9-8-74

THE WHITE HOUSE

WASHINGTON

Bill Seidman

This have collected on my desk. Some should be answered/some not.

Congrats on a very fine job on the Summit.

G.R.F.

Jimmy this - [illegible]

Statement by the AFL-CIO Executive Council

on

The High-Interest Rate Peril to the American Economy

August 5, 1974
Chicago, Ill.

The Nixon Administration's monetary policy, enforced by the Federal Reserve System under the chairmanship of Dr. Arthur Burns, is putting the American economy through the wringer of a severe tight-money squeeze and the highest interest rates in over 100 years. The main beneficiaries are the major big-city commercial banks, whose profits are soaring.

This policy has pushed the national economy to the brink of disaster. A depressed home-building industry, declining national production and increased unemployment have been added to runaway inflation. The threat of business failures, drawn-out recession and continuing inflation hang over the nation, as a result of the present-money crunch.

The prime interest rate, which the commercial banks charge on loans to the major corporation, jumped from 6 percent in early 1973 and 8-3/4 percent in the first-half of last March to 12 percent at present. This is a rise of 100 percent in the past 18 months and 37 percent in five months.

This spectacular rise of interest rates is adding sharply to inflationary pressures. It is directly boosting prices throughout the economy, as business passes on increased interest-rate costs. The Burns' cure for inflation -- creating slump conditions -- is depressing productivity and adding to upward pressures on unit costs and prices. In the name of fighting inflation, Dr. Burns has made the Federal Reserve an engine of inflation.

These interest rates are boosting the taxpayers' burden. Interest payments on the federal debt rose $5.3 billion between fiscal years 1973 and 1974 -- much of it due to higher interest rates.

The Federal Reserve policy is building in higher costs for many years in the future. Payments on principal and interest for a 25-year, $25,000 mortgage at a 10 percent interest rate, for example, are $227 a month. That $66 a month more, for 25 years, than a similar mortgage at 6 percent. So, at the end of 25 years a $25,000 mortgage will cost $68,100, or $19,800 more than it would at a 6 percent rate.

The goal of the Federal Reserve is to further slow down the economy, which has been in an inflationary recession since the final months of 1973. Its "success" will boost unemployment, which has already risen from 4.1 million or 4.6 percent of the labor force in October 1973 to 4.9 million or 5.3 percent in July. Even Administration spokesmen predict unemployment can go as high as 6 percent by the end of 1974 -- approximately 650,000 more unemployed -- and, under these conditions, it may go higher. The tightening squeeze can eventually reduce the rate of inflation only by putting the American people through the suffering of a depression or extended recession.

Soaring interest rates, combined with sharply rising land costs, have already depressed home-building. Prices of homes and rents for new apartments have risen sharply. Credit for builders' loans is drying up and available only at very high rates. Moreover, the upward spiral of interest rates, led by the major commercial banks, has resulted in the large-scale withdrawal of funds from savings and loan associations and mutual savings banks, which are the main source of mortgage money.

Housing starts fell 13 percent in 1973 and, in the first-half of 1974, dropped 31 percent below the same period last year. Building permits have fallen even more sharply in recent months, pointing to a further decline in housing starts, which will add to the housing shortage that already exists.

The high-interest rate squeeze is creating a further weakening of economic activity. Major cities and counties have found it impossible to float needed bonds issues at current interest rates, resulting in the postponement of improvement in community facilities and services, as well as curbing the growth of job opportunities.

Public utilities, confronted by these interest rates and high fuel costs, are cutting back plant expansion despite the need for additional gas and electricity facilities -- adding to the 10.6 percent unemployment rate among construction workers and curbing the expansion of jobs for utility workers.

Such cuts in private and public investment -- combined with depressed residential construction and continued weakness in retail sales -- pose the danger of widespread reductions of the large inventories business accumulated in the past year. The result could be cancellation of orders for goods in the coming months and a general drop in production, working hours and employment.

Moreover, the Federal Reserve policy is discriminatory. It favors the powerful big-city commercial banks, wealthy money lenders and the money-laden major corporations. It hits workers and consumers, home-builders and home-buyers, communities, smaller businesses and even those corporations, like public utilities, that need lower-interest loans.

While home-building, community facilities and the normal operations of many businesses have been starved for available credit, there has been a continuing flow of loans for other purposes, such as land speculation, hoarding and foreign borrowers. For example, Governor Andrew Brimmer of the Federal Reserve reported, on July 17, 1974:

"Since the abolition of capital controls at the end of January, there has been a sizable outflow of funds from the United States. Banking institutions have been a major source of this outflow. During the first five months of this year, these institutions increased their foreign assets by $8½ billion -- to a level of $34 billion. This gain was larger than that recorded during the full year 1973. Virtually all of the increase represented credit extended to foreign borrowers. . . .

"Moreover, so far this year, only a small share of the rise in bank loans to foreigners has been associated with export financing. Instead, it appears that -- with the termination of nonexport foreign lending restraints -- banks have deemphasized export financing and intensified their interest in developing other foreign lending and investment opportunities."

The Federal Reserve policies are a dire threat to the well-being of the American people. An immediate and thorough change in the nation's monetary policy is essential.

There is an urgent need for much lower interest rates, combined with a selective monetary policy based on social and economic priorities. The extension of available credit should be eased for high-priority objectives and tightened for low-priority purposes.

Therefore the AFL-CIO Executive Council:

1. Urges the Congress to take immediate action to direct the Federal Reserve System to allocate available bank credit on a selective basis -- to allocate a significant portion of available bank credit, at reasonable interest rates, for such priority purposes as housing, community facilities and expansion of essential public utility plants and to curb the flow of credit for such activities as gambling casinos, land speculation, hoarding, foreign loans and foreign subsidiaries of American companies.

The Federal Reserve System should also be directed to provide a sufficient expansion of money and credit, at lower interest rates, to encourage the needed expansion of economic activity and job opportunities.

2. Urges establishment of a direct lending program by the federal government to provide mortgages at reasonable interest rates for middle-income housing, as well as expansion of existing programs of assistance for low- and moderate-income housing, which have been curbed in the past two years.

3. Calls on the Congress to establish a fair and equitable means of raising the required volume of federal revenue to meet the government's obligations for maintaining its operations and expanding essential programs.

Elimination of the major loopholes in the federal tax structure and adoption of an excess profits tax can raise as much as $30 billion of additional revenue. Proposals for further tax cuts for business, which Administration and big business spokesmen are advocating, should be rejected.

The average taxpayer will be able to obtain a genuine tax break when everyone -- the President and big business, as well as the worker -- pays his fair share of the federal tax burden.

4. Reiterates our request to the Congress to enact government controls on exports of agricultural and other products in short domestic supply -- to be maintained until shortages are ended and inflationary pressures on the prices of such products subside.

Effective government regulation of the commodity exchanges, including margin requirements, is needed to curb price-boosting, excessive speculation and profiteering.

The government should rebuild America's stockpile reserves of agricultural products and raw materials, which have been depleted in the past two years. The re-establishment of such reserves to adequate levels as rapidly as feasible is necessary to serve as a price-stabilizing factor, as well as for national security and to help meet domestic or foreign emergencies such as disasters, shortages or famines.

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SOME CONSIDERATIONS ON THE ECONOMIC SITUATION

## KEY BACKGROUND FACTORS

In wrestling with its most difficult problem -- restoration of the national economy -- these principal factors might be kept in mind by the Administration:

1. The general public does not understand the reasons for our economic difficulties.

2. The recognized "experts" do not agree on what measures should be taken to restore price stability and maintain prosperity. Disagreements among them on economic theory and political philosophy are likely to sustain these divisions of view.

3. Our economic system is founded on conflict (i.e., competition) and a constant vying of various interest groups for supremacy or gain. Any program designed to cure our economic woes will, or will be perceived to, adversely affect the position or objectives of one or more of these interest groups. These forces and the divisions of opinions among the experts make the achievement of national consensus on the <u>measures</u> to be pursued most difficult if not unattainable.

4. There is a substantial risk that any particular course of action chosen to correct economic conditions will not succeed and a near certainty that it will inflict harm on one or more segments of society.

5. There will be no quick fire for our economic troubles.

6. Because of the complexity of economics, a public attitude that no individual's action can influence the course of the economy, and the refusal of any interest group (or its members) to admit responsibility for economic problems, the national government (principally the Executive Branch) has come to be viewed as virtually the only actor on the economic stage.

7. The historical, orthodox tests of what is an "acceptable" economic condition for America (and, accordingly, the political measuring sticks) may simply be obsolete. An entirely different framework and lexicon for calibrating our economic condition may be required.

## BASIC INITIAL GOALS

The following would appear to be the basic desirable and realistically attainable initial objectives of the Administration as it charts its economic program:

1. Development of a public inventory of various options for restoring economic stability and a clear statement of the

implications of each option for different sectors of society and the general public.

2. <u>Commencement of the important national educational process to illuminate the following points</u>:

- that our economy is a system of people v. people or interest group v. interest group, <u>not</u> people v. government.

- the principal causes of our economic difficulties.

- that we are in a new era of economics where the old rules and old methods of measurement do not necessarily apply.

- that our economic condition and the various policies we pursue toward economic stability are inextricably wound up with national security and our system of international relationships.

- why a return to price-wage controls seems a harmful and unwise course to pursue.

- what realistic options are available, which appear to offer the most promise, and the risks and implications of pursuing particular options.

3. <u>Establishment of a realistic timetable for progress on our economic problems</u> (not their ultimate resolution). Distinctions should be made between long term and short term objectives.

Publicly fix on the various institutions and elements of society appropriate obligations for responsible behavior during the restoration period (e.g., Congress, business, labor, financial, community, consumer, etc.).

## SOME FUNDAMENTAL THEMES AND PRECEPTS

In implementing its economic strategy, the following would appear to be useful guiding themes or principles:

- The President should not present himself as the nation's economic expert. He should avoid appearing as the economic oracle but should indicate that he has available and will use the best economic counsel in and out of government which the nation has to offer. This is crucial to the husbanding of Presidential capital in the effort to restore economic conditions.
- The President should make no promises respecting when economic conditions will be restored to an acceptable state. He should commit to providing regular and frank "public audits" of where we are and where we appear to be going.
- Stress that government cannot "manage" the American economy. While the national government can exert leadership and direction in economic problems, the American economy is simply not amenable to puppeteer-like control.

. . . .

4. Avoid the use of specific numbers either in establishing economic performance objectives (e.g., "our goal is to have a ___% rate of inflation by _____") or as the test for measuring acceptable price or wage actions (e.g., specific "approved" percentages for wage or price increases). Rather, the emphasis should be on trends and progress. The establishment of national numerical standards is too difficult to apply across the board and risks the perception of failure and permanent damage to the credibility of the entire effort if the numerical standard is breached. (The guidepost approach of the Johnson Administration was irreparably damaged by the single airline wage settlement in 1966 which breached those numerical benchmarks).

5. Maintain in the process of economic restoration the visible involvement and responsibility of as many elements external to the Executive Branch as possible. A continuing effort must be made to keep a continuing obligation for responsible behavior on labor, business, the financial community, Congress, etc. While this may mean sharing the credit for progress it correspondingly permits sharing the risks. It is a national problem demanding the participation and cooperation of all elements of the nation in its solution.

6. Continue to stress the difficulty of solving our economic problems, the uncontrollable or intractable nature of some influences (e.g., weather) and lay the predicate for a "long pull".

## SOME STRUCTURAL ISSUES

Some important issues on the structure of the Executive Branch as it begins the attack on economic problems include:

1. Should there be a single economic "Czar" for the Executive Branch? As a means of insulating the President and underscoring the involvement of diverse elements of society in solving economic problems, there may be some advantages in having no single economic coordinator or spokesman. Indi-vididual cabinet officers can act as the cutting edge for their particular constituencies and Treasury can function in its historical role as the primary visible focal point and external spokesman for economic issues. The Council of Economic Advisors would continue its traditional role (and the one it prefers) as a cadre of professional economic counsellors. While this approach sacrifices some valuable coordination of economic decision-making within the Executive Branch, it appears the way to proceed initially.

2. What is the role of the New Wage and Stabilization Council? It can function as an action/political arm (jawboning, publicly condemning, etc.) or in a more clinical way, merely assessing and reporting wage and price actions. Is it truly a new agency or only the formalization of a vehicle for addressing economic behavior? Is it intended to serve as a significant insulating device for the White House? Will it be (or be perceived as) the embryo of another foray into wage-price controls? How these questions

are answered will govern the staffing of the Council, its employment and the emphasis given it in the Administration's economic restoration efforts, and its independence from or subservience to the Cabinet and the other pieces of the Executive Branch's economic structure.

3. Will the Executive Branch Structure Assure that International Economic Considerations are Coordinated with the other Economic Restoration Efforts? The essentiality of such coordination is evident. However, the jurisdictional problems in this area have proven difficult. Goodwill (among Cabinet men) may not be enough.

MISCELLANEOUS IDEAS

1. Federal Budget Cut-backs Should Entail a Significant, Time-phased Reduction in the Personnel Level of the Federal Government. This is good government, good politics and a major device to force some real priority--setting.

2. The President Might Dramatize some of the Difficulties in Dealing with the Economy (e.g., He could personally visit the drought-stricken areas in the Midwest.) The objective would be to identify and highlight some of the key factors which heavily impact the economy but which are not amenable to Executive Branch (or perhaps anyone's ) control.

3. Labor's Discarded Theme of a "Veto-Proof Congress" could be converted into an "Inflation-Proof Congress" for the Republicans this Fall.

4. A Blue-Ribbon Commission to Examine the Validity of

of Current Methods of Collecting and Reporting Economic Statistics and Measuring Economic Progress could be Appointed. Such a review is consonant with the theme of a "new era" of economics, and should include the possible development of a new lexicon for communication and carrying on the public dialogue on economic matters. (An example of present confusion is that "inflation" has come to mean any increase in price.) Attention might also be given to the development of a statistical framework to illuminate the international aspects of the domestic economy and facilitate comparisons of economic performance on an international basis.

5. Comparable to the American Response to the Challenge of Sputnik (when we made a massive effort to stimulate educational efforts in technical fields), a Major Educational Assistance Program Could be Initiated for U.S. Colleges and Secondary Schools to Help Stimulate Understanding of Basic Economics and How the Behavior of the Individual Labor, Business, etc., Affects the Economy. No challenge will be greater than that of maintaining over the long haul stability and prosperity in the "new era" of economics. A national educational effort could be an important factor in meeting that challenge.

6. As Part of the Continuing Involvement of Segments of Society External to the Executive Branch:

   - the Executive could periodically call for hearings to be held by the Joint Committee or various substantive committees of Congress on particular price, wage or other economic matters;

- the new Economic Council could call in for counselling sessions (the results of which might be made public) all the former Chairmen of the Council of Economic Advisors.

7. In Connection with Establishing a Realistic Timetable for Progress on Economic Problems:

- a "staging" concept could be adopted, focussing on milestone time segments such as from now to the first of the new year, the two six month periods of 1975 and the same for 1976;

- some historical perspective (i.e., looking back as well as ahead) might be given to the late Johnson Administration years, the Phase I-IV period of the Nixon years, etc;

- the predicate can be laid for long term proposals and actions dealing with the Economy.

John E. Robson
August, 1974

THE UNIVERSITY OF MICHIGAN
ANN ARBOR, MICHIGAN 48104

August 8, 1974

Dear Mr. Vice President:

This letter is prompted by the obvious fact that the probability of your being responsible for policy is now high.

For the good of the national economy, as well as for any new Administration, a prompt and evident assumption of firm personal charge of the management of economic policy would be enormously helpful. The problems are, of course, difficult. At the same time success in restabilizing the U.S. economy would earn an enviable place in the annals of history, and it would re-create this nation as an island of stability in a world otherwise threatened with economic disorder. People are, I believe, ready to respond to a substantive, cohesive, and well-rounded program, but they are deeply suspicious of cosmetics.

Thus these suggestions for what they may be worth. Their basic theme is that our economic problems, though undeniably difficult, can be managed effectively.

General Approach. The Administration should always speak to these problems in a way that shows it to be arrayed squarely on the side of the frustrated, angry, and suffering citizen and consumer. It should not get itself seemingly arrayed against them.

Fiscal and Monetary Restraint. Fiscal and monetary restraint are essential to stabilize the price level. It is basic. No inflation has been cooled without it. The charge that "it didn't work before" (i.e., 1969-71) is starting to be believed because of sheer repetition, but it is factually wrong. It did work then. Inflation accelerated from a 3.5 percent annual rate during the first half of 1967 to a 6.1 percent rate by 1969. If this accelerating trend had continued, the rate would have been in the 10 percent zone by the first half of 1971 (which was before the freeze). In fact, inflation by then had subsided to a 3.8 percent per year pace.

Budget Spending. ~~Control of the budget must be regained.~~ Otherwise Federal spending for FY 1975 could easily be $310-15 billion instead of $300-305 billion. That would require for economic stabilization a tax increase in FY 1976, which would not be easy to get. While regaining budgetary control will not be easy, it can be done. There is too much fatalism on this issue.

Monetary Policy. The ultimate target for monetary policy (which, of course, is a Federal Reserve responsibility) should produce an ~~increase in the money supply in the 5 percent per year range.~~ We are in the time zone now where some slight easing will be in order. The visible effects of a change in monetary policy do not show up in economic activity until 6-12 months later, so 1974's policy thus far has already built slack, needed to cool inflationary pressures, into the economy into early 1975. These tight policies have been hitting housing and small businesses hard.

Savings Institutions. Savings and Loans and Mutual Savings Banks are in trouble, and their troubles are stifling housing. Their assets are long-term mortgages, only a small percentage yielding currently high rates. This and certain regulations limit what they can pay on their savings accounts. Yet if they do not pay competitively high rates, they lose funds and must shut down on new mortgages—and small savers with few other outlets are denied the high rates on funds available to the more affluent. ~~Major therapy is required here.~~

Utilities' Problem. Electric utilities have been hard hit by the explosion of coal and oil prices and interest rates. The regulatory process is so sluggish and higher rates are so politically thankless that we face a crisis. Many companies can no longer borrow, and construction programs are being slashed. The key is higher rates, which state regulatory bodies control. There should be an early Presidential message on these problems.

Economic Costs of Government Mandates. Increasingly government actions commit the use of economic resources even though government spending is not involved. About $600 of each 1975 auto's price tag will be for pollution and safety (or $6 billion of costs imposed on consumers). Roughly 10 percent of business capital outlays are for these purposes. We do a completely inadequate job of keeping book on these commitments. The President might announce that he is requesting the Council of Economic Advisers in the Annual Economic Report to develop this information—in order to assure that we maintain balance between our inevitably limited economic resources and our commitments of them.

Wage-Price Monitoring. The "monitoring agency" for price and wage changes already proposed is a good idea, but its actual effect would be marginal, and it should not be oversold. And it should be positioned at arms length from the Administration, or at the first confrontation on a wage or price change the President will be pressured to "do something"—to engage in direct, brute-force action. The Canadian experience with their Incomes and Prices Commission could serve as a model.

Disinflationary Unemployment. An inflation cannot be cooled without some rise in unemployment, and there should be complete candor about this. While the unemployment rate is not apt to break above the 6-7 percent zone, and the people unemployed are a constantly changing group, the Administration must be responsive to this problem, or its attitude would seem to be "let them eat cake." Therefore:

a. The unemployment compensation program should be strengthened.

b. There should be a public service employment program.
c. A more daring (and better) approach would be the proposal of a systematic and generalized income maintenance program, with the present polyglot of pauperizing welfare programs abolished. (The welfare-worker interest groups would oppose this.)

Indexing. While automatic adjustments for changes in the price level are no panacea, there is a place for indexation. The personal exemptions and outer boundaries of the tax brackets should be adjusted automatically for changes in the price level or the government (whose policies produce inflation) then benefits through accelerating revenues. And businesses and unions should be encouraged to bargain over the "real" wage, attaching a cost of living escalator then to keep it "real." Otherwise presumed future rates of inflation will be baked into three-year wage contracts, creating some combination of more extended inflation and higher unemployment. (What some call stagflation.)

Government Cost-raising Programs. There is a whole array of government programs that have an adverse effect on costs and prices. These range from the Postal Service monopoly on first class mail to the disgraceful regulatory performance of the I.C.C. A "Regulatory Modernization Act" should be drafted for submission to the Congress.

World Recession. There is now the real risk of a cumulative world recession. Both because of inflation and weak external payments positions (heavily the result of high oil prices), countries are tending to pursue restrictive domestic policies. U.K. output is declining. Italy is in chaos, with already some financial defaults. Even the German domestic economy is weak (though exports are strong). There is danger that just as we got a synchronized and interacting world boom from 1971-73, we might be engineering a synchronized slump now. There should be more frequent meetings of Finance Ministers and of the Economic Policy Committee of the O.E.C.D. to watch this. (This would parallel the Central Bank meetings each three weeks in Switzerland.) With a strong domestic economic policy, the U.S. Secretary of the Treasury could exert needed and constructive leadership here.

Organization for Economic Policy. The President's Counsellor for Economic Policy has performed nobly. If one looks at the picture without regard to personalities, however, the present structure is awkward, unstable and apt to result in an impasse. It would be better to return to the Troika, with the Secretary of the Treasury as its Chairman. A more ambitious approach, which deserves examination, would be a new Department of Finance and Economics consisting of Treasury, OMB, and the Council of Economic Advisers.

Philosophical Orientation. I mention this because ideas and concepts have an unexpected way of being important in public policy. If I understand your approach, you are a liberal in the basic sense, not a conservative. This is not just a matter of semantics. The basic liberal is committed to a free and open society (and economy) where people have freedom for their own ideas and ingenuity and creativity. He believes that thereby a richer and more dynamic order, of greater individuality and sense of self-fulfillment, will flourish than if government pre-empts the functions of determining what is good for people. This liberal, open, free social and economic system contemplates vigorous change (which inherently "conservatism" does not). Your philosophical roots, therefore, trace back to English thinkers such as Hume, Burke, and Mill. The liberal in the more recent vernacular traces his roots back to French thinking (Condarut, Voltaire, etc.) which contemplated having the State use its power to impose what is "good." Obviously this is all to some extent a matter of emphasis, but where to place the emphasis is itself not a secondary matter.

Sincerely yours,

Paul

Paul W. McCracken
Edmund Ezra Day University
Professor of Business Administration

The Honorable
Gerald R. Ford
Vice President of the United States
Washington, D.C. 20503

CHAMBER OF COMMERCE
OF THE
UNITED STATES OF AMERICA
WASHINGTON

September 6, 1974

The President
The White House
Washington, D. C.

Dear Mr. President:

The Chamber of Commerce of the United States fully supports your efforts to solve the problems of inflation which you have properly characterized as our number one domestic problem.

We pledge all possible assistance and cooperation in this monumental undertaking.

In an effort to be constructive in approaching this complex issue, the Executive Committee of the Board of Directors of the National Chamber met last week and prepared the attached series of recommendations.

These recommendations are given to you with the full recognition that there are no easy or prompt solutions to the problems of inflation. Nevertheless, we are confident that these problems can be met if approached with resolve and intelligence.

We admire the leadership you are providing our nation in this and other matters of great importance.

With best wishes, I remain

Cordially,

Arch N. Booth
President

Sincerely,

Charles H. Smith, Jr.
Chairman of the Board

## RECOMMENDATIONS OF THE CHAMBER OF COMMERCE OF THE UNITED STATES FOR NATIONAL POLICY AGAINST INFLATION

The Chamber of Commerce of the United States, recognizing that there is no easy or quick solution to the problem of inflation, agrees that a strong policy to combat inflation is essential, that the international aspects of inflation should be fully recognized, that government anti-inflation policy should extend across a wide range of measures, and that a coordinated approach is essential.

The National Chamber supports the following broad anti-inflation policies in line with the above considerations:

-- Increasing capacity and removing bottlenecks
-- Increasing productivity and efficiency
-- Stimulating market competition
-- Increasing government efficiency and economy
-- Breaking worldwide supply bottlenecks
-- Cushioning the impact of anti-inflation policies

These policies should be executed in a framework of appropriate monetary and fiscal policy.

### MONETARY AND FISCAL POLICY

The National Chamber recommends that:

1. The Federal Reserve policy of moderate tightness should be continued until the excessive demand for credit has eased, as will become evident when short-term interest rates have declined to a more reasonable level. Thereafter, monetary policy should avoid extremes and move toward a gradual reduction in the rate of growth of the money supply, until a sustainable monetary growth path has been achieved, in order to avoid excessive unemployment and to reduce interest rates.

2. Regarding the role of the Federal budget in the economy, it can be strongly argued that there has not been any planned fiscal policy as distinct from monetary policy which has operated with reasonably well-defined goals. Therefore, the first step for fiscal policy is to formulate corresponding fiscal policy goals. In the present inflationary environment it is essential that Federal government spending be reduced by at least $10 billion from the

Fiscal Year 1975 budget. This not only would help in the battle against inflationary pressures; it also would exert desirable downward pressure on interest rates by reducing the volume of government borrowing.

3. Every effort should be made by Congress to implement the letter and the intention of the Congressional Budget Act of 1974. It will not be enough to establish reduced budgetary ceilings and then to permit spending outside these ceilings, since such a course is not only deceptive but also ineffectual.

INCREASING CAPACITY AND REMOVING BOTTLENECKS

The following recommendations are aimed at expanding production and thereby reducing current inflationary pressures caused by demands that are greater than supply:

1. Reforming the capital recovery system to intensify business investment in more production by

   -- Liberalizing depreciation allowances
   -- Supporting current fast depreciation methods
   -- Liberalizing the present investment tax credit
   -- Modifying the capital gains tax
   -- Retaining adequate depletion allowances

2. Achieving a better balance between environmental and safety objectives, on the one hand, and economic growth, on the other hand, by

   -- Amending the Clean Air Act, the Water Pollution Control Act and the Occupational Safety and Health Act to reduce cost of implementation while achieving reasonable environmental and safety objectives.

3. Increasing the efficiency of the building industry by

   -- Carrying out the mandate of the National Institute of Building Sciences designed to help introduce and adopt new construction techniques.

   -- Supporting the adoption of uniform state building codes to enable mass production techniques.

4. Improving the Nation's rail transportation network by

   -- Supporting Federal guaranteed loans to improve railroad facilities and services
   -- Expediting reorganization of the Northeast rail lines

INCREASING PRODUCTIVITY AND EFFICIENCY

The following recommendations would help improve the ability of the U.S. to increase productivity and to maintain a high rate of efficiency in the production of goods and services:

1. Improving opportunities for people to obtain better education and training by

   -- Supporting full implementation of the Comprehensive Employment and Training Act
   -- Urging increased leadership by the Administration for nationwide adoption of career education in schools
   -- Supporting the full implementation of existing work-study and cooperative education programs

2. Maintaining better health programs for the work force through support of a comprehensive national health care program along the lines of the National Health Standards Act (S.3353).

3. Helping the work force maximize its output by supporting legislation to outlaw restrictive work practices, such as provided in building codes, labor-management contracts, or other agreements, which restrict the use of modern methods and new technology.

4. Improving the understanding of what causes productivity increases by supporting a re-invigorated productivity council.

STIMULATING MARKET COMPETITION

The following recommendations would help stimulate competition and help reduce the cost of goods, services and labor:

1. Reducing the cost of contruction labor by repealing the Davis-Bacon Act.

2. Encouraging the expansion of world trade and investment by

   -- Supporting enactment of effective trade legislation
   -- Generally opposing import quotas and export controls
   -- Supporting the free movement of U.S. capital overseas
   -- Supporting the free flow of foreign investment into the U.S.
   -- Opposing the Cargo Preference Act

3. Helping to keep down the cost of farm production by opposing compulsory farm bargaining legislation.

4. Implementing the antitrust laws in such a way as to foster greater freedom and fairness of competition with minimum government interference, and extending the application of antitrust principles to curb the monopolistic power of unions when such powers tend to impede competition.

5. Taking steps to accelerate the decision-making procedures of regulatory agencies.

6. Appointing a Presidential "blue ribbon" committee to study all aspects of deregulation of business with the object of reducing uneconomic costs imposed upon business by outmoded, unneeded and unduly complex orders, regulations, and procedures of regulatory agencies.

7. Favoring self-restraint by business in its pricing policies and by labor in its wage demands, but strongly opposing mandatory price-wage controls, and specific price-wage guidelines.

INCREASING GOVERNMENT EFFICIENCY AND ECONOMY

The following recommendations could improve Federal government services, administer them more efficiently, and help hold down Federal government expenditures:

1. Improving the coordination and administration of the Federal government by consolidating many existing departments and agencies into

   -- a Department of Energy and Natural Resources
   -- a Department of Human Resources
   -- a Department of Economic Affairs
   -- a Department of Community Development

2. Improving the government statistical information system by study and action to enhance its credibility and improve its accuracy.

3. Supporting study and action to reduce Federal paperwork burdens imposed upon business at great costs.

4. Supporting action to modernize Federal procurement policies.

5. Substituting revenue sharing and block grants for categorical grants so as to reduce Federal bureaucracy and the overhead cost of Federal programs.

6. Opposing creation of new CPA/Agency for Consumer Advocacy.

7. Undertaking studies to determine feasibility and cost benefits for privatizing certain public services.

8. Supporting continuing efforts to improve administration of the Welfare system.

BREAKING WORLDWIDE SUPPLY BOTTLENECKS

The following recommendations are aimed at meeting the problems of shortages of resources which exist throughout the world:

1. Encouraging cooperative action, both intergovernmental and private, to deal with worldwide shortages of resources.

2. Encouraging an improved understanding of the positive role of multinational corporations as important instruments for increasing the availability of basic resources throughout the world, and opposing governmental actions that would seriously interfere with this role.

3. Increasing the Nation's energy independence and holding down energy costs by

   -- Supporting increased research and development to find new energy sources
   -- Supporting active public and private campaigns to conserve energy
   -- Supporting deep-water port legislation
   -- Supporting deregulation of gas pricing at the well head

## CUSHIONING THE IMPACT OF ANTI-INFLATION POLICIES

The following are recommendations to alleviate the hardships on workers and families created by anti-inflation policies:

1. Providing public service employment for people who have been unemployed for 16 weeks or more in areas that have suffered from a rate of unemployment of not less than 6.5% for 3 consecutive months.

2. Maintaining present provisions of law providing 13 additional weeks of unemployment compensation benefits when the unemployment rate exceeds 5.5 per cent.

3. Providing more job opportunities for young people by reducing or eliminating the minimum wage as applied to teenagers.

THE WHITE HOUSE

WASHINGTON

September 8, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN

FROM: JERRY H. JONES

The attached material was returned from the President's outbox with the following notation:

-- These have collected on my desk. Some should be answered/some not.

Congratulations on a very fine job on the summit.

cc: Al Haig