

The original documents are located in Box D31, folder “Associated New York State Food Processors, Rochester, NY, May 4, 1971” of the Ford Congressional Papers: Press Secretary and Speech File at the Gerald R. Ford Presidential Library.

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LUNCHEON OF THE ASSOCIATED NEW YORK STATE FOOD PROCESSORS, 1 p.m. TUESDAY, MAY 4,
1971 AT ROCHESTER, NEW YORK.

CYCLAMATES

MISS FURNESS

Dr. Viny ^{John}
BROOD / 130070

I FEEL A BIT OUT OF PLACE HERE TODAY -- SOMETHING LIKE THE YOUNG MAN
OF DOUBTFUL ORIGIN WHO WAS ATTENDING A FAMILY REUNION. YOU SEE -- WHAT I KNOW
ABOUT FOOD PROCESSING IS RESTRICTED TO USING AN ELECTRIC CAN OPENER.

BUT I DO KNOW SOMETHING ABOUT FEDERAL LEGISLATION, AND THAT HAPPENS
TO BE MY TOPIC TODAY. TOGETHER WE ARE GOING TO TAKE A LOOK AT LEGISLATION
WHICH AFFECTS THE FOOD PROCESSING INDUSTRY.

THERE IS A BIG BATCH OF SUCH LEGISLATION AT THE STARTING LINE, BUT
OF COURSE MUCH OF IT WON'T GO ANYWHERE.

WASH. D.C.

Committees

THIS LEGISLATION IS DIVIDED UP AMONG SEVERAL COMMITTEES IN THE HOUSE -- INTERSTATE AND FOREIGN COMMERCE, GOVERNMENT OPERATIONS AND EDUCATION AND LABOR.

RUNNING DOWN THE LIST IN THE COMMERCE COMMITTEE, WE FIND 11 BILLS ON OPEN DATING OF FOOD, FIVE ON UNIT PRICING, FOUR REGARDING CONSUMER INFORMATION ON CANS, ONE ON IMITATION DAIRY PRODUCTS MARKING, ONE ON PRE-MARKET CLEARANCE OF ADDITIVES, TWO ON FLAVORING EXTRACTS -- ALCOHOL IN CANDY, FIVE ON WHOLESOME FISH INCLUDING AN ADMINISTRATION BILL, AND 25 ON FOOD SUPPLEMENTS.

Open Dating & Unit Pricing

AS YOU KNOW, MANY GROCERY CHAINS HAVE STARTED OPEN DATING AND UNIT PRICING. IT IS POSSIBLE THAT THE COMMERCE COMMITTEE WILL TAKE A LOOK-SEE AT THIS LEGISLATION LATER ON THIS YEAR.

Fish Inspection *

FISH INSPECTION IS AN ADMINISTRATIVE MEASURE, AS I MENTIONED. IT FIRST WAS PROPOSED IN THE 91ST CONGRESS BUT WAS NOT ACTED UPON. IT MAY WIND UP ON THE

STATUTE BOOKS THIS TIME.

Food Supplements

THE FOOD SUPPLEMENTS LEGISLATION IS A THREE-YEAR-OLD PROPOSAL WHICH WOULD LIMIT THE FOOD AND DRUG ADMINISTRATION'S POWER TO OUTLAW FOOD SUPPLEMENTS OR REQUIRE DISCLAIMERS ON VITAMINS. AN ADMINISTRATIVE PROCEEDING HAS BEEN UNDER WAY IN THIS AREA ALL OF THIS TIME AND HAS NOT YET BEEN COMPLETED. IT IS DOUBTFUL THAT CONGRESS WILL ACT ON THIS LEGISLATION THIS YEAR.

Toxic Substances

THE COMMERCE COMMITTEE ALSO IS CONSIDERING THE ADMINISTRATION'S TOXIC SUBSTANCES BILL AND THE ADMINISTRATION BILL WHICH WOULD EXPAND THE FEDERAL TRADE COMMISSION'S JURISDICTION TO MATTERS "AFFECTING" COMMERCE, NOT MERELY THOSE "IN" COMMERCE. THE FTC BILL ALSO WOULD GIVE THE FTC AUTHORITY TO SEEK PRELIMINARY INJUNCTIONS.

4/FOOD PROCESSORS

FTC CHAIRMAN MILES KIRKPATRICK CONTENTS THERE IS NOT MUCH DIFFERENCE NOWADAYS BETWEEN WHAT AFFECTS INTERSTATE COMMERCE AND WHAT IS "IN" INTERSTATE COMMERCE. SO HE DOES NOT EXPECT MUCH IMPACT FROM THAT CHANGE.

AS FOR SEEKING PRELIMINARY INJUNCTIONS, THE FTC ALREADY IS TAKING SUCH ACTION IN FOOD AND DRUG CASES. THIS IS NOW IN THE TEST CASE CATEGORY, AND KIRKPATRICK DOES CONSIDER AUTHORITY TO SEEK PRELIMINARY INJUNCTIONS AN IMPORTANT ADDITION TO FTC POWERS. THIS POWER WOULD APPLY PRIMARILY IN ADVERTISING CASES. THE LEGISLATION HAS NOT EXCITED MUCH CONTROVERSY.

I AM SURE ALL OF YOU HERE ARE FAR MORE INTERESTED IN H.R. 15, THE HOLIFIELD-DWYER-ROSENTHAL BILL WHICH WOULD CREATE AN INDEPENDENT CONSUMER PROTECTION AGENCY AS A CONSUMER ADVOCATE BEFORE FEDERAL AGENCIES.



5/FOOD PROCESSORS

THIS BILL HAS VERY STRONG SUPPORT IN THE HOUSE -- MORE THAN
200 COSPONSORS. ITS AUTHORS INCLUDE THE CHAIRMAN AND THE SENIOR REPUBLICAN
MEMBER OF THE GOVERNMENT OPERATIONS COMMITTEE. IT NARROWLY MISSED BEING
ENACTED LAST YEAR.

IF I WERE TO MAKE A PREDICTION ABOUT H.R. 15, I WOULD SAY THERE IS NO
STOPPING IT. SOMETHING SIMILAR TO H.R. 15 WILL CLEAR THE GOVERNMENT OPERATIONS
COMMITTEE AND WILL PASS THE HOUSE.

I WOULD LIKE TO POINT OUT TO YOU A VITAL DIFFERENCE BETWEEN THE 1971
VERSION OF THE INDEPENDENT CONSUMER PROTECTION AGENCY BILL AND LAST YEAR'S BILL.

ONE REASON LAST YEAR'S BILL WOUND UP ON THE SHELF IS THAT IT FAILED TO
CONTAIN A SERIES OF AMENDMENTS WORKED OUT BY THE BILL'S SPONSORS TO CLARIFY

6/FOOD PROCESSORS

THE COMMITTEE'S INTENTION TO SAFEGUARD BUSINESS INTERESTS. THESE AMENDMENTS ARE A PART OF H.R. 15, THE CURRENT BILL.

THE PRESIDENT TENDS TO FAVOR PLACING THE CONSUMER ADVOCATE AGENCY WITHIN THE FTC. THAT IS EXACTLY WHAT WOULD HAPPEN UNDER A BILL SPONSORED BY REPUBLICAN REPS. JOHN ERLBORN OF ILLINOIS AND CLARENCE BROWN OF OHIO. HOWEVER, THERE IS LITTLE QUESTION THAT IT IS H.R. 15 WHICH WILL BE REPORTED OUT BY THE GOVERNMENT OPERATIONS COMMITTEE.

IT IS WORTH NOTING THAT THE PRESIDENT'S COUNCIL ON EXECUTIVE REORGANIZATION -- THE ASH COUNCIL -- WOULD REORGANIZE THE FTC BY DIVIDING IT INTO TWO SEPARATE UNITS. ONE WOULD BE AN ANTITRUST BOARD. THE OTHER WOULD BE A CONSUMER PROTECTION AGENCY. THE PRESIDENT NOW HAS THESE RECOMMENDATIONS UNDER STUDY.

7/FOOD PROCESSORS

Congress Trying To
BALANCE

IT COULD BE EXPECTED THAT ANY SUCH NEW AGENCY -- WHETEHR CREATED THROUGH LEGISLATION OR EXECUTIVE REORGANIZATION -- WOULD BE INTERVENING IN MATTERS WHERE FOOD PROCESSORS ARE INVOLVED. ONE MIGHT ALSO EXPECT THAT PROCEEDINGS OF THIS KIND WOULD CAUSE FOOD PROCESSORS SOME BURDEN SINCE THEY LIKELY WOULD REQUIRE A GREATER BURDEN OF PROOF AND WOULD RESULT IN MORE APPEALS.

*MINIMUM
WAGE*

I WOULD LIKE TO TURN NOW TO H.R. 7130, DEMOCRAT JOHN DENT'S BILL TO RAISE THE MINIMUM WAGE, ELIMINATE MOST OVERTIME EXEMPTIONS AND PROMOTE PROTECTION AGAINST IMPORTS FOR AMERICAN LABOR.

DENT'S BILL IS AN AFL-CIO BILL. IT HAS THE ANNOUNCED BACKING OF HOUSE SPEAKER CARL ALBERT AND THE REST OF THE HOUSE DEMOCRATIC LEADERSHIP.

8/FOOD PROCESSORS

WITH THE HOUSE EDUCATION AND LABOR COMMITTEE COMPOSED AS IT IS, THERE IS NO QUESTION THAT THE BILL WILL CLEAR THE COMMITTEE. WITH THE DEMOCRATIC LEADERSHIP BEHIND IT, THE BILL WILL DEFINITELY COME TO THE HOUSE FLOOR FOR A VOTE.

THE MINIMUM WAGE BILL IS, IN FACT, ONE OF A PACKAGE OF ECONOMIC BILLS WHICH THE HOUSE DEMOCRATIC LEADERSHIP IS PUSHING IN HOPES OF EMBARRASSING THE PRESIDENT.

THE DENT BILL WOULD RAISE THE MINIMUM WAGE GENERALLY TO \$2 IN TWO YEARS -- FROM THE PRESENT \$1.60 TO \$1.80 ON JANUARY 1, 1972, AND TO \$2 ON JANUARY 1, 1973.

DENT

IN AGRICULTURE, WHERE THE MINIMUM WAGE NOW IS \$1.30 AN HOUR, THE MINIMUM WOULD RISE TO \$1.50 ON AUGUST 1, 1971 TO \$1.60 ON JANUARY 1, 1972, TO \$1.80 ON JANUARY 1, 1973, AND TO \$2 ON JANUARY 1, 1974.

THE BILL ALSO WOULD EXTEND THE OVERTIME PROVISIONS OF EXISTING LEGISLATION TO AGRICULTURAL PROCESSING AND FISH AND SUGAR PROCESSING EMPLOYES, AS WELL AS OTHERS.

IF THE BILL REMAINS UNAMENDED, IT IS POSSIBLE IT WILL RUN INTO OPPOSITION FROM THE FREE TRADERS IN CONGRESS.

AS THE BILL NOW IS WRITTEN, IT SETS UP A PROCEDURE FOR GRANTING RELIEF TO DOMESTIC INSTITUTIONS AND EMPLOYES INJURED BY INCREASED IMPORTS FROM LOW-WAGE AREAS AND REQUIRES COMPLIANCE WITH THE FAIR LABOR STANDARDS ACT BY

FOREIGN MANUFACTURERS AND SUPPLIERS ON DOMESTIC PUBLIC CONTRACTS.

IT IS ALMOST CERTAIN THAT THIS PROVISION OF DENT'S BILL WILL AROUSE THE IRE OF THOSE MEMBERS OF CONGRESS WHO BELIEVE IN FREE TRADE. AND IF IT STAYS IN THE BILL, IT COULD BE THE ROCK ON WHICH THE BILL FOUNDERS.

AS FOR THE DENT BILL'S MINIMUM WAGE PROVISIONS, THERE IS LITTLE QUESTION THAT THESE PROPOSALS WILL WIN HOUSE APPROVAL IN SOME FORM.

MILLS
AS YOU MAY KNOW, HOUSE WAYS AND MEANS CHAIRMAN WILBUR MILLS HAS PROPOSED THAT THE MINIMUM WAGE BE JUMPED FROM \$1.60 AN HOUR TO \$2 AN HOUR EFFECTIVE NEXT FEBRUARY 1, WITHOUT AN INTERMEDIATE STEP.

THE STEP-BY-STEP PROPOSALS CONTAINED IN THE DENT BILL ARE, OF COURSE, VERY MUCH TO BE PREFERRED TO THE MILLS PROPOSAL.

NOW I WOULD LIKE TO MAKE SOME GENERAL COMMENTS ABOUT THE ECONOMY.
I DO NOT BELONG TO THE GLOOM AND DOOM SCHOOL. I AM AN OPTIMIST BY NATURE,
AND I BELIEVE THERE IS BASIS FOR OPTIMISM CONCERNING THE ECONOMIC OUTLOOK.

OUR WITHDRAWAL FROM VIETNAM IS HAVING A TREMENDOUS IMPACT ON THE
ECONOMY. DEFENSE SPENDING CUTS REDUCED UNEMPLOYMENT LAST YEAR BY 600,000 IN
PRIVATE INDUSTRY, 400,000 IN THE ARMED FORCES AND 100,000 IN CIVILIAN PENTAGON
JOBS.

WE HAVE CUT VIETNAM SPENDING IN HALF -- AND WE HAVE DELIBERATELY
COOLED OFF THE ECONOMY TO BRING INFLATION UNDER CONTROL.

NOW THE NEED IS TO STIMULATE THE ECONOMY.

INF
GNP.

AVTOS

HOUSING

PRODUCTIVITY

FED. RES.

FULL EMPLOYMENT

BUDGET.

12/FOOD PROCESSORS

UNEMPLOYMENT HAS RESULTED AS WE HAVE FOUGHT INFLATION AND MOVED FROM A WARTIME TO A PEACETIME ECONOMY. THE PROBLEMS WERE EVEN TOUGHER THAN THE ADMINISTRATION ANTICIPATED. BUT NOW THE ECONOMY IS IMPROVING.

THERE ARE SIGNS OF AN ECONOMIC UPTURN DESPITE SOME INDICATIONS OF CONTINUED LAG.

WHAT WE NEED TO GIVE THE ECONOMY A STRONG PUSH IS AN UPSURGE OF CONSUMER CONFIDENCE.

IT IS ONLY A MATTER OF TIME BEFORE THE ECONOMY PICKS UP APPRECIABLY. THIS IS BOUND TO OCCUR BECAUSE BOTH OUR FISCAL AND MONETARY POLICIES ARE EXPANSIONARY.

13/FOOD PROCESSORS

THE MONEY SUPPLY, INCLUDING TIME DEPOSITS, IS EXPANDING AT A RATE UNPRECEDENTED IN 20 YEARS. AND WHILE FEDERAL SPENDING CURRENTLY IS RISING ONLY MODERATELY, THE PRESIDENT HAS PROPOSED AN EXPANSIONARY BUDGET FOR FISCAL 1972 WHICH CALLS FOR FEDERAL SPENDING AT FULL EMPLOYMENT REVENUE LEVELS.

I STRONGLY BELIEVE WE ARE HEADED TOWARD A MORE STABLE ECONOMY, A GROWING ECONOMY, WITH A MORE STABLE PRICE LEVEL. I SEE THE ONSET OF A VIGOROUS EXPANSION WHICH WILL PRODUCE GREATER JOB OPPORTUNITIES AND GREATER ABUNDANCE FOR ALL OUR PEOPLE. I BELIEVE THE NATION'S FUTURE IS BRIGHT.

*Welfare
Revenue Sharing
F.R.S.*

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CARDS

ROCHESTER, NEW YORK

MAY 4, 1971

Congress of the United States

Office of the Minority Leader

House of Representatives

OFFICIAL BUSINESS

Gerald R. Ford
M.C.

TUESDAY
MAY 4
1:00 pm.

LUNCHEON

ASSOCIATED NEW YORK STATE
FOOD PROCESSORS



UNITED STATES DEPARTMENT OF
COMMERCE
NEWS
WASHINGTON, D.C. 20230

OFFICE
OF THE
SECRETARY

FOR RELEASE AT 1:00 P.M. EST
TUESDAY, APRIL 20, 1971

Address by Dr. Harold C. Passer, Assistant Secretary of Commerce for Economic Affairs. Prepared for delivery at the luncheon meeting of the Economic Club of Pittsburgh, William Penn Hotel, Pittsburgh, Pennsylvania, 1:00 P.M., Tuesday, April 20, 1971.

THE ECONOMY IN 1971: POLICY AND PROSPECTS

The subject today is the U.S. economy in 1971. I have been looking forward to this appearance because of the timing: it is always easier to assess a crop after the first sprouts have appeared, and the economic signs that we have received so far are very encouraging. If the past winter was one of discontent and uncertainty, then surely we are now in the spring of renewed growth and high expectations.

- more -



The first-quarter increase in GNP was gratifying: significant progress has been made in the fight against inflation, interest rates have dropped, and both consumers and businessmen appear increasingly confident. Thus, my assessment of economic prospects is an optimistic one.

As we examine the evidence of economic performance provided by recent statistics, and the indicators of the future rate of progress, I would also like to discuss the Nixon Administration's economic policies -- both the overall economic policies and the recent anti-inflation actions concerning special industry situations.

The Cause of the Current Inflation

Before discussing remedies for the inflation that has been disrupting the economy, we should first examine the original cause of the disease.

Economists, regardless of their economic or political "school", generally agree that the inflation had its beginning in the serious economic policy mistakes of the mid-1960's. At that time, Federal spending, for both defense and nondefense purposes, began to increase rapidly but no offsetting tax increase was imposed until mid-1968. During those same years, monetary policy tended toward excessive ease most of the time.

There are several ways to demonstrate the extent of the inflationary impact of Government policies in the Fiscal Years 1966, 1967, and 1968. One measure is the rate of increase in Federal outlays. In the three years from Fiscal 1962 to 1965, outlays rose 10 percent; in the ensuing three years, from Fiscal 1965 to 1968, Federal spending shot up over 50 percent. In the Fiscal Years 1962-1965, the unified budget was in surplus on a full-employment basis by an average of \$3 billion a year. In the Fiscal Years 1966-68, the full-employment budget was in deficit by an average of \$14 billion a year.

Another measure of the inflationary forces in the economy is the relation between actual Real GNP and potential Real GNP. In the early 1960's, until late 1965, actual GNP was less than its potential, indicating that the economy was operating below capacity. From late 1965 until mid-1969, however, the reverse was true: actual GNP was above its potential. This clearly indicates the presence of excess aggregate demand in those years.

Fiscal policy finally shifted toward restraint in mid-1968, when the surtax was imposed and late in the year monetary policy also shifted toward restraint. But the major responsibility for bringing inflation under control fell to the Nixon Administration and to the Federal Reserve after 1968.

The basic economic strategy employed was to squeeze the excess demand out of the economy through the use of restrictive monetary and fiscal policies during 1969, and then, once a gap had been opened between actual and potential GNP, to shift to expansionary policies.

The policies of economic restraint did their job, bringing on the slowdown of 1970 in the process. In response to the shift to stimulative policies early in 1970, the economy began to grow again after mid-year, although this resumption of growth was aborted by the prolonged auto strike. As a result, the economic slowdown was, in effect, extended through year-end.

Progress in Curbing Inflation

Most measures of inflationary pressures indicate that the current spell of inflation, which began about mid-1965, accelerated until about mid-1969, continued at a high level for about the next year, and then slowed in the last half of 1970. There has been further improvement so far in 1971, with both industrial wholesale and consumer prices rising at a rate of less than 3 percent.

		<u>Industrial Wholesale Price Index</u>	<u>Consumer Price Index</u>
		(Annual rate of increase, seasonally adjusted)	
1968	1st Half	2.5%	4.4%
	2nd Half	2.7%	4.8%
1969	1st Half	3.6%	6.4%
	2nd Half	4.2%	5.9%
1970	1st Half	3.8%	5.9%
	2nd Half	3.4%	4.9%
1971	1st Quarter	2.8%	2.8%*

*Jan.-Feb.

This hard-won progress in the battle against inflation has, however, been slow in arriving. One reason for this is the fact that the business slowdown was generally of mild proportions. We were not willing to suffer a really severe economic setback just to speed up the deflationary impact. A second reason that more headway was not achieved more quickly is the deeply imbedded and widespread inflationary expectations that developed among businessmen and consumers during the long period of accelerating inflation from 1965 to 1969. Evidence that these expectations have, to a considerable extent, been wrung out of the economy is found in the sharp drop in long-term interest rates that has taken place in the past six months or so.

The Defense and Aerospace Cutbacks

Another reason for the slower than expected response of prices is the fact that some of the slack in the economy has resulted from the defense and aerospace cutbacks of the past several years. These cutbacks have reduced defense and

defense-related employment by more than two million from Fiscal Year 1968 to 1971. These lost jobs have been concentrated in certain geographic areas, certain industries, and certain occupations -- a concentration that increased the difficulties of the transition process to peacetime work. The especially hard-hit regions have been the Pacific Coast and New England, and the hardest-hit occupations have been scientists, engineers, and skilled craftsmen in the defense industries. Aggravating the situation in these areas and occupations have been the curtailed production of commercial aircraft and space projects, which occurred at the same time that production of military aircraft has declined.

We had major defense cutbacks in 1945-46 and 1953-54 but these did not take place simultaneously with restrictive anti-inflationary policies. It was the combination of economic restraint to fight inflation and defense and aerospace cutbacks that made 1970 such a difficult year.

Because there have been difficulties involved, however, no one should conclude that the defense cutbacks should not have taken place. With the end of the Vietnam War in sight, we have been adjusting our defense spending to the level required by our national security needs. The resources released from defense are now in the process of shifting to civilian needs.

In brief, there is a link between the defense and aerospace cutbacks and the battle against inflation. The amount of slack now in the economy would be more effective in curbing inflation if the unutilized manpower and facilities were evenly spread across regional, industrial, and occupational categories. The pockets of unemployment and idle facilities due to defense and aerospace cutbacks have created temporary economic hardship without helping much in the national battle against inflation.

The Question of Incomes Policy

Although it is now clear that we are making progress in curbing inflation, we have not yet achieved a satisfactory degree of price stability. Most economists agree that excess demand has been eliminated and that the major inflationary pressures are now coming from the cost side. They also agree that price stability of the sort that characterized the U.S. economy from the late 1950's until the mid-1960's cannot be achieved if the average wage increase for the economy as a whole significantly exceeds the average economy-wide productivity trend increase of about 3 percent a year. Thus, the question arises: Would an active policy of government intervention in wage and price decisions hasten the return to price and cost stability?

In answering this question, I think that it is helpful to distinguish between the two major types of incomes policy: market-oriented or market-strengthening policies on the one hand, and authoritarian or market-suppressing policies on the other.

The Nixon Administration has believed in and utilized market-oriented incomes policies from the beginning. In the spring of 1969, President Nixon established a special committee to study the lumber market. Since then special study groups or special actions have taken place in copper, oil, and steel. In all of these cases, the recommended actions were aimed at increasing supply -- that is, at strengthening the most fundamental anti-inflationary force available. That is what I mean by market-oriented or market-strengthening incomes policies.

In addition, President Nixon last year established the National Commission on Productivity and the Federal Regulations and Purchasing Review Board. The former has brought leaders of business, labor, and the public together with top Federal officials to study how to increase productivity gains. The Review Board seeks to correct or prevent specific Government actions that are likely to have a strong inflationary impact.

Another development was the periodic Inflation Alerts of the Council of Economic Advisers, which are designed to call attention to exceptionally inflationary wage and price decisions.

What President Nixon has not done is to establish wage-price guidelines or a national wage-price review board. These fall in the category of authoritarian or market-suppressing incomes policies. They do not increase supply; they do not decrease demand; they do not restructure or strengthen markets in order to reduce inflationary pressures. They simply try to substitute some kind of amorphous coercion for the forces that otherwise would be operating.

There is one fundamental difficulty with price-wage guidelines and national wage-price review boards: They simply do not work very well. Previous experience in the United States and elsewhere indicates that procedures based on voluntary compliance are not very effective. The Johnson Administration abandoned guidelines in 1966, for example, not because they no longer believed in them but because the guidelines proved to be ineffective. The Canadian Government tried guidelines in 1970 but abandoned them after only a year for the same reason. Similar examples could be cited from the experience of European countries.

In contrast to voluntary guidelines or review boards, compulsory wage and price controls can be effective and were used in the United States during World War II and the Korean War. But whether the public would actually accept compulsory economy-wide wage and price controls at the present time is doubtful. It is interesting to note, as pointed out in a recent report of the Joint Economic Committee, that just last July 31, 1970, the House of Representatives refused to impose wage and price controls by a vote of 270 to 11.

Two Special Cases

Despite the reluctance of the Nixon Administration to use voluntary wage and price guidelines or to impose mandatory price and wage controls, we recognize that two important sectors of the economy -- transportation and construction -- need special action to reduce inflationary pressures. These two sectors share some common characteristics that clearly set them apart from the rest of the economy in terms of their market structure and performance.

In transportation and construction, the free market system does not or is not permitted to work in the usual fashion. In transportation, government regulation substitutes for the free market, and in construction, special legal provisions apply to the labor market, permitting hiring halls and secondary boycotts. Special considerations also apply to collective bargaining in both industries. In most modes of transportation a strike that causes a suspension of service can have very damaging effects on the national economy. In construction, bargaining is fragmented with the result that the bargaining power of the workers usually far exceeds that of the contractors. Work rule problems are generally considered to be more serious in transportation and construction than in any other major economic sectors.

Another characteristic shared by transportation and construction is that neither is directly subject to foreign competition. Thus, one of the major anti-inflationary competitive forces is lacking.

In view of these characteristics of transportation and construction, it is not surprising that inflationary forces have continued to be particularly strong in these sectors. On the wage side, as the most recent Inflation Alert points out, first-year wage increases negotiated in 1970 were considerably higher in these sectors than in manufacturing.

First-Year Changes in Wage Rates
Collective Bargaining Agreements
Negotiated in 1970

	Average Adjustment
Construction	18.3%
Transportation	16.0%
Manufacturing	8.1%

As the above table shows, the average first-year wage increases in construction and transportation have been double the increases in manufacturing.

The Administration has undertaken special anti-inflationary policies in both of these sectors:

(1) In transportation, President Nixon proposed a year ago and has again proposed this year emergency labor-disputes legislation. A key feature of this proposal is the "final offer selection" alternative, under which a neutral panel would select, without alteration, the most reasonable of the **final offers of each party as the final and binding contract to settle the dispute.** Unlike arbitration, which too often merely splits the difference between the parties, and thereby encourages them to persist in unreasonable positions, this procedure would reward reasonableness and thereby facilitate negotiation and settlement.

Another possible reform in transportation is deregulation, which the Administration has publicly discussed.

(2) In construction, a system of wage and price restraint is now being implemented.

The Administration has been intensively studying the construction industry since the formation of the Cabinet Committee on Construction in the fall of 1969. Considerable

attention was given to the collective bargaining structure. Studies centered on ways to increase the supply of construction labor and possible reform of the collective bargaining structure. It became clear, however, that quick action was required and on March 29 President Nixon announced a system of wage and price stabilization for the construction industry. This system is now being implemented.

I think that the steps taken by the Nixon Administration in transportation and construction make it clear that we are willing to take direct action where market forces are not or cannot work effectively to curb inflationary pressures.

Looking ahead, we can expect further progress in curbing inflation as a result of the slack in the economy that now exists and that will continue to exist until the economy gets back to the zone of full employment of our manpower and productive facilities. This progress will be buttressed by our well-demonstrated willingness to intervene directly where the market system is not working to contain inflationary pressures in a reasonably satisfactory way.

How Much Economic Growth in 1971?

That the economy is now on the upswing will be denied by very few economists who have observed the business scene closely. I believe that the evidence of this is irrefutable. The key question now is not the direction but the amount of economic expansion in prospect.

The first quarter increase in GNP, a massive one in either current dollars or real terms, was centered in two industries, autos and steel, and two other sectors, housing and State and local governments. The large increase in gross auto product was due, of course, to recovery from the prolonged General Motors strike. In steel, heavy inventory building is taking place in anticipation of a possible strike on August 1.

The strong gains in homebuilding and in spending by State and local governments reflect mainly greater availability of credit and lower interest rates. These, in turn, have resulted from the easing of money a year or so ago, the reduction in inflationary expectations, and the elimination of excess demand from the economy.

Two Crucial Sectors: Business and Consumer

In order to have a well-balanced and strong economic expansion during the remainder of 1971 and on into 1972, we need strength in business spending for plant and equipment and in consumer spending.

The turnaround in capital spending by business is probably now underway. The most recent survey of capital spending plans calls for an increase of 4½ percent this year, compared to the 1½ percent increase indicated in the previous survey. Rising production, improving profits, higher cash flow (in part because of liberalized depreciation guidelines), ready availability of funds at lower rates -- all of these should encourage further upward revision of capital spending plans as 1971 progresses. This prospect is reinforced by the rising trend of contracts and orders for plant and equipment.

As for the consumer, his spending has been increasing as indicated by the rising trend in retail sales, but auto purchases have accounted for much of the gain. Spending as a percent of income is still on the low side and there is still a huge potential for increases in consumer purchases.

There have been important indications recently that consumer spending is now moving ahead more strongly across a wide range of goods and services. The tone of retail sales was much improved in the crucial weeks just before Easter. The strength in residential construction should soon begin to spill over into household durables, home furnishings, and related lines.

More generally, most measures of consumer attitudes and spending plans indicate a turn for the better. Such a change seems reasonable in view of recent developments that are favorable from a consumer standpoint:

- (1) The rate of inflation has moderated;
- (2) Unemployment appears to have peaked and is now on the downtrend, although there will still be months with unemployment increases;
- (3) The consumer has rebuilt his financial reserves through a relatively high saving rate in 1970;
- (4) Cold war tensions with Russia and China may be easing. The key trouble spots -- Southeast Asia and the Middle East -- appear to be cooling somewhat; and
- (5) The stock market is up nearly 50 percent from its May 1970 low.

The Economic Outlook and Economic Policy

It seems likely, therefore, that consumer and business spending will be increasing at a strong pace in the months and quarters ahead. The resulting gains in total economic activity can be expected to bring a downtrend in the rate of unemployment and in the percentage of unused capacity.

When these prospects are combined with probable further progress in the battle against inflation, it seems only reasonable to conclude that 1971 will be a year of major accomplishment in moving toward our goals of increasing output and decreasing unemployment and inflation.

What does this tell us about the appropriateness of current economic policies? Both monetary and fiscal policy have been expansionary for over a year. Nevertheless, many observers are asking this question: Should fiscal policy be more expansionary? The most honest answer that I can give is to say that this question is under constant consideration. We are in the early stages of an economic expansion that has a strong probability of proceeding in an orderly and balanced way. If we achieve substantial economic growth and if we make progress in bringing down the unemployment rate, then we will not want still more expansionary policies.

There is, of course, a lag between the implementation of a policy change and its effect on the economy. By next year at this time, we probably will be nearing the full-employment zone. Policies that are overexpansionary now could rekindle inflation next year. In deciding **whether** or not to make fiscal policy more expansionary now, we also must take account of such considerations as achieving discipline in budget expenditures and making sure that expenditures in the years ahead do not get out of control.

If the economy falters or if we fail to make good progress **in reducing unemployment**, then it would be appropriate to consider possible further fiscal stimulus.

But for now our best judgment is that we shall see a strong economic expansion as 1971 unfolds further.

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