last half of the year would reflect some unfavorable factors that do not show in the first half, such as tourist spending abroad.

However, we must be cautious not to stretch all unfavorable factors into the future, and neglect to project favorable influences. There are some of the latter.

While we cannot declare a trend from the experience of one or two months, there is at least tentative good news about one of the key elements of the balance of payments program -- export promotion. Exports in July and August were substantially better than earlier -- disappointing -- figures. Further, the information we have to date suggests that imports, which had been rising faster than exports, may be flattening out. Among other factors with net favorable implications is the general strengthening of the British pound, where previous weakness had given rise to an added drain due to the liquidation of some British government owned U.S. securities to provide liquid assets.

We do not yet have enough information to indicate where, in this very big and complex matter, we shall come out in 1965. But while I cannot tell you that a deficit of $1.3 billion, or thereabouts, is what is in the cards, let me point out that anything in the region of $1.3 billion, when all the chickens are in, would be a very solid improvement over the 1964 deficit of $3.1 billion.

What I can say is that on present readings, this year will be far better than last, that we expect the improvement to continue in 1966, and that we intend and expect that it will continue for as long as necessary to bring our payments into an equilibrium that we can, and we will, sustain.

Now, let me close with a few words about the nature of our balance of payments deficit, because that is the controlling factor in the nature of the cure.

Our balance of payments deficit is not due to the ailment that is generally the cause of deficits, loss of competitive power due to low productivity and rising prices -- that is, inflationary conditions. Our productivity is high, and rising strongly. Our prices are competitive. Our capacity to produce is easy: we can fill orders and deliver on time. Our efficiency is all-around: industrial, agricultural and even in services, where the advance of automation and mechanization is helping us to gain upon others.

Due to the competitiveness of our goods, our trade is large and our trade balance is highly favorable. High and rising investment at home is keeping the growth of capacity to produce goods and services in good relation to private and public demand, making for extraordinary price stability underwriting continuation of what is already by far the longest peacetime economic expansion we have ever experienced.

Our balance of payments problem does not arise from a balance of trade deficit that characterizes the usual payments deficit in other countries. Our difficulty arises, instead, from very large outflows of public expenditures and private capital movements. Public expenditures abroad -- that is, foreign assistance and the costs of external military deployment -- are instruments of national foreign policy. The balance of payments effects of foreign outlays of public funds have been very sharply reduced by tying our grants and loans to the purchase of United States products, and by many other measures, especially the reciprocal promotion of the purchase of U. S. military supplies by governments of countries in which there are heavy U. S. troop concentrations, such as West Germany.

In the late 1950s and the early 1960s there was an extraordinary outflow of private capital, in response to market forces. The high level of saving in our high income society, and ready availability of capital through highly organized capital markets, coinciding with an upsurge of economic development in industrial Europe, made foreign investment, both direct and portfolio, uncommonly attractive.

In this situation, which is totally unlike the conditions of the classic balance of payments difficulty, the basic and classic cure -- rising interest rates in the deficit country -- cannot be the sole and simple answer. We have taken monetary policy action to moderate the differential in the short term area: the Federal Reserve Board discount rate increases of 1963 and 1964 are cases in point. However, the difference between long term interest rates here and in Europe is so great that an attempt to eliminate capital outflows through tight money policy at home could only result in jeopardizing the long and sound business expansion we are experiencing.

The program we have adopted is the program needed by the United States, tailored to its highly unusual balance of payments trouble. It is, in skeleton, the use of tax and monetary policy to increase the profitability of investment and to increase the demand for investment in this country by keeping economic growth high and rising in conditions of price stability; reduction, by the methods I have already mentioned, of the growth of net dollar balances abroad due to foreign assistance and military operations; promotion of exports and reduction of imports by fair competitive methods that do not invite a deterioration of good trade relationships; and finally, voluntary programs for the maintenance of private investment abroad by American banks and other business at levels that do not make a U. S. balance of payments equilibrium achievable only by a withdrawal of U.S. political, military and diplomatic power from its role in world affairs.

In the background of the voluntary program is the Administration's desire to operate its overall balance of payments program with the least possible interference in private economic decisions. The voluntary program keeps government in its proper role and lets business perform its function: government -- as government alone can do -- decides what is national policy and sets the national goals; business -- as only business can do expertly -- is left free to make its many and varied individual decisions as to how to operate consistently with national policy and to contribute to the achievement of national goals.

I do not know if the business community is doing as much as it can, as fast as it can, to increase its exports, and to hold its foreign investment to levels that will assure an equilibrium in our balance of payments. I am not sure we in government have done all that we can do to provide you with guidelines that can be evenly applied to achieve the national objective under competitive conditions. What is certain is that you, and we, must be willing to do more, willing to refine our procedures, willing to enlarge the scope of our activities, and willing to innovate, to achieve and maintain an equilibrium in our balance of payments for as long as the dollar is a key currency in the Free World monetary system.

For -- let me repeat in closing -- we <u>are</u> determined to master the balance of payments situation, because continued deficits would destroy confidence in the dollar, including confidence in your investment dollars. And we are determined to solve the balance of payments problem with the least possible impact on freedom of economic choice. That is why making a success of the voluntary program is so important.

Comparative Analysis of

The "New Economics" and Johnson Economics

Prepared for

The Planning and Research Committee

House Republican Conference

August 30, 1966

spending

~~x~~ restraint). These early policies (with which almost all Republicans agreed and which they supported) have now been followed by policies grounded in political expediency which threaten both the health and basic structure of the American economy.

I INTRODUCTION

This paper is designed to explore some basic themes in the field of economic policy which should be of interest to Republican Members of Congress in analyzing recent economic policies of the Johnson Administration. It is not intended as a definitive critique of Kennedy-Johnson policies as this would require a longer and much more detailed paper. Instead, this paper is limited to 10 pages in the hope that it will be useful to Members in developing positions on current economic issues and trends.

II "The New Economics Based on Keynes"

In the December 31, 1965 issue, Time had a six page cover story on John Maynard Keynes analyzing "the new economics based on Keynes." The first headline of the story quoted economist Milton Friedman (a Goldwater advisor in 1964) as saying, "We are all Keynesians now." Even more than the article itself, the fact of a cover story on Keynes is highly significant.

What is the "new economics" and how wide is the concensus" about it?

In many respects, the "new economics" is the old economics "souped up." Its major premise is that we must be aggressive in using macro-economic policy (i.e. broad fiscal policy tools, and to a lesser extent, monetary policy as well) to maintain a steady, non-inflationary rate of economic expansion. It looks to the postwar European experience (mainly France, Germany and the Scandinavia countries), citing their non-recessionary growth paths as evidence of the effectiveness of determined government economic policies.* Its main quarrel with the past is not necessarily that we have done the wrong things, but that we have not done enough of the right things. The Time article defined as Keynes' central theme that

> the modern capitalist economy does not automatically work at top efficiency, but can be raised to that level by the intervention and influence of the government.
>
> ... Moreover, he argued the government can do this without violating freedom or restraining competition.

And further on the role of government,

> It can, he said, achieve calculated prosperity by manipulating three main tools: tax policy, credit policy, and budget policy. Their use would have the effect of strengthening private spending, investment, and production.

It is important in understanding "the new economics based on Keynes" to realize that Keynes himself was mainly concerned with the up side of the business cycle. His major book, The General Theory, was published in 1935, when the world was struggling to rise from the depths of depression. Understandably, Keynes' prescriptions were designed primarily to spur economic growth. He was not nearly so concerned with the other side of the equation -- the need at times to damp down inflation and prevent an overheated economy from going into a runaway boom. One practitioner of the

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* For those interested in a comparison of the postwar economies of France, Germany, England, and the United States, an excellent new book is available, Modern Capitalism by Andrew Shonfield. Though the author takes an extremely liberal view as far as American policies are concerned, this survey by a highly knowledgeable writer provides an unusually good perspective on the broad field of government economic policies. (Oxford University Press, 1965)

"new economics", Walter Heller, has called attention to the obvious point that to be effective the "new economics" must work both ways.

> It should be made perfectly clear that Keynes is a two-way street. In many ways we're entering a more fascinating period than the one I faced. Essentially the job is to maintain stability without resorting to obnoxious controls as we did in World War II and Korea.

Needless to say, the basic problem with Johnson economics is that it does not work both ways. Pleas by Heller (and many others) for restraint early in 1966 were disregarded. Part III of this paper examines this and other aspects of the Johnson economics, stressing the theme that the trouble today is not with "the new economics based on Keynes," but with bad economics based on Johnson.

Before proceeding to Part III, it is necessary to make two important points about the way in which the "new economics" works in actual practice.

1. Choice of Instruments

The "new economics" leaves open the choice of instruments. It merely says that we must use government policy to maintain a steady path of equilibrium growth, but the question of which policies to use under any given set of conditions is left up to policy-makers to decide. A liberal economist might as a general rule be expected to favor public expenditure increases to stimulate growth and tax increases to slow it down. A conservative might just as easily favor tax cuts to stimulate private sector growth and public expenditure restraint to damp down inflationary pressures. Both groups, as far as professional economists are concerned, would undoubtedly be flexible, recognizing that the choice of instruments is a political choice. The economics involved simply concern the need to use some instrument under conditions where the failure to act would mean going off a path of long-run growth without inflation.

2. Timing of Policy Initiatives

The timing of the application of government policy is one of the trickiest questions of economics, and is one on which economists can be expected to disagree without reference to differences in their political viewpoint. The reason for this is a practical one. There are today important limitations on our ability to forecast accurately economic trends on which basis policy decisions must be made. The answer given by some observers is to give up the whole idea of the "new economics." Others stress the need for funds to improve and expand statistical services and thereby advance the art and science of forecasting. **Most economists -- rejecting the pessimistic view --** would be likely to agree that if we are reasonably flexible in the use of policy, we can correct for errors in our expectations as we go along, while still doing all that we can to make the best use of the best available economic forecasts.

This description in Part II of the "new economics" is intended to give a broad view of its meaning, its limitations, and the type of public recognition and acceptance which it has received. Some will disagree basically with the whole Keynesian interventionist approach, maintaining that a free economy must be left to adjust itself to conditions as they develop. One conclusion of this paper is that Republicans should not argue for or against the "new economics," but that they should concentrate instead on the failures of the economic policies of the Johnson Administration.

Many can agree on the proposition that economic policies should be used to keep the nation on a steady long-run non-inflationary growth path. That the Johnson Administration has failed to do this is a failure of Johnson economics -- not necessarily of the premises and objectives of "the new economics based on Keynes."

III JOHNSON ECONOMICS

Johnson economics is essentially a policy of political expediency. It does not recognize the importance of two-way economic stabilizing policies.

In a nutshell -- if the government is to be responsible for stepping on the accelerator when the economy is lagging, it must also take its foot off when the pace of an economic advance increases to the point where the danger of overheating exists. The Administration's willingness to do the politically popular act (cut taxes), but not to use restraint in fiscal policy when called for, violates the "new economics," the old economics, and good sense.

All of this, of course, assumes that there was substantial professional and informed opinion in favor of restraint in early 1966, but that the Administration ignored this concensus (a phenomenon which it otherwise respects) because of fear of the political consequences. We turn now a survey of the views of leading economists as expressed in the early part of 1966.

In March, the Washington Post polled leading economists, and of the 30 who replied, 22 "favor(ed) an immediate tax increase." The supporters of a tax increase included many leading economists generally regarded as sympathetic with the Kennedy-Johnson Administration. Walter Heller, recently resigned as Chairman of the President's Council of Economic Advisors, was one of the strongest advocates of tax increase during this period. The same position was taken by John K. Galbraith, Paul A. Samuelson, James Tobin of Yale (formerly a member of the CEA), Joseph A. Pechman, Professor E. Cary Brown of M.I.T., and Professor Harvey Brazier of the University of Michigan.* The N.Y. Times also reported on March 13 that three out of four of the former Chairmen of the CEA favored tax increases or reduced spending. This included Heller, Arthur Burns, and Raymond Saulnier. Moreover, in separate reports on the President's 1966 Economic Report, both the Republican and Democratic members of the JEC saw a need for tax reduction.** ? Three members of the Federal Reserve Board (Chr. Martin, Robertson, and Daane) publicly supported a tax increase in or prior to May of this year, as did Pierre-Paul Schweitzer, managing director of the International Monetary Fund.

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* New York Times

** New York Times, March 13, 1966, III, p. 1.

Among
Turning ~~to~~ private business economists, the same general views were expressed. Charls Walker, executive vice president of the American Bankers Association, said the "preponderance of opinion" was for "a combined spending cut and tax increase," which he said "should add up to a net impact of $4 billion - $6 billion in the coming fiscal year." * Roy Rierson, senior vice president of the Bankers Trust Co., regarded the situation as so tight and the overheating so evident that a tax increase is clearly called for." ** William F. Butler, vice president of the Chase-Manhattan Bank, said he expected a tax increase because "as disagreeable as tax increases are, they are preferable to inflation." *** It is interesting to note the similarity between Butler's statement and the following.

> "If it should turn out that additional insurance (against inflation) is needed, then I am convinced that we should levy higher taxes rather than accept inflation -- which is the most unjust and capricious form of taxation."

This quotation is from President Johnson's 1966 Economic Report! Yet, when the time of decision came (when rhetoric like this would not suffice), the President ignored this "concensus" for fiscal policy restraint -- a concensus described as follows in the New York Times.

> "By now, a wide range of economists, bankers and others are calling for a tax increase to help finance the arms buildup in Vietnam and restrain inflationary forces in the economy." (March 13, 1966, III, p. 1.)

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* Ibid.
** Ibid.
*** Ibid.

Arthur Burns strongly criticized this lack of restraint in Administration economic policies in a talk which he made before the House Republican Conference in July of this year. Burns was especially critical of what he called "a great new wave of government spending which began in the spring of 1965."

> ... a huge increase in Federal spending took place precisely at the time when governmental spending on domestic programs should have been restrained to help finance the larger military outlays abroad; or if a cutback in civilian expenditures was not feasible, then taxes should have been raised.

The overheating of the economy we are experiencing today is the price we pay for the Johnson Administration's lack of political courage. To put this criticism into specific terms, the following points can be made:

1. The Johnson Administration did not live up to its own economic policy promises. Witness the following from the President's own 1965 Economic Report.

   > "Federal budgetary and monetary policies must not permit a generalized excess of demand over supply to pull up prices." *

2. The Johnson Administration refused to use either of the two strongest and most effective instruments of restraint (tax increases and/or expenditure restraint) at a time when many prominent and politically friendly economists were urging that this be done.

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* Economic Report of the President, January 1965, p. 12.

3. They relied entirely on monetary policy (a route they took only reluctantly) to stem the advance of the economy fired by strong performance in the private sector and in the face of lower taxes and higher spending in the public sector. Here, the real losers are potential home buyers, pensioners, and those living on fixed incomes, against whom this heavy reliance on monetary policy discriminates.

4. Even the weak and controversial "guideposts" (which never should have been used in the first place) were jettisoned for political reasons. With even the "guideposts" gone, the Administration fell back exclusively on the old jawboning approach.

5. But, reading between the lines, the Administration's policy today boils down to -- "take all you can get this year, boys, because after the election, there'll be price controls!"

6. Thus, the failure to use fairly limited restraining action when needed may put the Administration in the position where they soon will be calling for sweeping controls and economic reforms which could do irreparable injury to the competitive enterprise basis of the American economy.

7. This economic policy failure of the Johnson Administration is all the more tragic because it follows on the heels of initial successes (the tax cut of 1964 and the pre-1965 policy of Federal

AN ADDRESS BY REP. GERALD R. FORD, R-MICH., BEFORE THE BUSINESS COUNCIL, OCT. 22, 1966

Ladies and Gentlemen:

I am very happy to be here with you, and to demonstrate my pleasure I am going to let you in on a new economic theory advanced by a news reporter friend of mine.

Over a long period of time this newspaper chap has studied the length of women's skirts. This was a scientific project, mind you, and so he took notes on all of his observations. Recently he confided to me the results of his study. He said that by close and unceasing hemline watching, he had come to an unshakable and unswerving conclusion.

That conclusion was that the hemline of women's skirts rises in good times--you know, things are looking up, as they say--and the hemline falls in bad times.

My friend says he has charts to prove his point. His charts reveal that the hemline began sneaking upward about 1912 when it reached the middle of the calf. In the 1920's it kept inching up. And by 1927, girls who blush easily were afraid to sit down. My friend says those were real good times.

When the stock market dropped into the cellar in 1929, hemlines fell, too. The outlook was really depressing in the early 1930's.

Since then there has been an upward trend in hemlines except for some sag in recession years.

Is there really something to my friend's theory?

Judging by what's happened in the stock market lately, I have the feeling his hemline idea doesn't really hold up. Or maybe government officials have been keeping too close an eye on hemlines instead of on the Dow-Jones averages.

In any case, I don't believe that all wisdom resides in the Executive Branch

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of the Federal Government. ~~That's [illegible] men occupying positions of great responsibility and control in the Executive Branch look~~ to you ~~men~~ of ~~the Business Council for advice.~~

?

But neither do I agree with the inference of some that all elective offícals are blokes, incapable of sound judgment and totally dedicated only to getting themselves reelected.

?

~~The Executive Branch--and~~ the Nation--can profit by your advice. The Nation ~~[illegible] it would suffer~~ without--the aggregate voice of the ~~Congress of the United States~~.

It is often said that the President proposes and the Congress disposes.

There are some who are impatient and irritated with the legislative process. They look upon those in the Executive Branch as men endowed with great expertise, bending their every effort toward the greatest good for the greatest number. Such men, they believe, can do no wrong.

I come before you not to cast doubt on the motives of anyone in the Executive Branch of the Government. But I submit that Congress needs a Defender; I have cast ~~myself~~ in that role today. Admittedly there may be a bad apple in the bushel, but that is equally true of business, the professions or labor.

I can defend some Congressmen more vigorously than others-

I deny that there is a need or necessity for the demise, the neat burial of the legislative process, as some would advocate or fondly wish.

I contend that the legislative process has much merit. I suspect that some in the audience tonight would heartily agree.

They know it was the Executive Branch which wanted broader powers to dictate + control automobile industry efforts in the safety field. They know it was the Executive Branch which sought sizable federal funds to impose its imprint on auto research, design and production. And they know it was the Congress which resisted those White House demands and shaped an auto safety program the industry could live with and more drivers could live by.

They know, too, that the Executive Branch has a clever penchant for taking so-called public interest legislation and wrapping it into a good-guy package. The legislative package may be seriously flawed, but it defies criticism because of the label.

Some may have guessed I am talking about the truth-in-packaging bill which had White blessing & pressure from — . How can you oppose or seek to modify legislation labeled "truth in packaging?" Yet some members of Congress had the courage to ~~do so~~ rewrite bad legislation promoted by the Executive Branch. This, I believe, was for the public good. Maybe some in this audience would agree.

Business is part of the public. Retailing and packaging are part of business. "Truth in Packaging" was legislation which seemed to give both business and the public a black eye. Business in effect was accused of deception, per se. The public, the housewife particularly, was accused of stupidity, or blindness in buying.

I am <u>not</u> arguing for the maxim, "Let the buyer beware." But I <u>am</u> arguing against a return to the old practice of making businessmen villains so greedily interested in profits that they employ every possible device to deceive the consumer.

Congress--particularly, the House--modified the truth-in-packaging bill to eliminate unwarranted interference by government with reasonable business procedure. Business, and the public, can be thankful Congress was brave enough to stand up to the White House on this point.

Indeed, is it not beneficial to the Nation that the elected representatives of the people have served as a check rein on the President and his advisers?

(MORE)

BUSINESS COUNCIL SPEECH

At this point, I cannot resist having a little fun with some of the President's spokesmen.

I am confused by their comments about this Congress. They are united in disagreeing with Congress--but they disagree for totally different reasons.

Chief economic adviser Gardner Ackley, who incidentally is from my State of Michigan, criticized Congress at a commencement address at my alma mater for appropriating too much money. Such action was bad--it was adding fire to the flames of inflation. I agree.

William Gaud, administrator of the Agency for International Development, has bemoaned congressional cuts in the foreign aid program.

These fellows really ought to get together. This is a good time for them to do so. They are both your guests at this conference.

Another gentleman who is not on your guest list also has sharply criticized Congress for being overly generous with federal appropriations, and again I agree wholeheartedly.

President Johnson has lamented that his Democratic Congress was adding anywhere from $2 to $8 billion to his non-military budget in non-critical items, making an increase in personal and corporate income tax not just possible but probable.

At a press confernce as long ago as last April 22, Mr. Johnson said of the Congress: "Our problem is to keep Congress from appropriating far in excess of the budget."

Yet on Oct. 13 the President returned from the political campaign trail with this outburst of praise for the Congress: "From what I have seen in the country, I think we are going to have the best Congress in the history of this Nation when

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we finish our record this session. The 89th Congress, my prediction is, historians will record as the Great Congress."

The 89th Congress might have been a great Congress, but Mr. Johnson's Texas style of oratory hardly fits the facts.

His sober and sensible statement of last April 22, repeated many times later in the session, came closer to the mark. Congress should have held down spending.

There are, of course, merits and demerits in nearly every performance, and this is true of Congress as well as the Executive Branch.

Let me recite for you a few congressional pluses.

The record clearly shows excessive spending in the anti-poverty program. The House, after much debate, imposed a $7,500 ceiling on expenditures per enrollee in the Job Corps. The average outlay per enrollee now is $9,120.

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The record also clearly shows that in most cases local anti-poverty programs are being run almost exclusively by the paid employees although maximum representation by the poor is called for. The House now has laid down the requirement that the poor have one-third representation in local community action groups.

Perhaps I will be forgiven for adding that it was primarily through the efforts of the minority that these reforms were accomplished. It was also because of minority pressure that the total anti-poverty authorization for fiscal 1967 was held to the $1.75 billion figure requested by the President.

Thus Congress often focuses on program flaws and prescribes a remedy.

I mentioned earlier that the Executive Branch is not the sole repository of wisdom in Washington or the Nation.

I submit that information and opinions gathered and disseminated on Capitol Hill

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BUSINESS COUNCIL SPEECH

are invaluable to the Executive and to the people. Public hearings by committees develop facts and implications which are essential to sound legislation.

In fact, there are times when I believe the legislative committees and individual congressmen can offer better advice to the White House than that emanating from its so-called expert advisers.

Unfortunately, that advice is often spurned.

We in the Congress have been watching with great interest this nation's experiment in the New Economics. We know that in many respects the "New Economics" is the old economics "souped up," used when politically advantageous; ignored when there ~~is~~ are a political ~~problem~~ pitfalls.

Its major premise is that we must be aggressive in using broad fiscal policy tools--and to a lesser extent, monetary policy as well--to maintain a steady, non-inflationary rate of growth in the economy. Its main quarrel with the past is not necessarily that we have done the wrong things, but that we have not done enough of the right things at the right time.

I subscribe to John Maynard Keynes's theory that the modern capitalist economy does not automatically work at peak efficiency and can be properly accelerated by wise and timely governmental action. But I also believe that this should be done without violating freedom or restraining proper competition.

The three main tools in the Keynesian economic chest are tax policy, credit policy and budget policy. It is intended they be used to strengthen private spending, investment and production.

But while Keynes was primarily concerned with the "up" side of the business cycle, he also warned against inflation and the debasing of a nation's currency.

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BUSINESS COUNCIL SPEECH

Dr. WalterHeller, former chairman of the President's Council of Economic Advisers, has warned that to be effective the New Economics should work both ways.

Said Heller, recently: "Essentially the job is to maintain stability without resorting to obnoxious controls as we did in World War II and Korea."

We have in Congress a gentleman who is extremely knowledgeable in the field of economics--Rep. Tom Curtis of Missouri, an outstanding member of the House Ways and Means Committee and the Joint Economic Committee.

Curtis, ~~perhaps more than any other member of Congress,~~ has, like Heller, sounded the warning that the New Economics is a two-way street.

He and Heller were among those who early this year recognized the peril of increasing inflation and pleaded for restraining action by the Administration.

The Administration disregarded pleas by Heller, Curtis and many others for restraint early in 1966. Consequently ~~We~~ we are in trouble today. Our trouble is not with "Keynesian Economics" but with "Johnson Economics."

What ~~is the failing~~ has failed in the "Johnson Economics"? It is a paralysis of policy, a reluctance to make timely application of tax, credit and budget policy when that application becomes politically painful.

It's true that timing of government economic policy is a difficult question. It is one on which economists can be expected to disagree regardless of their political loyalties.

But having said that let me cite a survey of the views of leading economists made in early 1966 by the Washington Post.

The Post polled these economists in March. Of the 30 who replied, 22 favored an immediate tax increase. The 22 included Dr. Heller, John K. Galbraith,

BUSINESS COUNCIL SPEECH

Paul A. Samuelson, James Tobin of Yale, formerly a member of the Council of Economic Advisers, Joseph A. Pechman, Prof. E. Cary Brown of M.I.T., and Prof. Harvey Brazier of the University of Michigan, a former Treasury official.

The New York Times reported on March 13 that three out of four former chairmen of the Council of Economic Advisers favored a tax increase or reduced spending. Those holding these views were Dr. Heller, Arthur Burns, and Raymond Saulnier.

When? Date.

March 17

Commenting in separate reports on the President's 1966 Economic Report, both the Republican and Democratic members of the Joint Economic Committee saw the need for a tax increase.

Three members of the Federal Reserve Board--Chairman Martin, Mr. Robertson and Mr. Daane, came out for a tax increase in or prior to May of this year. So, too, did Pierre-Paul Schweitzer, managing director of the International Monetary Fund.

The same general views were expressed among private economists.

Charles Walker, executive vice-president of the American Bankers Association, said the "preponderance of opinion" favored a "combined spending cut and tax increase."

Roy Rierson, senior vice-president of Bankers Trust Co., viewed the situation as so tight and the overheating of the economy as so obvious that "a tax increase is clearly called for."

William F. Butler, vice-president of Chase-Manhattan Bank, said he expected a tax increase because "as disagreeable as tax increases are, they are preferable to inflation."

Please note the similarity between Mr. Butler's statement and this quotation

Date.

from President Johnson's 1966 Economic Report:

"If it should turn out that additional insurance (against inflation) is ~~needed~~,

BUSINESS COUNCIL SPEECH

then I am convinced that we should levy higher taxes rather than accept inflation--which is the most unjust and capricious form of taxation."

Yet when the time of decision came--shall we say in March--the President ignored this consensus for restraint through the use of fiscal policy--either a reduction in non-essential, non-military spending or a tax increase. He in effect turned his back on the New Economics in favor of his own brand--a dangerous mixture of politics and economics. It was a return to the old economics. The economics of ups and downs in the economy, the economics of boom, inflation, recession and perhaps even depression.

Said the New York Times editorially on March 13:

"By now, a wide range of economists, bankers and others are calling for a tax increase to help finance the arms buildup in Vietnam and restrain inflationary forces in the economy."

Mr. Johnson ignored those voices. He spurned the pleas of some of the nation's foremost economists. He turned a deaf ear to the advice of Congress's Joint Economic Committee.

Yet what did leading Administration spokesmen tell the Business Council approximately one year ago today?

Some of you men had voiced strong concern about inflation, and this is what Vice President Humphrey told you then:

"We must provide for whatever expansion of our defense expenditures the situation requires. But we see no present likelihood that expenditures will rise enough to bring the threat of inflation. If they did, the President of the United States would take appropriate fiscal and monetary action and budgetary action to throttle that inflation. I can assure you of that tonight. Have no doubt about it."

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BUSINESS COUNCIL SPEECH

I ask you--has effective governmental action of the kind described by the V.P. been employed to throttle inflation? Or do we continue to have steady and insistent evidence of continuing inflationary pressures in the economy?

Mr. Ackley last October told you that either a lagging economy or an overheated one would be dealt with by the Government.

He said the Government has "both the weapons and the will" to keep the economy going "within noninflationary bounds."

Mr. Ackley not only predicted price stability, he even said another tax cut was ? possible in 1966. When he spoke, the Consumer Price Index stood at 110.2. Less than a year later--in August--the Index had climbed to 113.8.

Business ~~You~~ Council members had indicated as you went into your October 1965 meeting that you considered inflation the principal threat to the economy. You were also concerned, of course, about the continuing serious deficit in the balance of payments.

The Johnson Administration did not live up to the ~~its~~ promises made by its spokesman. The Administration refused to use either of the two strongest and most effective instruments of restraint--an income tax increase or spending reduction, when the time for such restraint arrived in March of this year.

Except for accelerated tax withholding and partial suspension of excise tax reductions, the Administration during the first 9 months of 1966 placed the entire burden of fighting inflation on monetary policy. When the Federal Reserve Board initially raised the rediscount rate last December, the Administration criticized the action as untimely.

The Administration even jettisoned its controversial wage and price guideposts by indulging in the fiction that the presidentially-endorsed proposal for settling the Airline Strike was non-inflationary.

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In August Republican members of the Joint Economic Committee tried to jog the Administration into action. But the Committee majority rejected the minority's call for hearings on the state of the economy. Committee Chairman Wright Patman said it was time for action, not a study. Mr. Curtis and other minority members agreed.

Said Mr. Curtis on Sept. 2: "If spending is not cut by an adequate amount, then there must be a tax increase. There may be merit to the suggestion that the investment tax credit be suspended, but the fact is that the Treasury Department itself feels this would have little or no impact on the immediate situation. As for monetary policy, we can only say that shedding tears over high interest rates comes with ill grace from those who forced monetary policy to carry the whole burden of restraining inflation by opposing fiscal tightening through reduced government spending. The problem is in the White House, not the Capitol."

It was the 45-year high interest rates that finally jarred the President out of his paralysis on economic affairs.

There appeared danger of financial panic in which borrowed money could not be had at any price, and in which both stocks and bonds would find no buyers.

Whether this danger was imagined or real, it worried the President. The result was the President's announced intention to fight inflation through alleged spending cuts and suspension of the 7 per cent investment tax credit. The announcement was predictable. It was politically the least painful of any of President Johnson's options.

The minority had urged early this year that priorities be assigned to domestic spending. ~~Admit, we begged of~~ We prodded the Administration~~,~~ to admit that we are at war and that war costs many billions.

BUSINESS COUNCIL SPEECH

The President's decision--that we could afford both the Vietnam War and expansion of Great Society programs by $3.2 billion--projected or charted the course taken by the 89th Congress this year.

Senate Majority Leader Mike Mansfield, in a statesmanlike comment in September of 1965, said that Congress in its next session should "spend less time on new legislation and more time correcting oversights in legislation we have just passed."

He added: "We have passed a lot of major bills at this session, some of them very hastily, and they stand in extreme need of a going-over for loopholes, rough corners, and particularly for an assessment of current and ultimate cost in the framework of our capacity to meet it." If one of my 4 children came home from school with a report like that – it would be failing grade. Might even get kicked out of school.

The Nation and the Congress last January expected the President to deal primarily with Vietnam in his 1966 State of the Union Message. Instead the President reeled off a new and lengthy list of legislative objectives and plunged ahead with his Great Society.

There was, of course, no plugging of loopholes in 1965 legislation, no rounding off of rough corners, no true "assessment of current and ultimate cost in the framework of our capacity to meet it." Again it was a case of the Presidential tail wagging the congressional dog.

Congress made some improvements in Great Society legislation but, clearly, Congress should do better.

We have a blueprint for Congressional Reform. It was drawn by a Joint Committee on Organization of Congress, a group of six Democrats and six Republicans have endorsed the committee's recommendations. Unfortunately, Democratic leaders have resued to go along.

Some Americans believe that every measure sent to Congress by the White House

BUSINESS COUNCIL SPEECH

should be enacted. They react angrily when Congress rejects a presidential proposal.

I submit that some of Congress's greatest accomplishments are the rejection of ill-advised presidential requests.

One such was President Johnson's recommendation of four-year terms for members of the House of Representatives.

If Congress had approved that request, the power of the people to control their Government would have been reduced by 50 per cent. If House members were handed four-year terms, the Executive Branch could be assured ~~continued~~ increased control of Congress.

The Johnson Administration has insisted on substituting rhetoric for realism in the management of our nation's affairs. The President insists that the best politics is the best economics--a most dangerous view, in my opinion.

The 89th Congress may not be a fair example of a Congress that can influence the President and help shape his policies. But this is the task for which Congress is needed. The Nation must look to Congress to shake the stars out of this Administration's eyes and bring it back to reality, bring it back to the people.

# # #

Insert on Page 4

Chief economic adviser Gardner Ackley, who incidentally is from my home state of Michigan, criticized Congress last August 7 in a commencement address at Ann Arbor for appropriating too much money.

Said he: The more common view of those attacking the current monetary policy is that we should merely loosen up on credit without tightening fiscal policy. Equally disturbing to me is the apparent readiness of many in the Congress to add vast sums--up to $5 or $6 billion--to their favorite civilian expenditures programs without either~~cuttingxbackx~~ cutting back other expenditures, or facing up to the probable need to offset the inflationary impact by higher taxes."

Dr. Prendergast

AN ADDRESS BY REP. GERALD R. FORD, R-MICH., BEFORE THE BUSINESS COUNCIL, OCT. 22, 1966

Ladies and Gentlemen:

I am very happy to be here with you, and to demonstrate my pleasure I am going to let you in on a new economic theory advanced by a news reporter friend of mine.

Over a long period of time this newspaper chap has studied the length of women's skirts. This was a scientific project, mind you, and so he took notes on all of his observations. Recently he confided to me the results of his study. He said that by close and unceasing hemline watching, he had come to an unshakable and unswerving conclusion.

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Abrupt transition

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of the Federal Government. That's one reason men occupying positions of great responsiblity and control in the Executive Branch look to you men of the Business Council for advice.

But neither do I agree with the inference of some that all elective officals are blokes, incapable of sound judgment and totally dedicated only to getting themselves reelected.

The Executive Branch--and the Nation--can profit by your advice. The Nation needs--indeedit would suffer without--the aggregate voice of the Congress of the United States.

It is often said that the President proposes and the Congress disposes.

There are some who are impatient and irritated with the legislative process. They look upon those in the Executive Branch as men endowed with great expertise, bending their every effort toward the greatest good for the greatest number. Such men, they believe, can do no wrong.

I come before you not to cast doubt on the motives of anyone in the Executive Branch of the Government. But I submit that Congress needs a Defender; I have cast myself in that role today. Admittedly there may be a bad apple in the bushel, but that is equally true of business, the professions or labor.

~~I deny that there is a need or necessity for the [illegible] of the legislative process, as~~ and some who would advocate or fondly wish [redacted] that Congress be streamlined in the shape of a rubber stamp for the Executive.

I contend that the legislative process ~~has much merit~~ is necessary to protect the public from rash action. I suspect that some in the audience tonight would heartily agree.

They know it was the Executive Branch which wanted broader powers to dictate automobile industry efforts in the safety field. They know it was the Executive Branch which sought sizable federal funds to impose its imprint on auto research, design and production. And they know it was the Congress which resisted those White House demands and shaped an auto safety program the industry could live with and more drivers could live by.

They know, too, that the Executive Branch has a clever penchant for taking so-called public interest legislation and wrapping it into a good-guy package. The legislative package may be seriously flawed, but it defies criticism because of the label.

Some may have guessed I am talking about the truth-in-packaging bill. How can you oppose or seek to modify legislation labeled "truth in packaging?" Yet some members of Congresshad the courage to do so. This I believe was for the public good. Maybe some in this audience would agree.

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These fellows really ought to get together. This is a good time for them to do so. They are both your guests at this conference.

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At a press conference as long ago as last April 22, Mr. Johnson said of the Congress: "Our problem is to keep Congress from appropriating far in excess of the budget." He has frequently alleged that Congress is adding anywhere from \$2 to 8 billions to his budget.

Yet on Oct. 13 the President returned from the political campaign trail with this outburst of praide for the Congress: "From what I have seen in the country, I think we are going to have the best Congress in the history of this Nation when we finish our record this session. The 89th Congress, my prediction is, historians will record as the Great Congress."

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His sober and sensible statement of that April 22, repeated many times later in the session, came closer to the mark. Mr. Johnson is right in saying that Congress should have held down spending.

He might have gone a step further and said he should not have asked for so much to spend. Or

There are, of course, merits and demerits in nearly every performance, and this is true of Congress as well as the Executive Branch.

somebody might have reminded him that he doesn't have to spend every dollar that Congress appropriates.

Let me recite for you a few congressional pluses.

The record clearly shows excessive spending in the anti-poverty program. The House, after much debate, imposed a $7,500 ceiling on expenditures per enrollee in the Job Corps. The average outlay per enrollee now is $9,120.

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Its major premise is that we must be aggressive in using broad fiscal policy tools ~~--and to a lesser extent,~~ as well as monetary policy ~~[illegible]~~ to maintain a steady, non-inflationary rate of growth in the economy. Its main quarrel with the past is not necessarily that we have done the wrong things, but that we have not done enough of the right things at the right time.

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The three main tools in the Keynesian economic chest are tax policy, credit policy and ~~budget~~ spending policy. It is intended they be used to ~~[illegible]~~ counterbalance the undesirable tendencies of the private sector of the economy. ~~[illegible]~~

While Keynes, viewing the world of the 1930's, was primarily concerned with ~~[illegible]~~ overcoming depression, he also warned against inflation and the debasing of a nation's currency.

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~~We have in Congress a gentleman who is extremely knowledgeable in the field of~~ [redacted]-Rep. Tom Curtis of Missouri, an outstanding member of the House Ways and Means Committee and the Joint Economic Committee,

Has ~~Curtis~~, perhaps more than any other member of Congress, [redacted] sounded the warning that the New Economics is a two-way street.

Last year many economists and even some of us politicians [redacted] recognized the peril of increasing inflation and pleaded for restraining action by the Administration.

The Administration disregarded pleas [redacted] for restraint, [redacted] We are in trouble today. Our trouble is not with Keynesian Economics but with Johnson Economics.

What is the failing in the Johnson Economics? It is a paralysis of policy, a reluctance to put on the brakes [redacted] when that [redacted] becomes politically painful.

It's true that timing of government economic policy is a difficult question. It is one on which economists can be expected to disagree regardless of their political loyalties.

But having said that let me cite a survey of the views of leading economists made in early 1966 by the Washington Post.

The Post polled these economists in March. Of the 30 who replied, 22 favored an immediate tax increase. The 22 included Dr. Heller, John K. Galbraith, Paul A. Samuelson, James Tobin of Yale, formerly a member of the Council of Economic Advisers, Joseph A. Pechman, Prof. E. Cary Brown of M.I.T., and Prof. Harvey Brazier of the University of Michigan, a former Treasury official.

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then I am convinced that we should levy higher taxes rather than accept inflation--which is the most unjust and capricious form of taxation."

Yet ~~when the time of decision came--shall we say in March--~~the President ignored this consensus for restraint through the use of fiscal policy--either a reduction in non-essential, non-military spending or a tax increase. He in effect turned his back on the New Economics in favor of his own brand--a dangerous mixture of politics and economics. It was a return to the old economics. The economics of ups and downs in the economy, the economics of boom, inflation, recession and perhaps even depression

Said the New York Times editorially on March 13:

"By now, a wide range of economists, bankers and others are calling for a tax increase to help finance the arms buildup in Vietnam and restrain inflationary forces in the economy."

Mr. Johnson ignored those voices. He spurned the pleas of some of the nation's foremost economists. He turned a deaf ear to the advice of Congress's Joint Economic Committee.

Yet what did leading Administration spokesmen tell the Business Council approximately one year ago today?

Some of you had voiced concern about inflation, and this is what Vice President Humphrey told you then:

"We must provide for whatever expansion of our defense expenditures the situation requires. But we see no present likelihood that expenditures will rise enought to bring the threat of inflation. If they did, the President of the United States would take appropriate fiscal and monetary action and budgetary action to throttle that inflation. I can assure you of that tonight. Have no doubt about it."

I ask you--has governmental action been employed to throttle inflation? Or do we continue to have steady and insistent evidence of inflationary pressures in the economy?

Mr. Ackley ~~last October~~ told you then that either a lagging economy or an overheated one would be dealt with by the Government.

He said the Government has "both the weapons and the will" to keep the economy going "within noninflationary bounds."

Mr. Ackley not only predicted price stability, he even said another tax cut was possible in 1966. When he spoke, the Consumer Price Index stood at 110.2. Less than a year later--in August--the Index had climbed to 113.8.

You Council members had indicated as you went into your October 1965 meeting that you considered inflation the principal threat to the economy. You were also concerned, of course, about the continuing serious deficit in the balance of payments.

The Johnson Administration did not live up to its promises. The Administration refused to use either of the two strongest and most effective instruments of restraint--an income tax increase or spending reduction, when the time for such restraint arrived in March of this year.

Except for accelerated tax withholding and partial suspension of excise tax reductions, the Administration placed the entire burden of fighting inflation on monetary policy. When the Federal Reserve Board initially raised the rediscount rate last December, the Administration criticized the action as untimely.

The Administration even jettisoned its controversial wage and price guideposts by indulging in the fiction that the presidentially-endorsed proposal for settling the Airline Strike was non-inflationary.

~~In August Republican members of the Joint Economic Committee tried to jog the Administration into action. by calling for But the Committee majority rejected the minority's call for hearings on the state of the economy. Committee Chairman Wright Patman said it was time for action, not a study. Mr. Curtis and other minority members agreed.~~

Said Mr. Curtis on Sept. 2: "If spending is not cut by an adequate amount, then there must be a tax increase. There may be merit to the suggestion that the investment tax credit be suspended, but the fact is that the Treasury Department itself feels this would have little or no impact on the immediate situation. As for monetary policy, we can only say that shedding tears over high interest rates comes with ill grace from those who forced monetary policy to carry the whole burden of restraining inflation by opposing fiscal tightening through reduced government spending. The problem is in the White House, not the Capitol."

It was the 45-year high interest rates that finally jarred the President out of his paralysis on economic affairs.

There appeared danger of financial panic in which borrowed money could not be had at any price, and in which both stocks and bonds would find no buyers.

Whether this danger was imagined or real, it worried the President. The result was the President's announced intention to fight inflation through alleged spending cuts and suspension of the 7 per cent investment tax credit. The announcement was predictable. It was politically the least painful of any of President Johnson's options.

The minority had urged early this year that priorities be assigned to domestic spending. Admit, we begged of the Administration, that we are at war and that war costs many billions.

The President's decision--that we could afford both the Vietnam War and expansion of Great Society programs by $3.2 billion--projected the course taken by the 89th Congress this year.

Senate Majority Leader Mike Mansfield, in a statesmanlike comment in September of 1965, said that Congress in its next session should "spend less time on new legislation and more time correcting oversights in legislation we have just passed."

He added: "We have passed a lot of major bills at this session, some of them very hastily, and they stand in extreme need of a going-over for loopholes, rough corners, and particularly for an assessment of current and ultimate cost in the framework of our capacity to meetiit."

The Nation and the Congress last January expected the President to deal primarily with Vietnam in his 1966 State of the Union Message. Instead the President reeled off a new and lengthy list of legislative objectives and plunged ahead with his Great Society.

There was, of course, no plugging of loopholes in 1965 legislation, no rounding off of rough corners, no true "assessment of current and ultimate cost in the framework of our capacity to meet it." Again it was a case of the Presidential tail wagging the congressional dog.

Congress made some improvements in Great Society legislation but, clearly, Congress should do better.

We have a blueprint for Congressional Reform. It was drawn by a Joint Committee on Organization of Congress, a group of six Democrats and sis Republicans have endorsed the committee's recommendations. Unfortunately, Democratic leaders have resued to go along.

Some Americans believe that every measure sent to Congress by the White House should be enacted. They react angrily when Congress rejects a presidential proposal.

I submit that some of Congress's greatest accomplishments are the rejection of ill-advised presidential requests.

One such was President Johnson's recommendation of four-year terms for members of the House of Representatives.

If Congress had approved that request, the power of the people to control their Government would have been reduced by 50 per cent. If House members were handed four-year terms, the Executive could be assured continued control of Congress.

The Johnson Administration has insisted on substituting rhetoric for realism in the management of our nation's affairs. The President insists that the best politics is the best economics--a most dangerous view, in my opinion.

The 89th Congress may not be a fair example of a Congress that can influence the President and help shape his policies. But this is the task for which Congress is needed. The Nation must look to Congress to shake the stars out of this Administration's eyes and bring it back to reality, bring it back to the people.

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AN ADDRESS BY REP. GERALD R. FORD, R-MICH.

BEFORE THE BUSINESS COUNCIL

OCTOBER 22, 1966

MR. CHAIRMAN, DISTINGUISHED MEMBERS OF THE BUSINESS COUNCIL, COLLEAGUES IN GOVERNMENT, GENTLEMEN:

I am extremely pleased to be here. The invitation to appear before you is an honor and a challenge.

The natural topic for any guest speaker here is economics. It is difficult to find something fresh to say on that subject, but I do have something new and quite different. It is a theory advanced by a news reporter friend of mine.

Over a long period of time this newspaper chap has studied the length of women's skirts. This was a scientific project involving the most complicated mysteries of economic cycles. So he took notes on all of his observations. Recently he confided to me the results of his study. He said that by close and unceasing hemline watching, he had come to an unshakable and unswerving conclusion.

That conclusion was that the hemline of women's skirts rises in good times--you know, things are looking up, as they say--and the hemline falls in bad times.

In 1927, my friend reports, girls who blush easily were afraid to sit down. My friend says those were real good times.

Is there really something to my friend's theory?

Judging by what's happened in the stock market lately, I have the feeling his hemline idea doesn't really hold up. Or maybe government officials have been keeping too close an eye on hemlines instead of on the Dow-Jones averages or other valid economic indicators.

Whatever figures federal officials have been studying in recent months, the tremors which have shaken the economy in 1966 point up the fact that they gave you a less than accurate reading of the indicators at your annual meeting exactly one year ago.

Because I prize this opportunity to speak to you, I have thought long and hard about what I would say.

First, I thought of discussing air and water pollution. But coming direct from Capitol Hill at this point, I'm not sure air pollution is a tenable topic! And this spot, famed for its mineral waters, was hardly the place to stress water pollution.

I dallied over Truth in Packaging--and the possibility of relating it to the credibility gap, in a nonpartisan way, of course. But then my friends on the House Commerce Committee told me even Truth was off limits because of business concern over "Truth in Packaging" and "Truth in Lending." I believe your distinguished chairman,

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Because my home is the great State of Michigan, the hub of the automotive industry, I considered the possibility of discussing auto safety legislation. But since some representatives of that industry are here, for business and a pleasant weekend, I didn't want to upset their plans by reminding them of the horrors of the proposals advanced by the Executive Branch of the government in auto safety, so-called.

I finally turned to a topic certain to be nonpartisan and inoffensive--a review of what Administration spokesmen told The Business Council 12 months ago here and an appraisal of what has actually happened in the interim.

Wisdom is often discovered in hindsight. Sound perspective for the future often rests on wisdom garnered in economic autopsies. Let's take a look backward so we may look forward with clear vision.

Last year almost every one of the government speakers appearing here rhapsodized over "the previous fifty-six months of continued expansion."

Not one of them mentioned that during that 56-month period the use of credit increased at a rate much more rapid than the increase in income. And not one of them mentioned that the liquidity of corporations and commercial banks had been reduced from year to year.

It is interesting that such basic information was slipped over by these expert observers.

One cannot but wonder whether our current economic problems--tight money, high interest rates and rising consumer prices--could possibly be related to these important considerations so curiously unmentioned a year ago.

Some of the other statements Administration spokesmen did make last October were just as curious.

Exactly one year ago Economic Council Chairman Gardner Ackley was quoted as saying, "I am optimistic about the continued stability of costs and prices." He also said: "Government has the weapons and the will to maintain expansion within non-inflationary bounds." He even held out hope for further tax cuts for low-income families in this year of 1966.

In all fairness, I must say that Mr. Ackley hedged his bets. He acknowledged that outlays for the Vietnam War might overheat the economy. Treasury Secretary Fowler said somewhat the same thing a week earlier--that if Vietnam War costs ran to $10 billion or more in 1966 he'd be thinking about an income tax increase. But of course, Mr. Fowler went on to indicate that he wasn't really thinking about a tax increase at all.

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In reviewing these remarks, don't you find it puzzling that the President's top economic advisor and even the Secretary of the Treasury seemed so much in the dark about our military spending in the immediate future, and what to do about it?

We in Congress had strong indications as to rising Vietnam War costs, and we made them known publicly and with emphasis from time to time.

I hesitate to conclude that none of the Administration's civilian leaders had knowledge of our military planning and the costs involved.

Yet the only other conclusion one can come to is that they knew but didn't say. And that is worse.

In February, 1965, President Johnson called for a step-up in the Vietnam War. Escalation continued throughout the year. It shifted into perceptibly higher gear in July, 1965, and is steadily continuing.

In view of the obvious impact of that escalation on the economy--and it is government's job to assess such effects--the President clearly should have submitted a tightly restricted domestic spending budget to Congress last January.

Now--even now--Administration officials still are saying they don't know how much the Vietnam War will cost or how we will pay for it.

You may have gathered by now that I don't believe all wisdom resides in the Executive Branch of the Federal Government. And neither do I agree with the inference of some that all elective officials are blokes, incapable of sound judgment and totally dedicated only to getting themselves re-elected.

I submit that information, experience and opinions gathered and disseminated on Capitol Hill are invaluable to the Executive Branch and to the people.

I believe there are times when legislative committees and individual congressmen can offer better advice to the White House than that of its own expert advisers. Unfortunately, that legislative advice is often spurned.

We in the Congress have been watching with great interest this nation's experiment in the New Economics. We know it cannot work properly if it is used only when it is politically advantageous and is ignored when political fallout threatens.

Its major premise is that we must be aggressive in using broad fiscal policy tools as well as monetary policy to maintain a steady, non-inflationary rate of growth in the economy. Its main quarrel with the past is not necessarily that we have done the wrong things, but that we have not done enough of the right things at the right time.

I subscribe to John Maynard Keynes's theory that the modern capitalist economy does not automatically work at peak efficiency and that its excesses or deficiencies may be adjusted by wise and timely governmental action. I would emphasize that

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Keynes was primarily concerned with counteracting business slumps. But he also warned against inflation and the debasing of a nation's currency.

The three main tools in the Keynesian economic chest are tax policy, credit policy and spending policy. It is intended they be used to counterbalance undesirable tendencies in the private sector of the economy.

Dr. Walter Heller, former chairman of the President's Council of Economic Advisers, has repeatedly told us that to be effective the New Economics should work both ways. It should be used to stimulate the economy when necessary, to restrain it when required.

Dr. Heller recently said: "Essentially, the job is to maintain stability without resorting to obnoxious controls as we did in World War II and Korea."

We have in Congress a gentleman who is extremely knowledgeable in the field of economics--Rep. Tom Curtis of Missouri, an outstanding member of the House Ways and Means Committee and the Joint Economic Committee.

Curtis has, like Heller, sounded the warning that the New Economics is a two-way street.

He and Heller were among those who early this year recognized the peril of increasing inflation and pleaded for restraining action by the Administration.

The Administration disregarded pleas by Curtis, Heller and many others for restraint early in 1966. That is why we are in trouble today. Our trouble is not with Keynesian Economics but with "Johnson Economics."

What fails us in the Johnson Economics? It is a paralysis of policy, a reluctance to make timely application of tax, credit and budget policy when that application becomes politically painful.

It's true that timing of government economic policy is a difficult question. It is one on which economists can be expected to disagree honestly, regardless of their political loyalties.

Having said that, let me call your attention to a New York Times story of last March 13. The Times reported that three out of four former chairmen of the President's Council of Economic Advisers favored either federal spending cuts or a tax increase. It was in March that they urged such action. Those holding these views were Raymond Saulnier, Arthur Burns and Dr. Heller.

Let me further cite a survey of the views of leading economists made by the Washington Post in early 1966.

The Post polled these economists in March. Of the 30 who replied, 22 favored an immediate tax increase. The 22 included Dr. Heller, John K. Galbraith, Paul A. Samuelson, James Tobin of Yale, who is a former member of the Council of Economic

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Advisers, Joseph A. Pechman, Prof. E. Cary Brown of M.I.T., and Prof. Harvey Brazier of the University of Michigan, a former Treasury official.

Commenting in separate reports March 17 on the President's 1966 Economic Report, both the Republican and Democratic members of the Joint Economic Committee saw the need for a tax increase.

Three members of the Federal Reserve Board--Chairman Martin, Mr. Robertson and Mr. Daane--came out for a tax increase in or prior to May of this year. So, too, did Pierre-Paul Schweitzer, managing director of the International Monetary Fund.

The same general views were expressed by private economists.

Charls Walker, executive vice-president of the American Bankers Association, said the "preponderance of opinion" favored a "combined spending cut and tax increase."

William F. Butler, vice-president of Chase-Manhattan Bank, said he expected a tax increase because "as disagreeable as tax increases are, they are preferable to inflation."

Please note the similarity between Mr. Butler's statement and this quotation from President Johnson's 1966 Economic Report, dated January 27:

"If it should turn out that additional insurance (against inflation) is needed, then I am convinced that we should levy higher taxes rather than accept inflation--which is the most unjust and capricious form of taxation."

Yet when fleeting time demanded decision--shall we say in March--the President ignored this consensus for restraint through the use of fiscal policy--either a sharp reduction in non-essential, non-military spending or a tax increase. He in effect turned his back on the New Economics in favor of his own brand--a dangerous mixture of politics and economics. It was a return to the old economics. The economics of ups and downs in the economy, the economics of boom, inflation, recession and perhaps even depression.

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Yet what had leading Administration spokesmen told The Business Council approximately one year ago today? Mr. Ackley told you that either a lagging economy or an overheated one would be dealt with by the Government.

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"We must provide for whatever expansion of our defense expenditures the situation requires. But we see no present likelihood that expenditures will rise enough to bring the threat of inflation. If they did, the President of the United States would take appropriate fiscal and monetary action and budgetary action to throttle that inflation. I can assure you of that tonight. Have no doubt about it."

I ask you--has effective governmental action of the kind described by the Vice President been employed to throttle inflation? There have been no meaningful vetoes of excessive spending measures passed by a runaway majority in the Congress. No withholding or earmarking of appropriated low-priority funds by the White House.

Let me make it clear. We in the minority have consistently emphasized that federal spending cuts are the best weapon against inflation. We spelled this out in our own State of the Union Message last January when we said: "To halt inflation we must curb federal spending. This requires the President and the Congress to set priorities. It is imperative that the President in his budget classify his spending proposals according to necessity and urgency. If he fails to do so, we call upon the Democrats in Congress to join us in eliminating, reducing or deferring low priority items."

The time when a tax increase might properly be used to cool off the economy may well have passed. I have the feeling that nobody in the Administration quite knows what to do now--except ride out the storm.

The Johnson Administration has not lived up to its promises to you.

Policies unenforced, decisions avoided, and choices passed over. This is the other side of the New Economics, as practiced by the Administration. Thus it is that the New Economics has become a casualty of election-year politics. Thus it is that wages and prices are caught up in an inflationary spiral whose end we cannot see.

We all know that the job of tamping down the economy this year was thrust almost entirely on the Federal Reserve Board. That task was almost hopeless in the face of growing commitments in Vietnam, larger outlays for the Great Society, and rising consumer demand.

I think an income tax increase now would probably give the economy a severe jolt. But if the Administration demands it, it will be in the name of the Vietnam War

In that light, let me call your attention to an October report on tight money published by the Bank of America's research staff. This report states that while military spending in the first six months of 1966 exceeded that for the comparable period in 1965 by $5.1 billion, nondefense spending for the same period rose by $4.5 billion.

With that, Bank of America executives conclude that the Administration should restrain lower priority spending programs and fund no new programs until current

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inflationary trends abate. This is what Senator Dirksen and I have been advocating for months. Less federal spending on low-priority, non-military programs might well have cooled off inflationary pressures and avoided the prospect of additional federal taxes.

One of the dangers now facing the economy is that labor will go for broke on its 1967 wage negotiations. We sorely need a wage-price stabilization plan--a workable one. The Administration torpedoed its controversial 3.2 per cent wage-price guideposts by indulging in the fiction that the presidentially-endorsed proposal for settling the Airlines Strike was non-inflationary.

Is it miscalculation or politics alone which has derailed the New Economics? I shall leave that for you to judge.

Having reviewed the statements made by Administration spokesmen a year ago, it is difficult to see how they provided you with much useful knowledge about the future course of your government and the economic developments to be expected as a consequence.

This has been a pretty grim message, and I am not going to try to predict what lies ahead.

The job of forecasting the future is a tough one, as Mr. Ackley will attest.

There are hits and errors in nearly every performance, and this is true of the Congress as well as the Executive Branch.

I'd like to tell you a little story now--a true story--about Capitol Hill and one of its great humorists, Senator Norris Cotton of New Hampshire. This happened during the 1966 World Series.

Cotton and a half dozen other senators were climbing into a Senate subway car to go to the floor for a vote when the operator of the car remarked that the Los Angeles Dodgers had committed six errors that day. This, the operator said, was an all-time record for errors by one team in a World Series game.

"Well," said Cotton when he heard the news. "The only thing I can figure out is that all the members of the Dodgers ball club must be Republicans--because only Republicans could drop the ball that often."

Having joined Senator Cotton in poking a little fun at myself and my colleagues, let me say that Republicans in Congress may have committed political errors in Washington in 1966, but I sincerely believe they were responsible political errors--a willingness to face hard economic reality even though it may be temporarily unpopular. That kind of error is like a champion ball player trying to make the big play in a ball game. This is the kind of error that makes pennant-winners at the end of the season--when it counts--and that day of reckoning is not far away.

# # #

AN ADDRESS BY REP. GERALD R. FORD, R-MICH.

BEFORE THE BUSINESS COUNCIL

OCTOBER 22, 1966

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"By now, a wide range of economists, bankers and others are calling for a tax increase to help finance the arms buildup in Vietnam and restrain inflationary forces in the economy."

Mr. Johnson ignored those voices. He spurned the pleas of most of the nation's foremost economists. He turned a deaf ear to the advice of Congress's Joint Economic Committee.

Yet what had leading Administration spokesmen told The Business Council approximately one year ago today? Mr. Ackley told you that either a lagging economy or an overheated one would be dealt with by the Government.

Some of you men had voiced concern about inflation, and this is what Vice President Humphrey told you then:

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"We must provide for whatever expansion of our defense expenditures the situation requires. But we see no present likelihood that expenditures will rise enough to bring the threat of inflation. If they did, the President of the United States would take appropriate fiscal and monetary action and budgetary action to throttle that inflation. I can assure you of that tonight. Have no doubt about it."

I ask you--has effective governmental action of the kind described by the Vice President been employed to throttle inflation? There have been no meaningful vetoes of excessive spending measures passed by a runaway majority in the Congress. No withholding or earmarking of appropriated low-priority funds by the White House.

Let me make it clear. We in the minority have consistently emphasized that federal spending cuts are the best weapon against inflation. We spelled this out in our own State of the Union Message last January when we said: "To halt inflation we must curb federal spending. This requires the President and the Congress to set priorities. It is imperative that the President in his budget classify his spending proposals according to necessity and urgency. If he fails to do so, we call upon the Democrats in Congress to join us in eliminating, reducing or deferring low priority items."

The time when a tax increase might properly be used to cool off the economy may well have passed. I have the feeling that nobody in the Administration quite knows what to do now--except ride out the storm.

The Johnson Administration has not lived up to its promises to you.

Policies unenforced, decisions avoided, and choices passed over. This is the other side of the New Economics, as practiced by the Administration. Thus it is that the New Economics has become a casualty of election-year politics. Thus it is that wages and prices are caught up in an inflationary spiral whose end we cannot see.

We all know that the job of tamping down the economy this year was thrust almost entirely on the Federal Reserve Board. That task was almost hopeless in the face of growing commitments in Vietnam, larger outlays for the Great Society, and rising consumer demand.

I think an income tax increase now would probably give the economy a severe jolt. But if the Administration demands it, it will be in the name of the Vietnam War.

In that light, let me call your attention to an October report on tight money published by the Bank of America's research staff. This report states that while military spending in the first six months of 1966 exceeded that for the comparable period in 1965 by $5.1 billion, nondefense spending for the same period rose by $4.5 billion.

With that, Bank of America executives conclude that the Administration should restrain lower priority spending programs and fund no new programs until current

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inflationary trends abate. This is what Senator Dirksen and I have been advocating for months. Less federal spending on low-priority, non-military programs might well have cooled off inflationary pressures and avoided the prospect of additional federal taxes.

One of the dangers now facing the economy is that labor will go for broke on its 1967 wage negotiations. We sorely need a wage-price stabilization plan--a workable one. The Administration torpedoed its controversial 3.2 per cent wage-price guideposts by indulging in the fiction that the presidentially-endorsed proposal for settling the Airlines Strike was non-inflationary.

Is it miscalculation or politics alone which has derailed the New Economics? I shall leave that for you to judge.

Having reviewed the statements made by Administration spokesmen a year ago, it is difficult to see how they provided you with much useful knowledge about the future course of your government and the economic developments to be expected as a consequence.

This has been a pretty grim message, and I am not going to try to predict what lies ahead.

The job of forecasting the future is a tough one, as Mr. Ackley will attest.

There are hits and errors in nearly every performance, and this is true of the Congress as well as the Executive Branch.

I'd like to tell you a little story now--a true story--about Capitol Hill and one of its great humorists, Senator Norris Cotton of New Hampshire. This happened during the 1966 World Series.

Cotton and a half dozen other senators were climbing into a Senate subway car to go to the floor for a vote when the operator of the car remarked that the Los Angeles Dodgers had committed six errors that day. This, the operator said, was an all-time record for errors by one team in a World Series game.

"Well," said Cotton when he heard the news. "The only thing I can figure out is that all the members of the Dodgers ball club must be Republicans--because only Republicans could drop the ball that often."

Having joined Senator Cotton in poking a little fun at myself and my colleagues, let me say that Republicans in Congress may have committed political errors in Washington in 1966, but I sincerely believe they were responsible political errors--a willingness to face hard economic reality even though it may be temporarily unpopular. That kind of error is like a champion ball player trying to make the big play in a ball game. This is the kind of error that makes pennant-winners at the end of the season--when it counts--and that day of reckoning is not far away.

# # #

AN ADDRESS BY REP. GERALD R. FORD, R-MICH., BEFORE THE BUSINESS COUNCIL, OCT. 22, 1966

MR. CHAIRMAN, DISTINGUISHED MEMBERS OF THE BUSINESS COUNCIL, COLLEAGUES IN GOVERNMENT, GENTLEMEN:

I am very happy to be here. I consider the invitation to appear before you both an honor and a challenge.

The natural topic for any speaker who comes before you is economics. It is difficult to find something fresh to say on that subject, but I do have something new for you. It is a theory advanced by a news reporter friend of mine.

Over a long period of time this newspaper chap has studied the length of women's skirts. This was a scientific project, mind you, and so he took notes on all of his observations. Recently he confided to me the results of his study. He said that by close and unceasing hemline watching, he had come to an unshakable and unswerving conclusion.

That conclusion was that the hemline of women's skirts rises in good times--you know, things are looking up, as they say--and the hemline falls in bad times.

In 1927, my friend reports, girls who blush easily were afraid to sit down. My friend says those were real good times.

Is there really something to my friend's theory?

Judging by what's happened in the stock market lately, I have the feeling his hemline idea <u>doesn't</u> <u>really</u> hold up. Or maybe government officials have been keeping too close an eye on hemlines instead of on the Dow-Jones averages.

Whatever figures federal officials have been studying in recent months, the tremors which have shaken the economy in 1966 point up the fact that they gave you a less than accurate reading of the indicators at your annual meeting exactly one year ago.

Because I prize this opportunity to speak to you, I have thought long and hard what I would say.

My first impulse was to explore with you the political inflation and the questionable credit that accompany the escalating dues to the President's Club. But I was warned against talking partisan politics. I was told you fellows would tune me out, and besides I might spark a Boosters' Club backlash. After all, arousing your ire on a subject of that kind could lead to economic disaster for the Republican Party--contributory negligence.

Next I thought of discussing air and water pollution. But coming from Capitol Hill, I could not in good conscience raise the first problem. And this spot, famed for its mineral waters, was hardly the place to stress the second.

I dallied over Truth in Packaging--and the possibility of relating it to the credibility gap, in a nonpartisan way, of course. But then my friends on the House Commerce Committee told me even Truth was off limits because of business concern over "Truth in Packaging" and "Truth in Lending." I believe your distinguished chairman, among others I see here, experienced some discomfort in this area.

I finally turned to a topic certain to be nonpartisan and inoffensive--a review of what Administration spokesmen told the Business Council 12 months ago here and an appraisal of what has actually happened in the interim.

Wisdom is often discovered in hindsight. Sound perspective for the future often rests on wisdom garnered in economic autopsies. Let's take a look backward so we may look forward with clearer eyes.

Last year almost every one of your government speakers rhapsodized over "the previous fifty-six months of continued expansion."

Not one of them mentioned that during that 56-month period the use of credit what I would say.

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increased at a rate much more rapid than the increase in income. And not one of them mentioned that the liquidity of corporations and commercial banks had been reduced from year to year.

It is interesting that such basic information was passed over by these expert observers.

One cannot but wonder whether our current economic problems--tight money, high interest rates and rising consumer prices--could possibly be related to these important considerations so curiously unmentioned a year ago.

Some of the statements Administration spokesmen did make last October were just as curious.

Exactly one year ago Economic Council Chairman Gardner Ackley was quoted as saying, "I am optimistic about the continued stability of costs and prices." He also said: "Government has the weapons and the will to maintain expansion within non-inflationary bounds." He even held out hope for further tax cuts for low-income families in this year of 1966.

In all fairness, I must say that Mr. Ackley hedged his bets. He acknowledged that outlays for the Vietnam War might overheat the economy. Treasury Secretary Fowler said somewhat the same thing a week earlier--that if Vietnam War costs ran to $10 billion or more in 1966 he'd be thinking about an income tax increase. But of course, Mr. Fowler went on to indicate that he wasn't really thinking about a tax increase at all.

In reviewing these remarks, don't you find it puzzling that the President's top economic advisor and even the Secretary of the Treasury seemed so much in the dark about future military spending and what to do about it?

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We in Congress had strong indications as to rising Vietnam War costs, and we made them known publicly from time to time.

I hesitate to conclude that none of the Administration's civilian leaders had knowledge of our military planning and the costs involved.

Yet the only other conclusion one can come to is that they knew but didn't say. And that is worse.

In February, 1965, President Johnson called for a stepup in the Vietnam War. Escalation continued throughout the year. It shifted into perceptibly higher gear in July, 1965 and is still continuing.

In view of the obvious impact of that escalation on the economy--and it is the government's job to assess such effects--President clearly should have submitted a tightly restricted domestic spending budget to Congress last January.

Now--even now--Administration officials still are saying they don't know how much the Vietnam War will cost or how we will pay for it.

You may have gathered by now that I don't believe all wisdom resides in the Executive Branch of the Federal Government. And neither do I agree with the inference of some that all elective officials are blokes, incapable of sound judgment and totally dedicated only to getting themselves elected.

I submit that information and opinions gathered and disseminated on Capitol Hill are invaluable to the Executive Branch and to the people.

I believe there are times when legislative committees and individual congressmen can offer better advice to the White House than that of its so-called expert advisers. Unfortunately, that advice is often spurned.

We in the Congress have been watching with great interest this nation's experiment

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in the New Economics. We know that in many respects the "New Economics" is the old economics "souped up," used when politically advantageous; ignored when political fallout threatens.

Its major premise is that we must be aggressive in using broad fiscal policy tools--and to a lesser extent, monetary policy as well--to maintain a steady, non-inflationary rate of growth in the economy. Its main quarrel with the past is not necessarily that we have done the wrong things, but that we have not done enough of the right things at the right time.

I subscribe to John Maynard Keynes's theory that the modern capitalist economy does not automatically work at peak efficiency and can be properly accelerated by wise and timely governmental action. But I also believe that this should be done without violating freedom or restraining proper competition.

The three main tools in the Keynesian economic chest are tax policy, credit policy and budget policy. It is intended they be used to strengthen private spending, investment and production.

But while Keynes was primarily concerned with the "up" side of the business cycle, he also warned against inflation and the debasing of a nation's currency.

Dr. Walter Heller, former chairman of the President's Council of Economic Advisers, has warned that to be effective the New Economics should work both ways.

Said Heller, recently: "Essentially the job is to maintain stability without resorting to obnoxious controls as we did in World War II and Korea."

We have in Congress a gentleman who is extremely knowledgeable in the field of economics--Rep. Tom Curtis of Missouri, an outstanding member of the House Ways and Means Committee and the Joint Economic Committee.

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Curtis has, like Heller, sounded the warning that the New Economics is a two-way street.

He and Heller were among those who early this year recognized the peril of increasing inflation and pleaded for restraining action by the Administration.

The Administration disregarded pleas by Heller, Curtis and many others for restraint early in 1966. That is why we are in trouble today. Our trouble is not with Keynesian Economics but with "Johnson Economics."

What fails us in the Johnson Economics? It is a paralysis of policy, a reluctance to make timely application of tax, credit and budget policy when that application becomes politically painful.

It's true that timing of government economic policy is a difficult question. It is one on which economists can be expected to disagree regardless of their political loyalties.

But having said that, let me cite a survey of the views of leading economists made in early 1966 by the Washington Post.

The Post polled these economists in March. Of the 30 who replied, 22 favored an immediate tax increase. The 22 included Dr. Heller, John K. Galbraith, Paul A. Samuelson, James Tobin of Yale, formerly a member of the Council of Economic Advisers, Joseph A. Pechman, Prof. E. Cary Brown of M.I.T., and Prof. Harvey Brazier of the University of Michigan, a former Treasury official.

The New York Times reported on March 13 that three out of four former chairmen of the Council of Economic Advisers favored a tax increase or reduced spending. Those holding these views were Dr. Heller, Arthur Burns, and Raymond Saulnier.

Commenting in separate reports March 17 on the President's 1966 Economic Report, both the Republican and Democratic members of the Joint Economic Committee saw the need for a tax increase.

Three members of the Federal Reserve Board--Chairman Martin, Mr. Robertson and Mr. Daane, came out for a tax increase in or prior to May of this year. So, too, did Pierre-Paul Schweitzer, managing director of the International Monetary Fund.

The same general views were expressed by private economists.

Charles Walker, executive vice-president of the American Bankers Association, said the "preponderance of opinion" favored a "combined spending cut and tax increase."

Roy Rierson, senior vice-president of Bankers Trust Co., viewed the situation as so tight and the overheating of the economy as so obvious that "a tax increase is clearly called for."

William F. Butler, vice-president of Chase-Manhattan Bank, said he expected a tax increase because "as disagreeable as tax increases are, they are preferable to inflation."

Please note the similarity between Mr. Butler's statement and this quotation from President Johnson's 1966 Economic Report, dated January 27:

"If it should turn out that additional insurance (against inflation) is needed, then I am convinced that we should levy higher taxes rather than accept inflation--which is the most unjust and capricious form of taxation."

Yet when fleeting time demanded decision--shall we say in March--the President ignored this consensus for restraint through the use of fiscal policy--either a sharp reduction in non-essential, non-military spending or a tax increase. He in effect turned his back on the New Economics in favor of his own brand--a dangerous mixture of politics and economics. It was a return to the old economics. The economics of ups and downs in the economy, the economics of boom, inflation, recession and perhaps even depression.

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I ask you--has effective governmental action of the kind described by the Vice President been employed to throttle inflation? Or do we continue to see steady and insistent evidence of dangerous inflationary pressures in the economy?

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"Well," said Cotton when he heard the news. "The only thing I can figure out is that all the members of the Dodgers ball club must be Republicans--because only Republicans could drop the ball that often."

Having joined Senator Cotton in poking a little fun at myself and my colleagues, let me say that not all of the errors made in Washington in 1966 were committed by Republicans--not by a long shot.

Perhaps at this meeting this year your Administration spokesmen can be induced to project political and economic trends for you over the decade ahead. If they do,

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and if their forecasts are more accurately and candidly stated than those of a year ago, I fear not for November 8 but I do fear for the future of the President's Club.

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