The original documents are located in Box C25, folder "Presidential Handwriting, 7/24/1975" of the Presidential Handwriting File at the Gerald R. Ford Presidential Library.

THE WHITE HOUSE

WASHINGTON

July 24, 1975

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: BILL SEIDMAN

FROM: JIM CONNOR

The President reviewed your memorandum of July 18th concerning your speech at the Dallas Rotary Club and made the following notation:

"Fine Speech - Get copy to Bob Hartmann and Paul Theis for information".

cc: Don Rumsfeld
Bob Hartmann - with copy of speech
Paul Theis " " "

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

July 18, 1975

TO DON RUMSFELD

FROM Bill Seidman

Attached per our conversation is a copy of my speech at the Dallas Rotary Club on July 16, 1975 summarizing economic policy.

I understand the New York Times will be having a meeting with the President to review the first year of his Administration. In that regard they talked with me about the speech, and the President may want to be familiar with it.

Fine speech. Sent copy to Bob H & Paul T. for info

L. WILLIAM SEIDMAN

Dallas Rotary Club
Baker Hotel
Dallas, Texas
July 16, 1975

I want to thank all of you for the privilege and the opportunity to speak to you today. Secretary Coleman asked me to convey his personal apologies. He was looking forward to being with you very much and is disappointed he had to cancel his appearance.

I'm impressed that this is the largest Rotary Club chapter in the nation. Its reputation as one of the best business forums in the country is well known, of course. I am pleased and honored to have the opportunity to talk with you about our country's economy. I'm not here to sell you but to tell you about the Administration's view of the economy.

Evidence is mounting that economic recovery is about to begin.

-- The inflation rate in the second quarter was under 6 percent, a great improvement over the year end rate of almost 14 percent.

-- The housing starts in May jumped 14.2 percent over the rise in April to an annual rate of over 1.1 million. The number of building permits also rose sharply for the second consecutive month to an annual rate of almost 1 million.

-- Again in May, there was a 1.4 percent advance in durable goods orders, the second successive monthly rise in this key indicator since last summer.

-- New capital goods orders also rose in May to $10.3 billion, up 0.6 percent from April.

-- Retail sales in May of $47.5 billion showed a gain of more than $1 billion on an annualized basis.

-- Unemployment continues far too high but seems to have stabilized at slightly under 9 percent (making allowance for statistical quirks). Unfortunately, past experience suggests that employment is the last area of recovery in a recession. Still, on the brighter side, employment is up over one-half million in the last 3 months.

-- The Department of Commerce index of leading indicators has been up sharply for the last 2 months.

-- The record inventory liquidation continued in May, with a further drop of $3 billion.

-- Industrial production is up for the first time in 8 months.

It is increasingly clear that the worst recession since the 30's was powered by the largest inventory accumulation in history which was fueled by INFLATION.

You may all remember the economic summit conference we had in late September 1974. At that time a great number of the country's leaders assembled to evaluate the economic situation. A huge inventory accumulation was under way -- and yet no one of the more than 800 leaders in industry, labor, economics really knew it. Our economic information system still needs real improvement.

I suppose the summit conference had one great benefit for the Administration and the Congress. It made it very difficult for those who attended to say, "I told you so" in later months -- they were already on the record.

The inventory accumulation took place in part because inflation made businessmen want to buy ahead and stock up when they realized prices were increasing and shortages abounded. The psychology of inflation hoarding was at its peak.

As my father used to say, you can never tell what the American businessmen will do, but you can reasonably forecast that they will do it all at once.

At the same time that inventories were building because of inflation, sales were falling because the consumer was being priced out of the market.

When businessmen saw this they curtailed production and began to liquidate inventories--and the sharp drop in economic activity occurred. In most places this reaction is nearing an end and a recovery can begin.

We think the time has come to determine the right way to prosperity. Prosperity must be defined in terms of jobs. We won't have real and total recovery until there are job opportunities for all. This goal necessitates that we create real long-term jobs in the private sector.

We believe the sound way back is to achieve a recovery that provides stable growth without inflation. Therefore, economic growth without inflation is our goal. Why the emphasis on without inflation? No one has answered this question better than Lord Keynes himself:

> "There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all of the hidden forces of economic law on the side of destruction, and it does it in a manner which not one man in a million is able to diagnose."

We believe a sound economic recovery depends on these kinds of basics:

-- Moderation in economic expectation.

-- Exercise of fiscal restraint by government in spending.

-- Increasing savings and capital investment.

-- Reforming regulatory policy.

-- Implementation of a program for long-range energy independence.

-- Increased economic freedom and opportunity for the individual citizen.

Moderation, restraint, savings, reform, and opportunity -- none of these are new concepts. They are the old virtues to which we must return for sound economic recovery. The question is whether each generation must learn by its own experience that the stove is hot.

Perhaps the most difficult thing for Americans to accept is a moderate approach. We want action NOW -- often without regard to the long-range effects. This attitude in the economic area has resulted in "stop-and-go" economic policy. We have overreacted, and then over-overreacted, all to the detriment of stability in economic activity. As my former professor, Paul McCracken, has said:

> "The greatest threats to a stable and orderly expansion are that, in these early stages, businesses will be too cautious, forced later then to scramble for materials and capacity, and that government will be too impatient and shortsighted, forced later to cool off an economy that should never have been overheated."

We must be moderate in our expectations and hold to a "steady as you go" course in economic policy. That is the Number One requirement for recovery with growth -- and without inflation.

Nowhere is the necessity of a moderate approach more clear than in government expenditures. In our democratic form of society, there is a tendency for government to try to do all things for all people. Politically this is attractive, but economically it is not feasible. The key to sustained recovery without inflation is to restrain unnecessary government expenditures. Without this, the roller coaster effect of highs and recessions, with accompanying unemployment, is a certainty.

The prediction of a British historian and author, Alexander Tyles, made just 200 years ago, is pertinent. He said:

"A democracy cannot exist as a permanent form of government, it can only exist until the voters discover that they can vote themselves largess from the public treasury. From that moment on, the majority always votes for the candidates promising the most benefits from the public treasury, with the result that a democracy always collapses over loose fiscal policy, always followed by a dictatorship. The average age of the world's greatest civilizations has been 200 years."

Let us hope the good professor's crystal ball is clouded in our case, while remembering that certain of his thoughts are close enough to the mark that they should make us very uncomfortable.

There have been Federal deficits in 13 out of the last 15 years. Clearly there are more to come, and it is a problem at all levels of government, not just in Washington. New York City, for example, has "achieved" expenditures which have risen at an annual rate of 15 percent during the last 5 years, while the corresponding growth in revenues has averaged only 7 to 8 percent. The predictable consequences of such a situation are now painfully evident in that city's current financial plight.

The current rate of increase in Federal transfer payments, that is, social security, food stamps, welfare payments, etc., if continued, will result in more than 50 percent of the GNP being spent for those receiving government benefits by the year 2000. The private sector would surely collapse under the burden of such public obligations.

Ultimately, there are still only three ways government can deal with its borrowing -- through repudiation, taxation or inflation. These are unpleasant alternatives, and they remind us debt is real even if it is the Federal government's obligation. Fundamental in our economic thinking, our Number Two requirement, is -- hold the line on government spending.

Next, we need to increase savings and capital investment to achieve an increasing standard of living and job opportunities for all Americans.

In order to grow, we need to improve productivity. But increased productivity requires capital, tools, equipment, plants, machines -- all the things that enable one man to accomplish the work of ten. Increased investments pay off in increased productivity.

Accumulating capital requires foregoing current consumption to ensure a more productive tomorrow. We have not denied ourselves the pleasure of consumption lately. As a result, our capital accumulation has fallen behind that of the other industrial nations. In addition, because of inflation, our accounting techniques simply have not shown the real depreciation of our industrial plant nor the drop in real profits of our enterprise which have occurred. Profits have been overestimated, and wear and tear and the cost of replacing plant and equipment have been underestimated.

My experience in the business world tells me that too many in business have been unwilling to change the pattern because it means lowering reported profits to the detriment of bonus plans, stock prices and pensions. This is an area where the private sector and my former colleagues in the CPA profession should, and have begun to, take the lead in requiring change. It is difficult for those of us in government to argue that profits are down when the businesses themselves, due to inflation, are reporting them up.

To emphasize the huge task ahead in providing capital, consider:

-- We need to create almost 10 million jobs by 1980 to maintain full employment, and the average investment per job is estimated to be over $40,000.

-- $4.5 trillion is the estimated capital requirement over the next 10 years compared with 1.5 in the last 10 years.

One of the possible answers to this crucial problem is increased equity investments by the middle-income group in our society (now about 1 in 3 households holds stock). We must find a way to make "capitalism" a matter of personal interest and achievement to many more Americans. Our search for ways to accomplish this will focus in the tax field. Tax changes will be suggested to increase the attractiveness of providing capital. The double tax on corporate profits and again on dividends will be a particular point of focus.

A good example of the kind of program that can help achieve broader ownership and increase the attractiveness of investment is contained in the President's Labor-Management Committee recommendation to speed utility construction. This recommendation, which the President endorsed, entails a complete tax deferral on all reinvested dividends. The utility stockholder would pay no taxes on dividends unless he sold his stock. This is the kind of incentive needed to increase people's interest in saving to purchase stock, and at the same time provide much needed equity capital to a vital industry.

Requirement Number Three, therefore, is more jobs through increased capital investment and broader capital ownership.

In order to unleash a vigorous economic recovery, we must reform the government's regulatory process. Government is now smothering the private sector. Unnecessary, unclear, and obsolete regulation costs the consumer huge amounts each year. Regulation should be cost-effective where concerned with social welfare in such areas as safety, health and environment. Regulation should be a last resort when it replaces competition as a regulator of prices. Too often regulation becomes protection for vested interests.

The Administration has required inflation impact statements by the Executive Branch to provide cost-benefit evaluation of proposed new regulations.

The President, within the last few weeks, has met with congressional leaders and independent agency regulators for the purpose of obtaining their cooperation in:

-- Improving and speeding their procedures.

-- Eliminating unnecessary rules and orders and providing increased responsiveness to consumer interests.

-- Making a cost-benefit study of their current activities.

-- Suggesting new legislation to reduce their regulatory roles.

This is a start toward the Number Four requirement -- reforming regulations. It will be a long term, continuing effort.

To assure a sound economic recovery, a long-range program to achieve energy independence is also necessary. Up to now, oil and natural gas have been our major energy sources. We must maximize our production and minimize our consumption of these vital resources. To this end, the President this week has ordered the decontrol of old oil over a 30-month period to provide incentive to save on its use and increase the amount of oil produced from old fields.

He has also proposed a $13.50 maximum oil price so that OPEC cannot control our internal oil prices. And he has proposed a windfall profits tax to avoid undue profits to the oil companies, with an applicable plow back provision to assure funds for finding additional oil sources.

Even with these measures we no longer can hope that domestic production of these two vital necessities will provide the energy for continued economic growth. An assured alternative energy source must be developed: from coal, the atom, and new, as yet unproven, alternatives, such as solar power.

We must build a vast new industry for the production of energy. Ultimately, it must make us the major energy exporter to the rest of the free trading world. Project Independence has as its goal making the U.S. a substantial energy exporter in the year 2000 through development of all resources now known and the discovery of sources as yet untapped. To create self-sufficient sources, industry may have to spend perhaps as much as $1 trillion. But if we continue to rely on insecure depleting foreign sources, we will have to absorb great cost increases -- increases which we have no means of controlling. Without independent sources, we and the rest of the economic world run the risk of cartel inflation of our principal economic resource -- energy -- and this could prove to be one of the greatest dangers to sound economy.

As President Ford said in his State of the Union message:

> "We must end vulnerability to economic disruption by foreign suppliers by 1985.
>
> "We must develop our energy technology and resources so that the United States has the ability to supply a significant share of the energy needs of the free world by the end of this century."

Action to plan and secure our energy needs is requirement Number Five for our future economic well-being.

Finally, the ultimate in returning to old virtues is the need to increase economic freedom and opportunity for each individual citizen. Freedom means finding a way to avoid the mass treatment of people by government, business and labor. Each citizen must have freedom to learn, move, earn and achieve as his individual right. Every step we take, private or public, should keep this overall goal in mind. This country is the world's greatest economic force because the individual citizen had a chance -- let's guard his opportunity.

So, may I repeat that, for recovery, we need moderation in economic expectation; government fiscal restraint; increased capital; reform of regulations; energy planning; and individual economic opportunity.

In contrast, we have been going in the wrong direction in these same areas: in our expectations, spending, capital savings, regulation, energy dependency, and our individual economic opportunity. At the start of our 200th year, we need to change direction in these important sectors.

As the President also said in his State of the Union message: "The moment has come to move in a new direction." So the new and old join. We need a new direction to return to the old truths.

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