The original documents are located in Box D23, folder "Seattle Rotary Club Meeting, Seattle, WA, November 29, 1967" of the Ford Congressional Papers: Press Secretary and Speech File at the Gerald R. Ford Presidential Library.

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CONGRESSMAN
GERALD R. FORD
HOUSE REPUBLICAN LEADER

NEWS RELEASE

--FOR WEDNESDAY PMs RELEASE--
November 29, 1967

Excerpts from a Speech by Rep. Gerald R. Ford, R-Mich., at a Seattle Rotary Club Meeting at Noon, Wednesday, Nov. 29, at Seattle, Wash.

It is time again to take a good hard look at the state of the American economy, the federal government's fiscal situation and President Johnson's proposed 10 per cent income tax surcharge.

Fortunately, the Federal Reserve Board action of Nov. 20 raising the basic U.S. interest rate from 4 to 4½ per cent gives us a breathing spell--an opportunity to examine carefully all the factors that should enter into a congressional decision on the proposed tax increase.

First of all, there is good reason to question whether British devaluation of the pound and the follow-on decision by the Federal Reserve Board to raise U.S. interest rates make a tax increase inevitable. On the contrary, the opposite may be true.

But before we move toward any conclusions, let us first consider why the United States is in a fiscal crisis, in what direction we are tending, and what the alternate courses of action may be.

Quite simply, we are where we are because the federal government has been spending far more money than it has been taking in.

In the years 1960 through 1967 we have experienced eight consecutive federal deficits. Now there are those who say federal spending is completely out of control. I say it's time we took charge.

What has happened in the federal government since 1960? While the population of the country grew 10 per cent, federal civilian employment rose 25 per cent, the cost of federal civilian payrolls climbed 75 per cent, and total federal spending shot up by 80 per cent.

Is this because of the Vietnam War? While defense spending rose by 68 per cent during the Sixties, nondefense spending mounted by 97 per cent--from $48.6 billion in fiscal 1960 to an estimated $95.6 billion this fiscal year.

In late 1965 it became apparent that the relative price stability we had been enjoying was crumbling. The Federal Reserve Board urged the President to impose fiscal restraints but the President refused to take the lead. Gardner Ackley, chairman of the President's Council of Economic Advisers, urged the

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President to ask Congress for a tax increase. The President decided otherwise.

The ensuing events can be summed up quickly. The President continued to pursue a guns and butter policy. This stimulated an already-overheated economy. Republicans pleaded for the establishment of spending priorities. I and others called for deep cuts in nondefense spending. These pleas were ignored.

The Federal Reserve Board raised the basic interest rate. Money became very tight and interest rates soared to their highest levels in 40 years. The President finally acted in the fall of 1966--far too late, in my opinion--by asking Congress to suspend the investment tax credit. In January I urged that the investment tax credit be restored since the economy had turned sluggish. The tax credit finally was restored, retroactive in most cases to March 9.

On Sept. 6, 1966, President Johnson made this promise: "I am going to cut all federal expenditures to the fullest extent consistent with the well-being of our people."

What actually happened? Federal spending increased by $6 billion on an annual basis during the last three months of 1966. In the first three months of 1967, federal spending jumped $8 billion more.

In January, 1966, President Johnson predicted a $1.8 billion deficit for fiscal year 1967. When the fiscal year ended, the government was $9.7 billion in the red.

Last January the President forecast an $8.1 billion deficit for fiscal year 1968 but continued to insist on a guns-and-butter policy while the cost of the Vietnam War moved toward the $26 billion-a-year level. He would ask Congress to approve a 6 per cent income tax surcharge, he said.

Months passed, tremors shook the economy and the President withheld any solid tax proposals.

On August 3 the President sent his tax message to Congress. The tax increase proposal had not been before the Congress since January. It came to the Congress in August. And it was not six per cent but 10 per cent. The President promised to cut federal spending this fiscal year by $2 billion if Congress would give him his $7.4 billion tax increase.

This promised $2 billion reduction was just that--a promise. Also, it was just a token reduction, and members of Congress on both sides of the aisle recognized it as such.

In a speech before the National Press Club last Sept. 21, Treasury Secretary Henry H. Fowler commented:

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"The President in his Tax Message of August 3, 1967, pledged to the country and to the Congress that he will make every possible expenditure reduction--civilian and military--in the Budget submitted last January, short of jeopardizing the nation's security and well-being."

On October 3 the House Ways and Means Committee laid aside the President's proposal for a 10 per cent surtax with the understanding it would be taken up again once the President and the Congress could agree on significant reductions in spending.

On the weekend before Thanksgiving Fowler got in touch with House Ways and Means Chairman Wilbur Mills and said he had a package offer to make on cutting spending and raising taxes.

Hearings on that proposal were to open today before the Ways and Means Committee.

The package deal calls for roughly $1 of spending reduction for every dollar of tax increase--or something like $4 billion in spending cuts and a $4 billion tax boost.

Isn't it odd that the President in August said he could cut only $2 billion without "jeopardizing the nation's security and well-being" and now pledges to cut twice that much.

In my view, federal spending can be cut at least $5 billion this fiscal year without any dire effects, and this would be preferable to any tax increase or to a spending cut-tax boost package. This is what we have been trying to do all this year.

What are the arguments in behalf of a tax increase? In his August 3 Tax Message the President predicted a $28 billion deficit without it and forecast sharply spiraling inflation. Since then--at his Nov. 1 press conference--he has talked of a $30 to $35 billion deficit. Reportedly one of his aides has said the $35 billion figure should be disregarded...that the President was simply carried away.

In thinking through the tax increase, we should ask ourselves what impact it would have on the health of the economy and how effective it would be in fighting inflation.

At the moment the economy is hardly bubbling over. It is best described as soggy. A strong upturn in business widely forecast for the last half of this year has failed to materialize. Corporate profits are down 3.6 per cent for the first nine months of 1967 as compared with the like period in 1966. Twenty-three

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industry groups reported reduced earnings in the third quarter--three more than in the second--as cost-price pressures squeezed profits. There was a 1 per cent advance in aggregate net profit for the third quarter but this was due to an outstanding performance by a handful of industrial giants.

Meantime the unemployment rate has been climbing. It stood at 3.8 per cent in August, moved up to 4.1 per cent in September and rose to 4.3 per cent in October.

What is happening is that new entrants into the labor force are going into the ranks of the jobless.

We had inflation in 1966, with a consumer price rise of 3.3 per cent, and we are having inflation now. The present rate of consumer price increase is about 4 per cent on an annual basis.

But where the 1966 inflation was primarily of the demand-pull variety--too much money chasing too few goods--the 1967 brand of price increase is mostly the cost-pull kind. Wage-earners are catching up with 1966 inflation with new contracts that are forcing employers to consider product price increases.

The increase in the basic U.S. interest rate ordered by the Federal Reserve Board to keep short-term investment dollars from flowing to England in pursuit of 8 per cent interest is certain to have a dampening effect on the American economy. It will affect all areas of the economy where sales are made on borrowed money--houses, autos and major appliances.

A tax increase piled on top of the interest rate rise would further depress the economy. It would take some of the steam out of inflationary forces but it also would reduce job opportunities as the economy proceeded to shrink.

How successful would a tax increase be in fighting inflation? Consumers, who now are saving dollars at a record rate, might simply save less and spend just as much as at present. This blow at inflation thus would be nullified. If the 1967-68 inflation is basically a cost-push inflation, then imposing an added tax on business would aggravate the profit pinch and increase the pressure for cost-push price increases.

But for every dollar that the Federal government does not spend, a dollar will be taken out of the economy and inflationary pressures will be eased.

Some economists testified at the earlier Ways and Means hearings that a dollar cut from federal spending has nearly twice as much impact on inflation as a dollar increase in taxes. Ways and Means Chairman Mills recently expressed the view that spending cuts are more effective than a tax increase in dealing

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There is doubt that a tax increase could halt inflation. But there is no doubt it would add to unemployment by reducing economic growth and the creation of new jobs. It would hit hardest at teenagers, Negroes and others who are seeking work.

What about high interest rates and the credit crunch? Should we raise taxes in the hope of holding down interest rates?

The interest rate increases already triggered by the Federal Reserve Board remove the credit crunch as a compelling reason for a tax increase. The interest rise already in motion will reduce the demand for new houses, new industrial construction, automobiles and other consumer durable goods. This in turn will relieve the pressure on the money market and likely forestall further increases in interest rates.

Is there a need for fiscal responsibility in Washington? Most emphatically, yes.

Let us ease off on the tremendous outpouring of public funds which is pushing the federal deficit toward the $30 billion mark this fiscal year.

Let us move forcefully to bring federal spending under control and to put our fiscal house in order in the next fiscal year.

Let us create a special commission to examine all federal programs on behalf of the Congress and the Executive Branch and mark some programs for pruning.

As Federal Reserve Chairman William McChesney Martin recently told the American Petroleum Institute in Chicago, "We have been trying to do too much too fast and must establish some priorities."

Let us demonstrate that we are, indeed, capable of ordering our Nation's fiscal affairs so that the dollar will emerge as the bulwark of the world financial community and of all our citizens.

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