The original documents are located in Box C13, folder "Presidential Handwriting, 2/20/1975 (1)" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

2/20/75

THE WHITE HOUSE

WASHINGTON

Bill Seidman

orig. of letter to Seidman

ACTION :

DICK CHENEY

Staff through Bill Seidman

per the President

Jones

Central Files

THE UNIVERSITY OF MICHIGAN

GRADUATE SCHOOL OF BUSINESS ADMINISTRATION

ANN ARBOR, MICHIGAN 48104

ul W. McCracken
mund Ezra Day University Professor
Business Administration

February 20, 1975

Dear Mr. President:

Economic developments make it urgently necessary for economic policy to think well beyond conventional boundaries. The unemployment rate is now in the 8 percent zone and rising. Capital outlays are being cut back sharply. Prospects for a vigorous upturn in housing are not bright.

The most urgent need is a more expansive monetary policy. After all of the prose about technical problems has been stated, the fact is that a vigorous economic upturn is not probable with the money stock declining and with M_2 (the money stock plus time deposits) rising at not over half the needed rate (see attached charts). Bad monetary policy makes for bad budgets as well as the other way around. Overly restrictive monetary policies that add 1 percent to the unemployment rate thereby add roughly $10 billion to the deficit that must be covered by further Treasury borrowing. You may want to consider some signal of sympathy for Senate Concurrent Resolution 18, the resolution laying out guidelines for monetary policy. Normally I would oppose this, but this is not a normal period.

Extensive cutbacks in public utility capital outlays, because of inability to finance, are causing unemployment now and setting the stage for inability to sustain industrial expansion later because of limited power availability. A federal financing program is needed, and it would be an action helpful in the short run that would also be good for the long run. I would set an internal deadline of February 28 for a program proposal.

A further extension of unemployment compensation is clearly essential. The feasibility of an indefinite extension, tripped out later on a formula keyed to declines in the unemployment rates, should be explored. Again a program should be on your desk by the end of the month.

The generalized income maintenance program, and the rationalization of the welfare polyglot, would be a good part of the program. It would, of course, be a new program after a "no-new-program" edict, but changed conditions require changed policies. ("Consistency is the hobgoblin of little minds," observed Emerson.)

The economics people should have a vigorous (but not over-organized) program for keeping in touch with a few key people who have their fingers right on the pulsebeat—and who can often sense what later data will show. The head of the Purchasing Executives Association is an obvious example.

In summary, vigorous further action is urgently needed. It will require some unorthodox moves—moves that some of us in more normal times might not support. The emphasis should be on things helpful in the short run that also leave us better off in the long run—or at least programs that self-destruct after the short-run need is over. And I would urge laying down some quite short deadlines. The ponderous churning of normal agency processes is not consistent with the urgency of the current problems.

Regards,

Paul

Paul W. McCracken

The President
The White House
Washington, D.C. 20500