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OFFICE OF THE VICE PRESIDENT
WASHINGTON, D.C.

To: Bill Seidman

From: _____

Date: _____ Time _____ a.m.
p.m.

for info.

ACTION

August 20, 1974

Memorandum for The President

Subject: Inflation

From: David Packard

The current high rate of inflation in the United States is the result of a large number of factors and must be attacked as a complex problem of international magnitude. Some factors are the result of past policies, others are special circumstances not likely to recur.

1. Decoupling of the dollar from gold in 1971 increased the cost of foreign goods imported into the United States; e. g., Autos, Radios, and decreased the cost of U. S. -produced goods exported to Europe and Japan in particular.

This action resulted in a substantial improvement in the balance of trade, but at the same time contributed to increased demand abroad and increased price at home of U. S. -produced products; for example, agricultural products.

2. The Mid-east crisis of 1973 and the increase in the price of international oil from less than \$3 a barrel to over \$10 has put a one-time increase of substantial magnitude into every product that is derived from oil or that uses oil as a source of energy; e. g., gasoline, fertilizer, plastics, electrical energy.

3. Rapid inflation in other countries around the world has caused increased prices of U. S. goods and services. Imported products are more expensive, raw materials have gone up in price. In addition, U. S. produced products are in greater demand in foreign markets. In 1970 an electronic instrument could be produced in West Germany cheaper than in the U. S. In 1974 an instrument can be produced in the U. S. , shipped to Germany, and be delivered duty-paid at a lower cost than it can be produced in Germany.

These inflationary factors have caused substantial cost increases that can not be rolled back by domestic fiscal policy, monetary policy, or any other action by the U. S. Government.

We are, because of these factors, in a transition from a lower price level economy to a higher price level economy.

This transition is in process, it will take some additional time to work itself out throughout the economy. There are delays in adjusting prices to cost increases. These delays result from first-in, first-out inventory practices, competitive pressures in some areas, and the administrative problems in pricing a complex product line in a competitive world market.

Shortages of supply have developed in many areas of the economy and these can not all be corrected quickly, but there are a number of things which can be done to increase supply over the medium and long term.

There are a number of actions The President can initiate and support which will ease the impact of this transition from a lower price level to a higher price level and get the country back in due course to a more modest inflation rate -- 3 - 5% per year.

This can not be done quickly but it can and must be done, and I am sure a realistic program toward this end will have the full support of business, labor and the general public.

Here is an outline of the actions necessary for such a program. (The items are not necessarily in order of priority.)

Monetary Policy. The current tight monetary policy is about the only real pressure on inflation. It can not do the job alone and the current monetary policy is already counterproductive to inflation control. It is adding real costs to the production of goods and services which are being reflected as price increases. Tight money is delaying investment in new plant and equipment, thereby contributing to short supply in the future; e. g. , electrical utility construction and industrial plant, in particular. Tight money is causing serious, even dangerous, distortions in the economy; e. g. , housing and lending institution industry.

Monetary policy should be eased on a basis which will correct some of these serious problems now emerging. Easing should be on a gradual basis while other steps are taken to help control inflation.

Fiscal Policy. There is no way at this time to implement a fiscal policy which will have a major influence on inflation, but a reduction in federal spending would have a psychological impact and therefore a balanced federal budget should have a high priority.

A 5 billion dollar reduction in FY 75 spending is probably the most that could be achieved. A \$5 billion reduction of federal spending in a \$1,300 billion economy, less than 0.4%, can not have much real impact -- also, State and local spending must be considered.

I recommend, nevertheless, that the FY 75 spending be held to \$300 billion and I believe this can be done, especially if the Congress will cooperate.

Restraint on Prices and Wages. It is essential, while we are going through this transition from lower to higher prices, that there be restraint by business on pricing and by labor on wages and salaries.

I do not advocate a return to controls and it will be helpful for The President to reaffirm that he does not intend to resort to wage and price controls.

A Cost of Living Council should be implemented as soon as possible. Such a Council can be helpful if top labor and business officials will serve and if the work is conducted with strong, objective staff work and without fanfair.

An increase in the supply of goods and services can be the most important factor to bring inflation under control. There are a number of things which will help increase supply.

Financing new plant and equipment is a most important step. In addition to backing down on tight monetary policy, continuing or increasing investment credit, liberalizing depreciation policies are among financial measures which will help.

Productive capacity can be increased more rapidly if delays which result from governmental regulations can be reduced. This is an area which could be very productive. The time to bring a nuclear power plant on stream could be reduced by at least two years, and the time for a major manufacturing facility to be put into production could be reduced substantially by streamlining the approvals necessary and reducing the decision-making time.

An increase in the supply of goods and services can be achieved by increasing productivity in a number of ways. Better training for workers, reduction in make-work practices, improved processes and worker motivation are just a few ways by which production can be increased and costs and prices kept down.

I would recommend the establishment of a Blue Ribbon Panel made up of labor leaders, business leaders, professionals in management, and economists to advise jointly The President and the Congress on actions which can be taken to increase the production of goods and services in all areas of the economy. This might be expanded to a National program which would solicit recommendations from the grass roots in industry and labor -- the people who really know

what is going on at the production line and whose initiative, imagination and enthusiasm can contribute greatly to the goal of keeping America the most productive nation in the world.

It will help if people reduce their spending and it is essential that a high-level effort be continued on energy conservation. I believe, however, there will be a much more enthusiastic response from people all across the country to a goal of increasing productivity rather than reducing consumption.

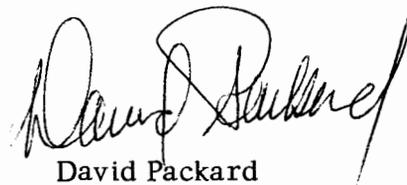
Finally, inflation is an international problem. You might want to call an international conference on inflation to emphasize the importance of industrial nations working together to bring inflation under control. Such a conference should be made up of government leaders and business and labor leaders, and even a candid exchange of views could be helpful in bringing focus on the importance of controlling inflation and perhaps generate some positive programs which could be effective in certain areas.

The foregoing suggestions are directed at bringing inflation under control. There is the corollary problem of alleviating the suffering of those who have already been badly hurt by this current high inflation -- those who live on low-level, fixed incomes, or others whose margin of subsistence has been destroyed.

Something must be done for these groups of people, but it should be done in a way that helps those who need help but which does not unduly

dissipate resources. A general tax reduction for low income people is probably not the way to do the job. An increase in welfare might be called for but it should be combined with improved administration. Above all, an attack on the causes of inflation should have the highest priority, but this should be combined with some action to relieve those who are really suffering from its effects.

Mr. President, this outline is sketchy and the suggestions I have made need more careful rounding out, but I hope they will be helpful. I am sure that you can count on the full support and cooperation of the members of The Business Council and, for that matter, from all of this nation's business and industry leaders in your all-important fight against inflation.



David Packard

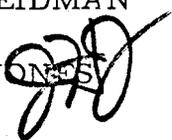
THE WHITE HOUSE

WASHINGTON

August 20, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: WILLIAM SEIDMAN

FROM: JERRY H. JONES 

The attached memorandum is forwarded for your information at the request of the President.

cc: Al Haig