The original documents are located in Box 4, folder "Conference on Inflation (1974) - Summary (3)" of the Ron Nessen Papers at the Gerald R. Ford Presidential Library.

The Housing and Construction Conference on Inflation

Summary

September 12, 1974
Atlanta, Georgia

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I. INTRODUCTION

The Housing and Construction Conference on Inflation convened in Atlanta on September 12, 1974. Assembled at the meeting were 81 delegates representing home builders, heavy construction contractors, material suppliers, organized labor, financial intermediaries, real estate brokers, state and local housing authorities, rural and urban housing groups, minority interest groups and environmental interests. Also included were independent consultants and a number of the Nation's leading academic authorities on housing. The Congress, co-hosts of the conference on Inflation along with the President, was represented by four Representatives and four Senators. Chairman of the Atlanta conference was the Secretary of the U. S. Department of Housing and Urban Development.

The following summary is a distillation of the views of the conference participants as presented in (a) 47 formal statements and position papers submitted both before and after the conference; (b) the tabulated responses to a questionnaire prepared for the conference by Louis Harris and Associates, Inc.; and (c) the oral statements and discussion during the conference.

The full text of each statement and position paper, the entire transcript of the conference and the tabulations for each question in the Harris questionnaire will be printed as a part of the complete report on the conference which will be available at Federal depository libraries throughout the United States and at the Department of Housing and Urban Development.

The position papers and the conference discussion, in general, focused on specific solutions to the present problems of the housing and construction sectors of the economy, although a significant number contained analyses of the general economic situation. But the most complete exposition of the conference participants' views on the general outlook was provided in their responses to the questionnaire, which 60 delegates completed and submitted for tabulation.

II. WHERE WE ARE AND WHERE WE ARE HEADED

A. General Economic Outlook

There was a virtual consensus among the delegates that economic conditions would stay the same or get worse in the year ahead. Most expected the annual rate of increase in the consumer price index to range between 8 and 12 percent in the last quarter of this year and to average 10 percent or less for all of calendar 1975. The representatives of organized labor, minority groups and those with special housing needs such as the poor, the aged and the handicapped were more pessimistic, anticipating an average rate of price increase as high as 15 to 18 percent in 1975. Nearly all viewed the rising prices of critical commodities, particularly of food and fuel, as one of the primary roots of the present inflation. Most also identified excessive Federal spending and insufficient growth of productivity as important sources as well, with the principal exception of labor and many of those representing the special housing needs groups. Excessive spending by state and local governments was identified by many, particularly delegates representing non-residential construction companies. The inflationary impact of government regulations that impede productivity growth also was cited by a significant number of delegates, particularly those in non-residential construction. Some of the delegates, mainly those representing financial intermediaries, cited an excessive rate of growth in the money supply as a major culprit. Excessive wage settlements were cited by most of the non-residential construction management delegates and most of the housing producers as well as by a few among the special needs groups and the educators and independent consultants. The labor delegates, a few of the special housing needs representatives and educators as well as a small minority of the housing producers cited excessive corporate profits as another significant inflationary factor.

With respect to unemployment, most expect an average of 6 percent or more of those seeking work in 1975 will go jobless. Most of the labor delegates, however, do not believe the rate will go above 7 percent. Most of the heavy construction contractors think the rate will stay below 6 percent. But many of the delegates representing special housing needs groups foresee an unemployment rate next year above 8 percent.

B. <u>Housing Outlook</u>

There was a clear consensus at the conference that inflation had a very serious impact on housing construction, that the current problems of the housing sector were rooted primarily in the high cost and limited availability of both construction loans and long-term mortgage funds, and that little easing in the credit situation was expected within the next six months. High prices for building materials and high construction labor costs also were identified as among the most serious problems confronting the housing sector by a significant majority of the questionnaire respondents--although none of the labor respondents identified labor costs as a problem.

A spokesman for the housing producers declared that the industry was in a depression because of "a collapse of land development lending, construction lending and inventory lending." The commercial banks, lending to real estate investment trusts, mortgage bankers or directly to builders had $20 to $25 billion committed to housing, he said. "The commercial banking system," he concluded, "cannot afford all the real estate it is about to own." Another delegate, representing a financial intermediary group, said that while credit crunches had caused problems for the housing industry many times in the past, "none of these have come 10 percent of the way in creating the problems we have today."

Nearly all the questionnaire respondents, with the exception of the educator-consultants, indicated that they expected housing starts in the fourth quarter of this year to average 1.3 million units or less on an annualized basis. Slightly more than half the respondents anticipated that starts for all of 1975 would exceed 1.3 million units but no one expected the rate to exceed 1.9 million units. The organized labor respondents were unanimous in the view that the rate would <u>not</u> exceed 1.3 million. The housing producers and lenders were more bullish on starts next year, with a significant number anticipating 1.5 million or more starts.

The Chairman of the Council of Economic Advisers, Alan Greenspan, summarized the bleak outlook for the housing industry in his briefing for the delegates at the start of the conference. The savings outflow from the thrift institutions, he said, was running in excess of $1 billion a month; correspondingly, loan commitments at savings and loan associations had been cut back at a faster-than-normal rate through the early summer, falling from $13 billion in April to less than $11 billion in July. Mortgage interest rates had risen to well above 9 percent in most primary markets. The backlog of unused building permits had declined by 15 percent from April to July and was now 27 percent lower than a year ago. He said it was difficult to believe housing starts will be much above 1.2 million units at a seasonally adjusted annual rate for the second half of 1974 and that any lasting recovery to the 2 million unit level would be thwarted until the rate of inflation has been reduced by several percentage points from current levels.

C. <u>Non-Residential Construction Outlook</u>

The outlook for non-residential construction described at the conference, while reflecting concern due in part to a rising number of public utility project cancellations, did not present the grave picture drawn for the housing sector. Inflation was viewed as a serious threat to non-residential construction by most, but <u>not all</u> of the delegates. A few of the financial delegates doubted inflation posed any threat to this sector. Organized labor, however, was unanimous in its alarm at the unemployment threat posed by large project cancellations resulting from high borrowing costs. Most of the delegates expected heavy construction expenditures in 1975 to run, in constant dollars, 5 to 10 percent below expenditures this year, with the labor and financial delegates expressing the most pessimism. But most of the delegates representing the contractors foresee no change or an increase, in constant dollars, of from 5 to 10 percent in expenditures next year.

The high cost of long-term borrowing and the limited availability of long-term public and private debt and equity funding on the capital markets were viewed by most of the delegates as the most serious near-term problems for non-residential construction. But the contractors expressed equal if not greater concern about the shortages of critical materials, high labor costs, and environmental restrictions and other government regulations that they consider impediments to greater efficiency.

III. WHAT SHOULD BE DONE: MAJOR SPECIFIC RECOMMENDATIONS OF PARTICIPANTS

Many of the delegates, particularly the financial delegates and those representing special housing needs groups, indicated that, given the right policies, they felt the rate of inflation could be kept to 6 percent or less next year. But almost all the delegates agreed that any meaningful effort to reduce the rate of inflation is likely to lead to an increase in unemployment. A majority indicated they felt it is possible to avoid increasing unemployment through proper handling of the fight against inflation. All the labor delegates and nearly all the delegates of the special housing needs groups expressed that view. But most of the housing producers and the financial groups represented disagreed.

The major specific recommendations put forward by the delegates are summarized here.

A. Macroeconomic Policies

1. <u>Reduce Federal Expenditures</u>. The recommendation to reduce Federal spending in order to take pressure off the capital markets was put forward more frequently in the statements, position papers and conference discussion than any other single proposal. The questionnaire confirmed that a significant majority of the delegates felt the projected deficit in the Fiscal 1975 Federal budget should be reduced through

spending cuts. There was virtual unanimity on this among the representatives of heavy construction contractors and financial institutions. Most of the housing producers also endorsed cuts. Few of the labor and special housing needs delegates agreed although they were evenly divided on the need for reducing the FY 1975 deficit. A significant majority of the delegates also felt the Fiscal 1976 Federal budget should be in balance, although most of the labor delegates disagreed. Nearly all who favored cutting fiscal 1975 expenditures felt it would result in lower interest rates and have a beneficial impact on housing construction.

One labor delegate said that balancing the Federal budget with cuts in spending is apparently "an all-seasons remedy." It was lauded as the cure for our worst price and business deflation in 1932 and 1933, he said, and is offered now for our worst peace-time inflation. "It was not a valid remedy then, and it's not a valid remedy today," he said.

Those who favored spending cuts were divided relatively evenly as to where the cuts should occur and this division carried across most of the categories of interests represented. Many favored more than proportional cuts in defense and foreign aid. This group included most of the housing producers and the special housing needs representatives. Somewhat fewer favored cutting all budget items proportionally and fewer still favored cutting domestic programs more than proportionally. Most of those who felt domestic programs should be cut most, singled out anti-pollution and welfare programs and agricultural and maritime subsidies as programmatic areas where greater than proportional cuts should occur.

One independent consultant suggested that top priority in spending decisions should be given to programs that "maintain or improve the real incomes of low-income households (who are hurt most by inflationary reductions in real incomes) and programs (or subsidies) that increase the productive capacity of the economy and employment simultaneously." Low priority, he said, should go to programs or subsidies that sustain the prosperity of particular industries in ways that raise prices to consumers.

2. <u>Increase Federal Revenues</u>. A minority among the conferees, which included almost all the labor delegates and most of the representatives of the special housing needs groups,

advocated increasing revenues largely as a way of avoiding expenditure reductions in domestic programs they regard as vital. One representative of a special housing needs group said, "I think it is going about it the wrong way to try to cut out programs which benefit one important segment of the American public." She suggested balancing the budget either by raising taxes, closing tax loopholes or putting on a temporary tax surcharge.

One independent consultant favored a tax increase because he viewed it as necessary to fight inflation. Monetary policy alone cannot stop inflation, he said, and budget cuts are largely rhetorical and will never be large enough to produce the necessary Federal surplus.

A majority of the delegates thought personal income taxes for those earning $20,000 or more were currently at about the right level. Most also thought corporate taxes were at the right level, although all the labor delegates thought they were too low, in line with their view that there should be an excess profits tax. Most felt that Federal excise taxes on gasoline were at the right level. All the labor delegates and almost all the educator-consultants and representatives of special housing needs groups thought personal income taxes on those earning less than $20,000 were too high but more delegates felt the level was about right.

3. <u>Ease Monetary Restraint</u>. Most of the delegates felt that current monetary policy was too restrictive. The representatives of labor, the housing producers and the special housing needs groups were virtually unanimous in that view. A joint statement submitted to the conference by 11 major housing producer and supplier groups declared, "it is dangerously foolhardy to pursue policies which, while designed to stabilize the economy, actually are destroying an essential element of the economy, and in the name of fighting inflation, in reality are helping to fuel it."

4. <u>Maintain Monetary Restraint</u>. Most of the delegates representing financial institutions counseled continued monetary restraint until the rate of inflation is brought under control, although they were part of a minority. The position paper submitted to the conference by an association of thrift institutions expressed a representative viewpoint: "The (Federal Reserve) Board of Governors should be encouraged <u>not</u> to relax its restrictive monetary policy too quickly, or pursue policies which will result in a rather substantial increase in money and credit until it is certain that the

'back' of the inflationary boom has been broken." An independent consultant said that interest rates should be maintained--or even raised higher--until they are effective in reducing the aggregate level of economic activity and thereby inflationary expectations. The Federal Reserve was inhibited from using its full powers against inflation, he said, by its fear of causing massive disintermediation from the thrift institutions. Addressing the problem of disintermediation with separate measures was therefore necessary, he said, in order to give flexibility to monetary policy.

5. Incomes Policies. More of the delegates favored monitoring wage, price and significant government decisions as a means of controlling inflation than any other incomes policy device. Few favored mandatory wage and price controls. Most of those who did were educators-consultants or delegates of the special housing needs groups or housing producers. More favored a voluntary trade of tax reductions for workers in return for adherence to rigid wage guidelines, particularly some of the housing producer and non-residential construction groups. Still more favored voluntary guidelines for price, profit and wage increases, particularly housing producers and financial groups. The labor delegates said during the conference they did not favor any incomes policy device, although one preconference paper submitted by a labor delegate expressed some sympathy for the need to face up to the imposition of controls if inflation is to be controlled. That paper and one other submitted by a labor delegate made it clear, however, that labor would tolerate controls only if they were equitable and covered all income claims in the economy. "Controls cannot take the form of a tourniquet on wages and a band-aid on prices," declared one of the labor representatives.

B. Policies and Programs to Assist Housing Construction

Although a wide variety of proposals put forward were aimed at providing specific aid to housing, three categories of recommendations had the broadest support in the conference: (a) additional direct Federal assistance to the mortgage market; (b) selective credit controls, or credit allocation; and (c) a tax exemption or tax credit for interest earned on savings deposits. Summaries of the proposals in these three areas, and others, follow:

1. Direct Federal Mortgage Market Assistance. A significant majority of the delegates thought it would be advisable for the Federal Government to borrow, or assist in the borrowing (by guarantee, purchasing and selling mortgages, subsidizing re-lending rates, etc.) of additional funds for housing beyond that contemplated by current programs, assuming little

or no change in monetary policy and assuming no new governmental restrictions on capital market demand from other sectors. Most of the independent consultant-educator delegates thought this would not be advisable, offering the primary source of dissent, along with a significant proportion of non-residential construction delegates. There was little agreement, however, among those who favored it as to what level of borrowing over a one-year period would be of material assistance yet would not have a material upward impact on capital market interest rates. The biggest proportion felt that borrowing between $5 billion and $10 billion would meet this requirement.

Many, particularly among the financial delegates, felt that more than $10 billion could be borrowed. But some, mainly among the educator-consultant delegates, felt that any amount of borrowing would lead to higher interest rates.

The joint statement by the 11 home producer-supplier associations urged that the special assistance program of the FHLMC be expanded. Specifically, enactment of the Senate version of HR 11221 providing an additional $2 billion in borrowing authority for the Home Loan Bank System was urged. The associations recommended that a similar program be established in the Federal National Mortgage Association to assist those lenders it normally deals with such as mortgage bankers and insurance companies which cannot deal directly with FHLMC.

There was a debate in the conference on the wisdom of burdening the capital markets further through additional agency borrowings to assist housing. One position paper submitted by a financial delegate expressed doubts about the stimulative impact of the Administration's direct mortgage assistance actions in 1974 and, by implication, the advisability of expanding such assistance. "Federal housing programs should be geared toward strengthening the private sector's overall capacity to provide residential mortgage credit, while directing its direct spending programs to areas where private investor participation is not feasible," said the delegate.

A university economist delegate, in a preconference paper, argued that those who urge that the Federally-sponsored credit agencies be cut back because of the pressure their borrowing places on the capital markets have failed to recognize the inflationary impact of further housing cuts. He said the agencies were a new type of financial intermediary whose purpose is to channel existing savings to areas of vital needs.

2. Credit Allocation. The labor, housing producer and special housing needs delegates were the principal advocates in conference papers and discussions of various forms of credit allocation. A labor delegate in a position paper said that as long as monetary policy remained the sole means of credit regulation, it is necessary to have a selective monetary and credit allocation policy giving priority to housing and other vital national needs. Mortgage rates are high, explained a university economist delegate, in a preconference paper, because other borrowers have better access to credit, which they have gained not on the basis of social or economic worth but through tax laws, past financial regulations and other types of market limitations. "If the decision is to stick with a monetary policy setting credit supplies far below demand," he said, "these supplies of credit can be distributed in a far less inflationary way by use of a more selective system."

   The joint statement of the 11 homebuilder-supplier associations advocated enactment of legislation specifically authorizing the Federal Reserve Board to establish variable asset reserve requirements for different categories of loans by commercial banks, thereby lowering those on assets invested in mortgages and encouraging the shifting of funds into housing loans.

   Another approach, proposed by a university economist, would require the largest users of credit to be licensed so that any increase in their borrowing for non-priority uses would have to be paid for by a sizeable added license fee.

   The Federal Reserve Board and the nation's commercial bankers historically have opposed credit allocation on the grounds that it substitutes the decisions of government agencies for the allocation decisions of the marketplace which they regard as more efficient. A delegate of the commercial banks said that "such compulsory credit allocation schemes would not efficiently channel funds toward socially important areas."

3. Tax Exemption or Tax Credit for Interest Earned on Savings. This proposal was advocated by most of the financial and housing producer delegates. It was put forward in a substantial number of the position papers. Several variations on the proposal were advanced but the most frequent one was a tax exemption on the first $1,000 in interest or dividends earned from savings accounts in thrift institutions, credit unions or commercial banks. A credit or exemption on some unspecified portion of the interest on savings was endorsed by the 11 homebuilder-suppliers associations in their joint statement at the conference.

One thrift institution economist estimated the revenue loss from $1,000 exemption would be about $2 billion and "is probably less than the cost of a direct subsidy program to housing, through an expanded GNMA/FNMA tandem plan, subsidized Federal Home Loan Bank advances to savings institutions, and/or other direct subsidy programs which may be adopted if the housing crisis worsens."

Another financial intermediary delegate proposed a tax exemption on all interest earned on the lowest-rate passbook savings accounts. He estimated the revenue loss at $3.1 billion, assuming an average 25 percent tax bracket for savers. He argued that the exemption would stimulate construction of at least 250,000 new housing units which would generate sufficient new revenues to balance the loss due to the exemption.

Opposition to the tax exemption for savings proposals was expressed by a university economist delegate who said, in the conference, that they help the affluent at the expense of the moderate and low-income groups and that he believed they would be inefficient at attracting new savings into the mortgage funds system, the basic objective.

4. Minimum Denominations of $10,000 for U.S. Treasury and Federal Agency Obligations. The associations representing the thrift institutions contended at the Conference that recent offerings of low denomination Treasury obligations have aggravated disintermediation at thrift institutions and contributed to the shortage of housing credit. The statement of the delegate of one of the financial intermediary groups was representative. He said: "There can be little doubt that recent Treasury offerings of low denomination obligations have resulted in serious dislocations, aggravating disintermediation of thrift institutions and the shortage of housing credit."

5. Increased Federal Savings Deposit Insurance. The Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation now insure savings accounts up to $20,000. Representatives of the thrift institutions at the Conference argued that because of the long-term increases in the average size of deposit accounts and also because every dollar invested in Treasury bills, notes, or bonds is guaranteed by the Federal Government, deposit insurance should be increased to $50,000 in order to blunt this as a factor in disintermediation.

6. Mortgage Investment Tax Credit. The 11 home producer-supplier associations in their joint statement, along with some of the thrift institution associations, advocated a mortgage tax credit for investors in residential mortgages but without any change in the present tax incentives enjoyed by thrift institutions with respect to their bad debt reserves as proposed in the Financial Institutions Act pending in Congress. A home producer group, in a preconference paper, explaining the industry's support for the proposal, said: "The existence of a mortgage tax credit, scaled upward in proportion to the extent of the assets of the investor invested in residential mortgages should have a beneficial effect on the availability of funds for residential mortgage lending. It would encourage insurance companies, commercial banks and other potential lenders to put their funds into residential mortgages and to leave them there during times of monetary restraint." One thrift institution group, however, said the proposal needs further study because there are too many unanswered questions with respect to its impact.

7. Deposit Interest Rate Ceilings With Meaningful Differentials Favoring Housing Lenders. The thrift institutions associations declared that changes in Regulation Q ceilings adopted on July 5, 1973 triggered a major shift of funds away from mortgage oriented institutions to commercial banks because the previous 1/2 point interest rate differential between the thrifts and commercial banks was cut to one fourth of a point. An economist for one of the thrift associations reported in a preconference paper that savings deposit growth increased by 20 percent at commercial banks in the 12-month period after the regulatory changes while deposit growth at the thrifts during the same period declined--by 43 percent at savings and loan associations and by 66 percent at mutual savings banks. A delegate representing a thrift group said that the differential, over the years, had helped to moderate the feast and famine nature of the home financing markets.

8. Special Certificates with Tax Deferral Privileges. The savings bonds issued by the Treasury Department provide a tax-deferred feature, but this is prohibited to financial institutions by the Treasury's Original Issue Discount Bond regulation, said a statement submitted by one of the financial delegates. He declared that there are many people who would place funds in a tax-deferred account in a thrift institution. Such an account would provide a flow of longer-term funds into the thrifts providing an additional source for home mortgage investments.

9. Tax and Loan Accounts. One delegate representing thrift institutions urged a change in Treasury Department policy to permit tax and loan accounts to be deposited with thrift institutions as well as commercial banks, where they are now deposited exclusively and at no interest cost. The delegate estimated that between $7 and $10 billion is on deposit in these accounts at all times. He suggested that the thrifts be permitted at a minimum to credit the withholding taxes of their own employees for transfer to the Treasury on call.

10. Temporary Variable Savings Subsidy. One independent consultant proposed a temporary variable savings subsidy as a way of dealing with disintermediation. It would provide funds to permit thrift institutions to pay rates on marginal deposits that would be competitive with rates on new Treasury securities.

    In this proposal, as an example, for every $1 billion in Treasury bills or notes issued at some spread above the basic cost of money to thrift institutions, the Treasury would make available to thrifts a subsidy equalling $1 billion times the difference between the actual rate on such Treasury securities and the thrift institutions' basic cost of money. This subsidy would enable the thrifts to issue new certificates to savers paying a high rate of interest in the same total amount as the volume of the high-rate Treasury issues. Thus funds for those Treasury issues would not be raised through net withdrawals from the thrifts, yet the cost to them of preventing such withdrawals would not rise so high "as to imperil their security." Each institution would be allowed a subsidy equal to its fraction of all deposits in all such institutions as applied to the national subsidy total.

11. Pension Fund Investments. The joint statement of the 11 home producer-supplier associations advocated legislation encouraging pension funds, as a condition for continuing tax exemptions, to invest more of their funds in residential mortgages and mortgage-backed securities. There are reportedly $140 billion in pension reserves currently.

12. Variable Rate Mortgages. This proposal had broad support from the financial intermediary groups represented at the conference, both among the thrift and the commercial bank groups. Such instruments would allow the interest rate on outstanding mortgages to rise and fall with the general level of interest rates. One commercial banker said: "This might encourage banks and other lenders to make more mortgage loans, since they would not be frozen into a portfolio of low-rate outstanding mortgages when interest rates rise."

An economist for one of the thrift groups said in his pre-conference paper that while variable rate mortgages would not alleviate the current crisis, "they may be helpful in averting future crises." The variable mortgage contract, he said, could eventually correct the structural imbalance which impedes the ability of thrift institutions to compete in a high interest rate climate because of the sluggishness of earnings on their long-term mortgage portfolios.

13. Restructuring Financial Institutions. There appeared to be agreement, in principle, on the need for some reshaping of the Nation's financial institutions following the basic outlines of the Administration's pending Financial Institutions Act (S. 2591). One thrift group delegate told the conference that if the reference in S. 2591 to the phase-out of Regulation Q ceilings is deleted along with a proposal in the bill for eliminating the bad debt reserve allocations authorized for the thrifts, the thrift institutions would support the reform bill. A commercial banker delegate said "the main thing to attack is the structure of the financial services business, which I think is in need of overhaul." He said the financial service business is too compartmentalized and fractionalized with the consumer getting a low rate of interest if he is a small man and a high rate if he is affluent. Housing suffers, he said, because it must rely on a narrow sector of the financial services industry.

14. Revitalizing FHA. One financial delegate urged legislative action reconstructing the Federal Housing Administration as an independent Federal agency.

C. Policies and Programs to Assist Those Lacking Adequate Housing

The delegates representing those with special housing needs as well as the housing producer groups advocated immediate implementation of the sections of the Housing and Community Development Act of 1974 providing direct housing subsidies.

A delegate representing a major low- and moderate-income housing group, called for emergency actions in the area of subsidized housing. He recommended that HUD immediately commit all available funds for the Section 235, Section 236, Section 202, Section 8 and conventional public housing programs.

Another special housing needs group declared in a preconference paper: "We need a balanced housing program--balanced in terms of housing needs. This means priority for low income housing and for rural housing, and particularly, attention to the housing needs of the elderly."

Another delegate, referring to the needs of the elderly, said: "Older people need today some dignified housing and rentals at prices they can afford. Now, such housing cannot be obtained at current costs for older persons without subsidies."

A delegate, in a reference to the unmet housing needs of Indians, urged the immediate funding of specific set aside authority in the 1974 Housing Act for public housing for Indians.

D. Policies and Programs to Assist Non-Residential Construction

1. Environmental and Safety Standards Enforcement Procedures. One delegate from a field closely allied to non-residential construction said in his preconference paper that the effect of many otherwise commendable legal and administrative regulations was to add incrementally to production costs. The delegate singled out building codes, zoning and subdivision regulations, environmental impact statements and regulations required by the Occupational Safety and Health Act (OSHA). Like many other delegates in the non-residential construction field, he particularly objected to the way that the regulations and standards were administered. Speaking of OSHA, for example, he said that the standards themselves "are only marginally inflationary. They probably represent supportable trade-offs between improved quality and price. Where regulatory inflation really hurts is not in the standards promulgated. It is in the costly and unproductive prolongation of approval time for the administrative review designed to achieve these standards."

   A construction association representing companies that account for nearly 40 percent of the dollar volume of industrial construction said in a preconference paper that "overly stringent and frequently capricious or malicious application of environmental protection regulations" along with the application of "costly and unrealistic safety regulations" under OSHA were factors in the inflationary situation.

   Delegates from environmental groups declared that the environmental legislation now on the books was sound and urged that it be continued, but they conceded that contractors have "a legitimate complaint" as to the delays that result in being certified on the standards. One construction delegate said he was not asking for a relaxation of controls but sought a way of meeting the standards "without the elaborate approval procedures which add to the cost because of the delay." He suggested a system of self-enforcement and spot checks such as that utilized by the IRS.

2. Davis-Bacon Act. There was sharp disagreement on the impact on the economy of the Davis-Bacon Act. A large contractors organization, in a preconference paper, declared that the Act "is a serious contributing factor to inflation." "The Act," said the group, "limits true competition in the construction industry," and called for its repeal.

   Another construction delegate in discussion urged immediate suspension and ultimate repeal. Citing a GAO study of Davis-Bacon, he declared that the Federal Government had paid $9 billion in excess costs on 29 major construction projects over the past decade because of maladministration of the Act.

   A labor delegate called the analysis "totally inaccurate." He said that "the Davis-Bacon Act says that the contractor will pay the wage prevailing in the area, and if it is a union wage that prevails here, that will be the wage paid. If there's a lower wage rate prevailing in the area, that will be paid." Another labor delegate said, "It was our hope that this meeting would prove to be constructive and not be used as a platform to amputate some of labor's hard-won and long-standing rights." A third labor delegate argued that cutting every union construction worker tomorrow by 10 percent would have less impact on inflation in the construction industry than if interest rates were to drop by 1-3/8 percent.

3. Construction Industry Stabilization Committee. Several major contractor groups strongly recommended the establishment of a committee to deal exclusively with collective bargaining agreements in the construction industry somewhat along the lines of the discontinued Construction Industry Stabilization Committee (CISC). Another contractors group, in calling for revival of the CISC, said complimentary "reimposition of price controls on suppliers would be intolerable." The CISC, said one delegate, could promote better management and labor relations in the industry. A labor delegate said the original CISC worked well in holding wages down in the construction industry but only because of the cooperation of its labor members. He suggested that if progress were to be made in restructuring collective bargaining through such a group, changes in present law would have to be considered to permit international unions to intervene in local collective bargaining for the purpose of providing guidance.

4. <u>Federal Office of Construction</u>. Both labor and management groups in non-residential construction cited the need for a Federal officer or agency on construction which could gather data in one place that could assist in developing more reliable projections of long-run construction manpower requirements at local or regional levels. The industry is plagued by a chronic imbalance between labor supply and demand. Construction employers, however, would place such an office or agency in the Commerce Department, whereas labor would prefer it to be an independent agency.

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HOUSING AND CONSTRUCTION CONFERENCE ON INFLATION

AGENDA

<u>September 11, 1974</u>

6:00 p.m.	Reception and Dinner -- Atlanta Ballroom
<u>September 12, 1974</u>	Conference - Georgia Room
8:00 - 8:30 a.m.	Briefings by the Council of Economic Advisers and the Office of Management and Budget on the state of the economy, the problem of inflation and Federal budgetary issues.
8:30 - 10:15 a.m.	General discussion and questions on CEA and OMB presentations and general discussion on the overall state of the economy and the problem of inflation. Some issues to be covered:

A. How much of a problem is inflation

1. to business?
2. to labor?
3. to the poor?
4. to individuals on fixed incomes?
5. to government in general?
6. other

B. Causes of inflation

1. government spending?
2. excessive credit availability?
3. costs and scarcity of critical materials, expecially food and oil?
4. excessive profits?
5. excessive wage settlements?
6. international forces?
7. other

C. Possible solutions

1. Federal budget cuts? where? any increases?
2. balanced Federal budget?
3. changes in Federal taxes? further tax incentives or deterrents?
4. encourage productivity?
5. changes in governmental regulations (Federal, State, Local) to increase productivity, e.g., changes in environmental protection regulations?
6. Federal monitoring and publication of the economic impact of price and wage decisions and related government decisions?
7. price and wage controls, guidelines, or private incentives?
8. other

10:15 - 10:30 BREAK

10:30 - 12:45 Inflation and the housing industry. Some issues to be discussed, including suggested short-term and long-term solutions:

A. state of and prospects for the industry
B. availability and cost of credit
C. availability and cost of materials, land and labor
D. effect of government regulations such as land use and environment (Federal, State, Local)
E. special problems of the poor and minorities
F. other

10:30 - 11:00 Housing Producers Panel

11:00 - 11:30 Housing Finance Panel

11:30 - 12:00 Organized Labor Panel

12:00 - 12:30 Special Housing Needs Panel

12:30 - 12:45 General Discussion

12:45 - 1:45 Lunch - Atlanta Ballroom

1:45 - 3:45	Inflation and the construction industry other than housing. Some issues to be discussed, including suggested short-term and long-term solutions: A. state of and prospects for the industry B. availability and cost of credit C. availability and cost of materials, land and labor D. levels of government spending programs (Federal, State, Local) E. effect of government regulations such as land use and environmental (Federal, State, Local) F. other
1:45 - 2:30	Construction Producers Panel
2:30 - 3:00	Construction Finance Panel
3:00 - 3:30	Organized Labor Panel
3:30 - 3:45	General Discussion
3:45 - 4:15	BREAK
4:15 - 5:30	General Discussion/Summary

HOUSING AND CONSTRUCTION CONFERENCE ON INFLATION

Atlanta, Ga., September 12, 1974

CHAIRMAN

James T. Lynn
Secretary of the U.S. Department of Housing and Urban Development

CONGRESSIONAL PARTICIPANTS

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E

The Agriculture and Food Conference on Inflation

Summary

September 12-13, 1974
Chicago, Ill.

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SUMMARY OF DELEGATE PRESENTATIONS

The Agriculture and Food Conference on Inflation was held in Chicago, Illinois, September 12-13. The main business of the Conference was discussed under five subject matter divisions.

The following is a summary of the delegate positions under those five segments.

Main Causes of Inflation

With a few exceptions the delegates agreed that there is no single cause of inflation; the causes are complex and change over time. For example, many of the delegates pointed to the "guns and butter" inflation during the late 1960's as being different from the recent increases in food and energy prices due to worldwide crop shortages and the oil embargo.

Many of the delegates said that inflation results from the money supply and expectations increasing faster than the supply of goods.

What are the factors leading to the faster increase in the money supply and expectations?

1. Government budget deficits were listed by practically every delegate as a cause. It is an outgrowth of governmental promises increasing faster than the taxes needed to cover the cost.

2. The increase in the supply of money--more rapid than the increase in output--was listed by practically every delegate as a cause of inflation. The easy monetary policy of past years along with easy credit practices of banks and retail firms were cited by a number of delegates as leading to a sizable and rapid increase in consumer credit, thus making more dollars available to chase available goods.

3. Expected continuation of inflation by consumers and businesses was listed by a large majority of the delegates as a cause of rising prices.

4. A majority of the delegates listed increased world demand and devaluation of the dollar as factors increasing the money chasing after goods.

5. A number of delegates cited the lack of effective competition to act as a brake on wage and price increases. They said that the concentration of economic power in some business firms and in some unions enables them to escape the discipline of market competition, thus making more dollars available to chase existing goods. Fair trade laws, federal rate setting, and similar measures diminish competition.

What did the delegates conclude as the reasons for the lagging supply of goods?

1. Many of the delegates mentioned drouths and floods with the resulting effect on food supplies and food price increases during the last two years.

2. Delegates mentioned foreign political and economic actions which have led to a relative shortage of imported goods. A well-known example is the recent oil embargo.

3. Other factors cited as causes of low productivity or low production were:

   a. The lack of sufficient capital investment in the past in productive capacity.

   b. The development of a more service-oriented economy, where it is more difficult to increase productivity.

   c. Past wage and price control programs, which distorted the economic signals for desired production. The fear of reimposition of controls was also cited as leading to higher prices.

   d. Concentration of economic power in certain industries and labor unions, used to restrict production.

   e. Among government regulations or programs listed were tariff and nontariff barriers, subsidies, regulation of transportation, and environmental and safety regulations which raise production costs without increasing output.

It was suggested that the change in the values of United States society has contributed to inflation. The suggestion was made that a vast majority of the people think they are entitled to a "larger slice of the pie" than was true in the past. This feeds on itself as industries, unions, politicians and the government "over promise."

Main Consequences of Inflation on Agriculture, Farming and Food

Delegates summarized the impact of inflation on agriculture and food in this way:

1. Land. Inflation leads non-farm investors to purchase land as an attractive hedge against inflation. This raises land prices, production costs and taxes unreasonably for farmers who must make their living from the land. It also makes it very difficult for young people to get a start in farming.

2. Operations. Inflation runs farm production costs up faster than market sales. The top-heavy production costs make farmers extremely vulnerable to drouth, diseases, or a drop in prices. The cost-price squeeze reduces agricultural output.

3. Institutions. Inflation increases the cost of operating local units of government just as it does a farm or business. Each increase in the cost of employing a teacher or policeman, and the higher cost of building a courthouse or a highway, must be paid in part by farmers in the form of higher local taxes.

4. Farm and food related businesses. Cost of credit has risen dramatically. This increases costs for both farmers and for processors and merchants to carry inventories. Food costs will continue to rise even if farm prices fall--many farm prices are below levels of a year ago--simply because processing and distribution costs are faced with escalating costs. Three-fourths of the increase in consumer food costs in 1974 have come after the food leaves the farm. Rising costs make it more difficult for businesses to bear the cost of installing pollution control equipment. Inflation jeapordizes employee retirement programs and makes it difficult or impossible to carry rates of depreciation that will cover the costs of replacing buildings and equipment.

5. Structure. Small farmers and smalltown businessmen are hard hit by inflation. They do not have the volume to spread rising costs over more acres or over more customers. This hastens the demise of the small operator.

6. Efficiency. Inflation upsets long-range planning. Leads and lags produce booms and busts. The relation between cash markets and futures markets are disrupted and expectations are affected. Planning is sometimes done to beat inflation, not in the best long-run interests of running an efficient operation.

7. Consumers. Everyone consumes. Rising costs of food erode the security of the middle class and greatly affect the diets and lifestyles of the poor and those on fixed incomes. Since food is a necessity, and since food prices are so visible, the psychological impact of a rise in food prices is greater than for the price increases of many other products. For some, there are no holes left in their belts for further tightening.

Government Policies and Actions to Control Inflation

Most delegates agreed that an essential ingredient in the control of inflation is action to moderate "inflationary expectations." This requires government action to protect the dollar from further erosion. It calls for realism on the part of individuals, and statesmanship from leaders of industry, unions, and government.

There were conflicts in the recommendations. This leads you to conclude that if inflation is to be controlled, most groups will have to compromise and postpone the achievement of some long-cherished goals.

The prevailing view was that inflation is the result of the money supply increasing faster than the supply of goods. It follows, then, that the delegates felt that deficit spending by the federal government is the major cause of inflation and the place for anti-inflation measures. Most delegates agreed that we need to restrain government spending; somewhat fewer numbers supported restrictive monetary policies.

Some favored reducing the federal deficit in fiscal 1975; others would balance the federal budget in fiscal 1975; others said we should make a start in 1975 and achieve a balanced federal budget in fiscal year 1976. Some would raise taxes; some would impose special taxes, such as an excess profits tax, an anti-inflation tax, or increased excise taxes to discourage consumption of energy. The number suggesting tax reductions far exceeded the number calling for tax increases.

Those who believe in balancing the budget and continuing monetary restraints, in general opposed wage and price controls. Some felt that wage and price controls would have a temporary value, but there was great concern about the disruptive effects of such controls.

There was some sentiment that "unrestrained market power" creates an inflationary bias in our economy that cannot be combatted solely by monetary and fiscal policies. Those who take the "unrestrained power" view are more receptive to wage and price controls, particularly to restrain the excessive use of discretionary power. They argue for an easier monetary policy and a comprehensive price and incomes policy.

There was a wide feeling that competition should be encouraged as a general policy to keep margins within normal ranges.

Most of the delegates were opposed to export controls on agricultural products. Some favored removing quantitative restrictions on imports of agricultural commodities. Some mentioned that countervailing duties should be used to protect domestic producers from subsidized import competition. The threat of export controls itself leads to excessive buying and creates an artificial demand leading to higher prices.

Many delegates asked for tax reforms to increase investment in plant and equipment and to increase the incentive for savings and private investments.

A number of delegates mentioned the restrictive nature on productivity of some government regulations. They mentioned the high cost of meeting some pollution and safety regulations, feeling that there needed to be a better review of cost-benefit ratios. Some felt that government regulations on transportation should be revised to reduce the cost of moving foodstuffs.

Suggestions were made to terminate the legal authority for income payments to farmers and to replace disaster payments with an expanded, actuarially sound crop insurance program. Others think that government farm loan rates should be increased as part of a comprehensive supply-management program.

There is general agreement that a high level of farm production is needed.

Most delegates were opposed to government-controlled food reserves. They felt that this would be costly and counter-productive.

It was felt that once it was clear that government spending would be cut enough to curb inflationary pressures, then the economy would begin to heal itself. Inflationary expectations would disappear. Businesses and consumers would no longer feel they had to buy ahead to avoid rising prices. Labor unions would be more willing to relate wage settlements to productivity. Interest rates would fall and new investments would be made to increase the rate of productivity increase throughout the economy.

Actions in the Private Economic Sector of Agriculture, Farming and Food to Control Inflation

What did delegates think farmers and the food industry itself could do to help control inflation?

1. Increase productivity. This recommendation was the one made most often. Suggestions for how to do it included: (a) create an economic and political climate conducive to maintaining a vigorous, competitive, private enterprise system; (b) cut production costs; (c) enact programs that help insure farmers against loss from expanded production; (d) increase research that will improve production in food.

2. To reduce costs, delegates suggested that we should: (a) reduce the wasteful variety of containers, particularly the number used in marketing fresh fruits and vegetables; (b) stop the proliferation of new models of machinery while stocking more replacement parts; (c) stress efficiency practices, such as minimum tillage to save fuel and herbicides; (d) adopt prudent and cautious purchasing practices to replace the current shortage environment practice of buying all you can get regardless of price, and (e) negotiate more efficient labor practices by assuring workers they will not lose their jobs by adopting more efficient methods.

3. In the livestock sector, delegates suggested: (a) encourage production and feeding of more roughage; (b) change meat grades to permit less marbling, and thereby reduce feeding costs, and (c) reduce transportation costs through central breaking of beef carcasses and vacuum packing of subprimal cuts.

4. Delegates suggested consumer education to: (a) help consumers get more nutrition per dollar; (b) get people to accept a lower rate of economic growth that will keep human expectations and desires from outrunning our resources and ability to produce; and (c) get consumers to bring their power to bear on government, unions and management to eliminate inefficient regulations and work rules and to reduce costs.

5. In the fuel and fertilizer sector, delegates suggested: (a) change federal regulations to encourage production of nitrogen fertilizers, and (b) work with the fertilizer industry to develop a voluntary program that would shift about half the 3 million tons of fertilizer now used for non-agricultural purposes back into the production of food and fiber in 1975.

Policies and Practices in the Private Non-Agriculture and Non-Food Sector to Control Inflation

Improved productivity in the private sector is the key to reducing inflation, the delegates agreed.

They generally felt that wage and salary increases that exceed productivity gains clearly contribute to inflation.

Suggestions were made that crippling strikes should be avoided, at least during inflationary periods. It was felt that feather-bedding should be eliminated. Affected workers should receive reasonable consideration, but not forever.

The abilities of too many individual workers are under-utilized, it was felt. Improved incentive systems could help tap this vast resource -- compensation based on the quantity and quality of work produced. In addition, job enrichment offers major opportunities for increased productivity.

It was suggested that American industry should install efficient methods, plants and equipment. It is in the interest of workers and consumers, as well as business, that the private sector be permitted to earn satisfactory profits to be able to continue to provide modern plants and equipment.

Other suggestions: Companies should maintain continuing studies of inventory requirements aimed at decreasing working capital requirements. It might be fruitful to have a vigorous National Commission on Productivity to study and publicize possibilities for improving productivity.

It was felt the transportation industry needs to do more in the battle against inflation. Better utilization of existing equipment would help overcome the shortage of equipment. Rates that allow products for export to be transported more cheaply than the same products being transported for domestic use could be eliminated. And railroads could be permitted to abandon service where continued operation will not cover variable costs.

In the energy field, conservation offers opportunities for fighting inflation. Using the lowest cost combination of resources to produce a given product may include a smaller amount of energy than was the case when energy prices were lower. Some companies might benefit by switching to a different source of energy. In any case, it was suggested that it would be desirable for every organization to appoint one individual or department to study company energy requirements and possible conservation measures.

Capital expenditures represent another major area of concern over inflation. It was suggested that with the high interest rates, capital expenditures should be deferred if new plant or equipment costs appear to be out of line. Companies should concentrate new capital investment in areas that will improve productivity. Along the same line, as desirable as environmental, health and safety standards might be, implementing them should be done on a gradual basis without requiring enormous new capital requirements during a high inflation period--unless there is an offsetting increase in productivity.

Finally, there were these recommendations:

* The President should formally appeal to everyone to make specific anti-inflationary sacrifices.

* The private sector should combat inflation by expanding output rather than by decreasing consumer demand.

* Basic resources should be more carefully utilized.

* Fair Trade Laws that fix product prices should be examined.

* Advertising which urges consumers to buy today because prices will be higher tomorrow should be discouraged.

* Automatic cost of living increases in labor contracts, and automatic escalation clauses for rental property and other products and services should be examined to see if the long-run costs may outweigh the short-run benefits, even for the individuals involved.

AGRICULTURE AND FOOD CONFERENCE ON INFLATION

PROGRAM

September 12 5:30 p.m. - 9:40 p.m.

Dinner Chairman: Secretary of Agriculture Earl L. Butz

5:30-6:00	Cash Bar	Philadelphia Room
6:00-7:00	Dinner	Salons No. 5 and 6
7:00-7:10	Conference Charge - Salon No. 4	Secretary Butz
7:10-7:30	State of the U.S. Economy	Gary Seevers
7:30-7:40	Discussion	
7:40-8:00	The Federal Budget	Frank Zarb
8:00-8:10	Discussion	
8:10-8:20	Break	
8:20-8:40	The USDA Budget	Joe Wright
8:40-8:50	Discussion	
8:50-9:00	Inflation as Seen by the Senate	Sen. Walter Huddleston
9:00-9:05	Discussion	
9:05-9:15	Inflation as Seen by the House	Cong. W. R. Poage
9:15-9:20	Discussion	
9:20-9:40	Comments at Large	

MARRIOTT MOTOR HOTEL
Chicago, Illinois

PROGRAM

September 13 Forenoon 8:00 a.m. - 11:25 a.m.

Chairman: Congressman John B. Anderson Boston-Dallas Rooms

8:00-8:05	Agenda and Procedures	Cong. Anderson
8:05-8:15	Viewpoints from the Senate	Sen. Stevenson
8:15-8:20	Discussion	
8:20-8:30	Viewpoints from the House	Cong. Wampler
8:30-8:35	Discussion	
8:35-8:45	Viewpoints from the Senate	Sen. Talmadge
8:45-8:50	Discussion	
8:50-9:10	Summary: Main Causes of Inflation	R. J. Hildreth
9:10-9:35	Discussion	
9:35-9:50	Coffee Break	
9:50-10:10	Summary: Effects of Inflation on Agriculture, Farming and Food	L. L. Boger
10:10-10:35	Discussion	
10:35-10:40	Stand Up Break	
10:40-11:00	Summary: Government Policies and Actions to Control Inflation	William Kuhfuss
11:00-11:25	Discussion	
11:30-12:00	Press Conference	

September 13 Noon 12:00 p.m. - 1:20 p.m.

Chairman: Senator Robert Dole Saddlebrook-Washington Rooms

12:00-12:45	Lunch	
12:45-12:55	Viewpoints from the House	Cong. Foley
12:55-1:15	International Aspects of Inflation	D. Gale Johnson
1:15-1:20	Discussion	

September 13 Afternoon 1:30 p.m. - 4:30 p.m.

Chairman: Under Secretary J. Phil Campbell Boston-Dallas Rooms

1:30-1:50	Summary: Actions in the Private Sector of Agriculture and Food to Control Inflation	Lane Palmer
1:50-2:15	Discussion	
2:15-2:20	Stand Up Break	
2:20-2:40	Summary: Policies and Practices in the Private Non-Agriculture and Non-Food Economic Sector to Control Inflation	Oakley Ray
2:40-3:05	Discussion	
3:05-3:15	Coffee Break	
3:15-4:30	Open Discussion	Don Paarlberg

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The Business and Industry Conference on Inflation

Summary

September 16/19, 1974
Pittsburgh/Detroit

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Introduction

The Business and Industry Conferences on Inflation conducted by the Department of Commerce brought together a group of outstanding persons who were well acquainted with the state of the economy. A substantial number of the delegates to the conferences were the chief executive officers of their organizations. Delegates from the academic community and those identified with consumer interests and labor were also present.

All of the delegates conveyed an intense concern over the economic health of our economy and characterized the current situation as serious. Virtually all of the delegates addressing the conference expressed a willingness to be of maximum assistance in diagnosing and finding answers to the problems.

The Realities of the Nation's Present Economic Condition

In response to the President's invitation for the conference participants to clearly identify our present economic condition, many delegates offered one or more observations. In general, many expressed the feeling that the current problem is something of a new experience. It is characterized by its worldwide scope, its foundations in resource and commodity cost-push pressures, and the possibility of the problem being beyond the capacity of an unassisted free-market system to repair.

The specific elements of the current situation noted by the delegates included the following:

1. The economy is and has been slowing down considerably over the past 30-90 days, but the rate of inflation has not been slowing down with it.

2. Real consumer demand has been essentially flat for an extended period.

3. The housing industry has been deteriorating steadily for many months.

4. Unemployment, while not at crisis proportions, has been and will continue to increase.

5. Money market conditions are in growing disarray with little prospect of a turnaround in the immediate future.

6. International trade and capital flows are seriously distorted.

7. Numerous materials scarcities continue to plague the economy and are hampering the prospects for economic growth.

Many delegates referred to the current situation as a period of adjustment. This adjustment was expected to be long and painful. Considerable emphasis was therefore placed on recognizing the importance of the morale of the public.

In spite of these fears, however, the tenor of the attitudes expressed by the delegates was one of fundamental faith in our ability to deal successfully with the problem of inflation. Numerous frustrations and worrisome aspects were noted, but the presence of a positive attitude was evident in the remarks of virtually every delegate.

<u>Causes of the Present Inflation</u>

A considerable number of specific causes for the present inflationary experience were cited. In general, these fell into three categories:

1. Monetary and fiscal policy errors.

2. Supply problems.

3. Income and demand-based problems.

The criticisms of monetary and fiscal policies were most often based upon the deficits of the Federal Government. Particular emphasis was placed upon the cumulative magnitude of the deficits since 1965 (approximately $100 billion).

The monetary consequences of such a large increase in Federal debt were also called to attention. Further, the exceedingly close relationship between long-term increases in the supply of money and long-term increases in prices were cited again and again as explaining the recent price experience.

Of all the supply problems involved in the explanation of inflation, the actions of the oil exporting nations were mentioned most frequently. It was explained that the sharp increase in oil prices affected many other prices as well. Indirect price effects also occurred through increases in transportation costs and petro-chemical-based materials.

The increase in the proportion of employment in the relatively low-productivity services sector of the economy was also singled out as an explanation by several delegates. Employment by state and local governments as well as by private service industries was involved. Recent employment growth in these occupations was asserted to have negative implications for the productivity of the economy as a whole, with resultant inflationary consequences.

Another aspect of the supply problem was the low profit levels of recent years and the increasing difficulty of successfully recovering capital costs. The inability to maintain existing capital, much less attract new investment, was believed to have played a significant role in producing our current materials shortages.

The impact of Government on business was also a commonly mentioned restraint on supply. The specific form of governmental impact varied in the presentations with some delegates citing past controls programs while others were more critical of present environment, health, and safety requirements. Very few of the industry representatives failed to include mention of Government impact in one context or another.

Income and demand forces were also considered significant elements in our current inflationary problem. Again, several aspects were involved. Perhaps most prominent (and one which had been included in the presentation given to the conferences by the Council of Economic Advisers), was the existence of over-optimistic real income growth expectations. These expectations were made doubly intensive by the difficulties inherent in accelerating real economic growth and the repeated frustration of having apparent gains which were later wiped out by inflation.

The increased power of unions to press real income demands more effectively was also asserted to be a contributing factor. The increasing difficulty of limiting wage gains to those which can be justified from productivity gains was expressed with particular emphasis.

A more basic problem in demand was also mentioned. Several delegates defined the current inflation as one of too many people chasing too few materials. The problem has international as well as domestic implications and was the foundation of a variety of policy proposals.

Policies with Concensus or Near-Concensus Support

Several policy alternatives enjoyed concensus support at the conferences. There were also a number of policy proposals which were supported by the overwhelming majority of the delegates present, but were subject to some dissent.

Three policies enjoyed near-unanimous support at both conferences; moderation of the current restraint in monetary policy, an all-out effort to increase productivity, and a firm stand against the reimposition of wage and price controls. In urging moderation of the current stance of monetary policy, care was taken to explicitly convey the idea that moderation was exactly what was desired. Great concern was expressed over the possibility of too much ease. Further, it was felt that changes in monetary policy should be brought about gradually, rather than precipitously, but not so gradually as to convey a feeling of indecisiveness. The recommendation to increase productivity was frequently heard and motivated a substantial number of specific policy proposals. The conference delegates expressed their abhorrence of wage and price controls again and again. Controls of other economic activities such as exports and the allocation of credit were also condemned. So great was the disapproval of any return to controls that many delegates also expressed distrust of even a partial move in that direction, such as the use of guidelines.

A substantial majority of the delegates also favored increased fiscal restraint. There was substantial sentiment specifically in favor of holding expenditures in the fiscal year 1975 to the $300 billion level. Further, equally strong support was voiced in favor of a balanced Budget for the fiscal year 1976. There were, however, some differences of opinion expressed on this issue. The differences included some wishing to see even greater fiscal restraint (including a surplus in fiscal 1976) than that recommended by the majority, and a very small number of delegates who voiced a preference for some fiscal stimulus. Numerous doubts were also expressed concerning the effectiveness and practical reality of spending decreases.

Strong support for an easing of the impact of social legislation upon business was also expressed by a heavy majority of the delegates. In some cases, the recommended easing consisted of timing delays in compliance and in other cases reappraisals of requirements were recommended. The social legislation cited in these recommendations consisted primarily of pollution control, health, and safety laws.

Approaches to Combat Inflation

As might be expected from a large group of imaginative and articulate observers of the economic scene, a wide array of suggestions for new approaches to the problem were offered. These ranged from very general suggestions to highly specific proposals and dealt with four primary areas:

1. Capital needs.

2. Materials needs.

3. Increasing productivity.

4. Expediting fiscal restraint.

Several suggestions, however, did not fit into any of these categories.

Recognizing the difficulties of the capital markets as one of the prime causes of our current inflation, numerous suggestions were aimed at alleviating this problem. In order to increase the supply of investment capital, recommendations were made as follows:

1. Capital which is moved from one investment to another should be extended the same type of rollover privileges for taxation as are currently enjoyed by homeowners moving from one home to another.

2. Tax relief should be given to business using internal funds for investment.

3. Interest earned by individuals on deposits in savings and loan institutions should be exempt from taxation. The recommended amounts of such exempt interest varied from \$750 to \$2,000, with one suggestion for a \$1,976 tie-in with the campaign honoring the Nation's 200th birthday.

Several suggestions were also made to increase incentives to channel capital into investment and ease the inflation-caused cash-flow difficulties of businesses. These included:

1. Conversion of depreciation schedules to a replacement cost basis rather than original cost.

2. Acceleration of depreciation schedules, particularly for projects still under construction and capital equipment required by environmental or safety regulations.

3. Enactment of a variable investment tax credit for specific industries to be scaled according to their capacity conditions.

In addition, several other proposals relating to capital needs were offered. One of these was to expand the role of the Small Business Administration by having it combine with the private sector to ensure an adequate flow of capital for small businesses. Another proposal called for establishment of a Government program to loan money to the Nation's thrift institutions.

Policies bearing on our materials needs reflected the broad complexities of the problem. The most frequently expressed need was for Government-to-Government negotiations over the supply and price of petroleum. In addition to negotiations concerning oil, it was recommended that the President call a meeting of world leaders to discuss the problems of resource users and producers. To expedite the President's position in such negotiations, many delegates also called for the passage of the International Trade Bill currently before the Senate. It was generally held necessary for the United States to take a leading role in developing and pressing for an international code of conduct for trading nations.

It was also recommended that a national materials policy be established, with the planning function occurring at the Cabinet Level. Longer-range planning, as well as a more concentrated effort to spot shortages before they occur was also recommended. To aid this effort, the need to provide ourselves with an expanded data base was discussed as well as the general advisability of a sustained search for ways to increase materials production.

Conservation efforts to help overcome materials scarcities were also recommended. These included continuation of the 55-mile-an-hour limit for automobiles, greater efforts to avoid introduction of unneeded products (defined as those which filled created rather than real human needs), and a tax on nonessential items.

The emphasis on improving productivity growth was very great. Proposals bearing on this question included the following:

1. Reduction of the barriers to the introduction of new technology (e.g., expediting patent processing, etc.).

2. Reappraisal of the cost effectiveness of existing governmental regulations, particularly pollution, health, and safety requirements.

3. The elimination of labor rigidities which block possible increases in productivity.

4. Reevaluation of the continued relevance of existing antitrust policies, with special reference to the apparent differences between domestic and international needs.

5. Reinvigoration of the Productivity Commission.

Several less specific proposals were also put forth. One consisted of a call for greater business and labor cooperation in attempting to increase productivity, and another related to currently underutilized elements in the labor force. The underutilized groups which received greatest emphasis were blacks and women. The suggestion was for better use, not just more use, of these valuable human resources.

Suggestions to expedite fiscal restraint concentrated most heavily upon ideas for new taxes. Much less attention was given to <u>specific</u> suggestions for spending cuts, though the idea was strongly endorsed as a general principle. Specific tax suggestions included the following:

1. Excise taxes on luxuries and amusements.

2. A surtax on incomes above $15,000 a year.

3. Windfall profits of business.

4. A tax on automobiles, scaled according to gasoline consumption or cylinder displacement.

5. Elimination of the tax deduction of interest on consumer installment loans.

The sentiments in favor of reducing Federal spending were encompassed in calls for a moratorium on new Government programs, passage of a Congressional commitment to balance the budget, and limitation of future budgets to the 1975 proportion of Government expenditures to national income. Few specific program cuts in expenditures were recommended at all, and no one item was recommended for cutting by more than one delegate.

Among the suggested new approaches which resist categorization was one to encourage companies to conduct an "Inflation Audit." The proposal envisioned individual firms reexamining their operations with a view toward reducing inflation in a manner paralleling their efforts to conserve fuel during the crisis last winter. The proposal was not described in detail, but the idea was given a warm reception by many delegates.

Numerous proposals for the Federal Government to initiate a temporary public employment program were also set forth. The effort was considered necessary because policies to combat inflation were viewed as very likely to increase the unemployment rate. One delegate, however, expressed the fear that the problem was larger than the Government's capacity to correct and cooperation by business and labor would also be required.

The need to involve the public in the fight against inflation was judged to be of considerable importance. Efforts to educate the public concerning economic problems were strongly endorsed. The possibility of instituting a National Citizens Crusade to monitor price increases was also prescribed. A particularly imaginative plan, referred to as the "5 and 10 Program" was also described. This program consisted of instituting a well-publicized campaign to get individual businesses to pledge not to increase prices more than 5 percent between Labor Day 1974 and Labor Day 1975, and unions to pledge not to demand wage increases in excess of 10 percent during the same period.

A great point was also made of the necessity to equally distribute the sacrifices involved in any anti-inflation effort in order to obtain public support and harness the current inflation psychology. The crucial need for the sacrifices to be demonstrably necessary and equitably distributed was repeatedly stated. Credible, realistic goals were also viewed as vital (one suggestion in this regard being a goal of 3 percent or less inflation at the end of 3 years).

Areas of Hardship

Areas of hardship were specified in several contexts. These included income, economic sectors, and broad institutional categories. The most obvious concern was, of course, with the plight of low-income individuals. The particular burden experienced by the poor as a consequence of inflation was noted by many delegates. Specific economic sectors, which were singled out as experiencing more than their share of problems at the present time included livestock raisers, firms in the lumber and plywood industry, basic materials, utilities, housing and savings banks. The broad institutional categories which were cited as requiring special attention included schools, hospitals, museums and charitable organizations. Small businesses were also asserted to be experiencing great difficulties. Firms providing distributional services such as wholesalers and suppliers were reportedly in particularly difficult situations because of their lesser capacity to respond to price increases and the growing liquidity difficulties. This last point was often related to the great hardships existing in the financial sector.

The business and industry conferences revealed the widespread and multifaceted problems caused by inflation. They also revealed a growing awareness that stopping inflation will require the full cooperation of every sector of the economy. In short, these responses to the request of the President and Congress for advice and assistance augur well for the challenge which lies ahead.

CONFERENCE ON INFLATION

The William Penn Hotel
Pittsburgh, Pennsylvania
September 15-16, 1974

Agenda

Sunday, September 15, 1974

7:00 p.m.	Allegheny Room, 17th Floor Distribution of Conference briefing materials to delegates.
7:30 p.m.	Dinner. Welcoming remarks by Secretary Dent. The statement of ground rules and the objectives of the Conference, the schedule for the following day, and the plans for the President's Conference on September 27-28, 1974 will be reviewed. Welcoming remarks by member of the U.S. Senate. Welcoming remarks by member of the U.S. House of Representatives.
9:30 p.m.	Adjourn.

Monday, September 16, 1974

8:30 a.m.	Grand Ballroom, 17th Floor Opening remarks by Secretary Dent. Opening remarks by Congressional speaker. Presentation on the economy by the Council of Economic Advisers. Presentation on Federal budgetary issues by the Office of Management and Budget.
9:00 a.m.	Individual presentations by industry delegations.
10:30 a.m.	Coffee break.

10:50 a.m.	Industry presentations (continued).
12:30 p.m.	Lunch. Monongahela Room, 17th Floor, for industry and government delegates only.
2:00 p.m.	Secretary Dent reconvenes afternoon session. Review of morning activities.
	General discussion of economic recommendations for action that the President and the Congress can take at this time.
	Closing by Secretary Dent and Congressional leadership.
4:30 p.m.	Adjourn.

BUSINESS AND MANUFACTURING CONFERENCE ON INFLATION

The Detroit Hilton Hotel
Detroit, Michigan
September 18-19, 1974
Agenda

Wednesday, September 18, 1974

7:00 p.m.	The Michigan Room, Ballroom Floor
	Distribution of Conference briefing materials to delegates.
7:30 p.m.	Dinner
	Welcoming remarks by Secretary Dent.
	The statement of ground rules and the objectives of the Conference, the schedule for the following day, and the plans for the President's Conference on September 27-28, 1974 will be reviewed.
	Welcoming remarks by member of the U.S. House of Representatives.
9:30 p.m.	Adjourn

Thursday, September 19, 1974

8:30 a.m.	Grand Ballroom, Ballroom Floor
	Opening remarks by Secretary Dent.
	Opening remarks by Congressional speaker.
	Presentation on the economy by the Council of Economic Advisers.
	Presentation on Federal budgetary issues by the Office of Management and Budget.
9:00 a.m.	Individual presentations by industry delegates.
10:30 a.m.	Coffee Break
10:50 a.m.	Industry presentations (continued).

12:30 p.m.	Lunch
2:00 p.m.	Secretary Dent reconvenes afternoon session. Review of morning activities. General discussion of economic recommendations for action that the President and the Congress can take at this time. Closing by Secretary Dent and Congressional leadership.
4:30 p.m.	Adjourn

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Waterbury, Connecticut

Mr. Robinson F. Barker
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PPG Industries
Pittsburgh, Pennsylvania

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Natural Resources and Recreation Conference on Inflation

Summary

September 15-16, 1974
Dallas, Texas

Natural Resources and Recreation
Conference on Inflation
Dallas, Texas
September 15 and 16, 1974

Summary Report

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Summary of Plenary Session Report and Discussion

The conference was divided into four working groups for the morning session: oil and gas; minerals and materials; coal and electrical generation; recreation and the environment. During the afternoon plenary session, each of the groups reported on its own deliberations. Six principal themes consistently reappeared in the group reports and in the accompanying discussion.

A. Macroeconomic aspects of inflation. There was a general consensus favoring a somewhat less stringent monetary policy. Virtually every industry representative identified capital shortages as the bottleneck to expansion; and some, particularly, the small sawmill operators, predicted an absolute reduction in capacity due to probable business failures. One participant argued "this is a cost-push" inflation and that decreasing aggregate demand through monetary policy was a mistaken strategy in any case. A few participants proposed direct governmental allocation of credit, sector by sector, though this idea attracted little evident support. A number observed, disapprovingly, that the federal Treasury, by selling very high-yield bonds, has become a leading competitor for private capital.

The conference participants did not focus directly on the issue of balancing the federal budget. Nor did they discuss a target figure for budgetary planning. Curbing governmental spending, particularly at the federal level, was generally endorsed, though there was little attempt to identify particular programs or agencies which deserved cutting. Most delegates were more concerned to voice support for government programs they favored and, often, to develop supporting arguments based on the projection of long-term budgetary savings. A forest products industry delegate argued that more intensive (and more expensive) land management practices, such as fertilizing and restocking, implemented today would yield a high rate of return in future years. Other delegates mentioned the economic value to the future of developing water resources today.

The working group on recreation and environment specifically recommended that a greater effort should be made to acquire outdoor recreation lands under the Land and Water Conservation Fund. It also suggested that a better effort should be made by all federal land management agencies to preserve and maintain the natural values of the areas which they now administer. While the group indicated that non-essential expenditures for capital improvement should be temporarily curtailed, it also recommended that capital outlays for public works projects undertaken by the Corps of Army Engineers, the Bureau of Reclamation, and the Tennessee Valley Authority should be carefully reviewed to eliminate projects of questionable economic merit. Continued large expenditures on research and development for the fast breeder reactor were questioned on the grounds of the many risks inherent in nuclear technology.

Delegates affirmed that the inflation problem had significant international aspects, emphasizing in particular the actions of the OPEC cartel, which one economist called the only cartel known to economic historians that has lasted longer than three months. He blamed the State Department's desire for the appearance of "harmony" for much of OPEC's success, and advocated a system of sealed bids on contracts for imported oil which would induce OPEC countries to undercut each other's prices. Other suggestions for combatting the impact of high prices for oil imported from the OPEC countries were: (1) to form a cartel of consumer nations that would use their combined influence to bring about a price reduction; (2) to decrease our international dependency by increasing domestic production of oil and gas and by relying more heavily on coal; (3) to enlarge our oil storage capacity as a hedge against possible future boycotts by the Arab members of OPEC, and (4) to decrease our consumption by adopting voluntary or regulatory conservation programs.

B. Conservation. The delegates unanimously and strongly endorsed the principle of conserving energy and natural resources. Conservation, some said, would reduce demand, thereby reducing inflation and undesirable pressures on the environment at the same time. Conservation would also mean, in some cases, a better balance of payments position, improved technological efficiency and increased human productivity. Resources saved through conservation might be freed for more highly values uses. Said one delegate, "The beauty of conservation is that it doesn't require a lot of trade-offs."

Opinions differed on how large a contribution increased conservation could make to the overall fight against inflation. Many thought it would be marginal, at least in the short run. Some thought that too strenuous conservation efforts could contribute to unemployment. There was also disagreement over which techniques or measures should be used to encourage conservation, e.g., excise taxes on high horsepower engines; price increases in oil and gas; research and development (in home insulation methods, for instance); altering the rate structure for electric power; substituting renewable for non-renewable energy sources where possible (e.g., solar energy for oil); recycling; and consumer education. Some delegates observed that excise taxes and price increases might in some sense be "inflationary" themselves. Others observed that government-owned natural resources should not be withheld unduly long from the market in the name of conservation, since releasing them would help bring down their prices.

C. Government regulation to protect the environment and worker health and safety. While everyone agreed that environmental protection legislation over the last four or five years had added to the costs of production, they disagreed on the magnitude of these costs and on the degree of their offsetting benefits. At one extreme, it was asserted by a utility spokesman that the requirement to burn only low-sulfur fuel oil in his company's electrical generating plants produced no measurable change in air quality "at street level" but cost consumers $100 million annually. At the other extreme, a spokesman from an environmental protection group asserted that all public and private expenditures on pollution abatement added only .5 percent to the inflation rate, which he regarded as rather low. He was seconded by another delegate who referred to a National Academy of Sciences study alleging that although auto emission controls would cost between $1.5 and $5 billion annually, the benefits would range from $2.5 to $10 billion.

A number of industry participants stated that their objection was not to the basic concepts embodied in environmental protection legislation but to the methods required and to the early deadlines demanded. They argued that our experience with certain detailed regulations over the past two or three years should allow us to tighten the regulations that made sense while relaxing those that did not. One that would make no sense, in their view, would be a requirement to reduce pollution to absolute zero, inasmuch as the cost of removing the last one percent of pollution could run as high as the cost of removing the first 99 percent. A similar argument was made with respect to the Occupational Safety and Health Act (OSHA). One mining executive observed that OSHA and corresponding mine safety legislation had helped reduce fatalities in the mines to half their previous level. Another claimed that, whatever its benefits, OSHA had reduced productivity by 30 percent, thereby reducing supply and contributing to price increases.

Most industry representatives concurred in the proposition that the energy and natural resources sector would be expanding capacity much more rapidly were it not for environmental and safety regulations. Although capital shortages afflict all industrial sectors, the constraints are especially severe in this sector because it must now invest so much of its limited capital (up to 20 percent, said one minerals executive) in pollution control equipment. Productive output, therefore, lags well behind demand, thereby driving prices up.

D. Making markets work better. Another recurring theme was the high cost to consumers of distortions in the allocation of economic resources caused by market imperfections - imperfections which government itself had either created or could readily remove. One delegate claimed, for instance, that the archaic structure of transportation rates created by the Interstate Commerce Commission was costing consumers up to $5 billion annually. An economist present said it was absurd for oil and coal to be priced higher than natural gas, the premium energy source at the moment. In the long run, supplies of all fuels would increase to optimal levels, and energy prices would be kept as low as possible, if the Federal Government deregulated prices in a number of markets, especially in the market for natural gas. The Chairman of the Federal Power Commission, which regulates natural gas prices, concurred in principle, but stated the FPC had no alternative until the Congress changes its legislative mandate in this area.

Consumer group spokesmen advocated anti-trust action against the oil industry to help bring down oil prices. Oil company representatives, on the other hand, advocated removing price controls on oil, arguing that higher prices would increase the long-run supply, because higher prices would encourage more exploration, more intensive recovery methods, and more research and development (R&D) to exploit "exotic" sources of energy like oil shale which are presently not economically profitable.

Some industry spokesmen advocated increased government subsidies for such R&D efforts. Some delegates argued for government support of R&D in areas other than oil and gas as well, e.g., water desalination, forest management, and hopper railroad cars.

E. <u>Problems of equity</u>. There was concern lest the pursuit of allocative efficiency through decontrolling certain commodity prices and restoring normal market forces cause undue hardship on the poor and the working class. One Congressman cautioned that the public simply would not stand for a total deregulation of oil prices unless this move was accompanied by broadly gauged tax reform, including a windfall profits tax on the oil companies.

It was also pointed out that imposing excise taxes on certain goods for anti-pollution or for conservation purposes could also bear disproportionately on certain groups. A high excise tax on automobile fuel would be quite regressive, for instance, whereas an excise tax on high-horsepower engines would also encourage conservation but would probably not be regressive. One delegate favored an "energy tax credit" allowed low-income energy consumers as an offset against higher prices they might be forced to pay if government, seeking to restore the allocative efficiency of the market, added further excise taxes to gasoline and home heating oil.

All industry representatives except those from the oil companies went to some lengths to point up their particular financial problems. Some argued, additionally, that their burdens were inequitably high. The electric utility spokesmen, for instance, claimed they were being squeezed from several directions at once: exceptionally high raw material costs; burdensome environmental controls; unduly conservative licensing procedures for constructing and operating nuclear power plants; unrealistically low rate structures imposed by consumer-oriented state public utility commissions; and the impossibly high costs of capital in their particularly capital-intensive industry. A coal company executive remarked that the high profits expected by the coal industry next year would follow over 20 years of profits yielding less than five percent rate of return on investment; it would, therefore, be inequitable to impost an "excess profits" tax on the coal companies, he argued.

F. Energy, natural resources, and inflation. While delegates expressed great concern over rising prices in the economic sector discussed at the conference, they were unsure of just what the implications were for the overall problem of inflation. An economist present cautioned the conference that although there was surely some causal relationship between prices in the energy and natural resources sector and inflation, the relationship was intricate and perhaps not very intimate.

Natural Resources and Recreation
Conference on Inflation
Dallas, Texas
September 15 and 16, 1974

<u>Sunday, September 15</u>

Begins at 5:00 pm	Registration*
6:00 pm - 6:30 pm	Reception*
6:30 pm	Dinner*
8:00 pm	Welcome, introduction of Congressional delegation and special guests by Secretary Morton
	--Welcome remarks by Texas Delegate (5 minutes)
	--Congressional Statement (by one member of delegation chosen by them. Subject: Congress and the Economy with emphasis on Natural Resource Legislation)
	--Assignment of Working Groups: (a) Oil & Gas Group (b) Minerals & Materials Group (c) Coal & Electrical Generation Group (d) Recreation & Environment Group
	--Discussion topic suggestions presented to Working Groups**

<u>Monday, September 16</u>

9:00 am - 10:00 am	--Report on the State of the Economy--Council of Economic Advisers
	--Report on the Federal Budget--Office of Management and Budget
10:00 am - 12:30	Working Group sessions (meeting separately) General discussion of issues related to Working Group categories
	Working Groups to prepare outline and talking points for presentation to the Plenary Session

12:30 pm	Lunch* (Unstructured; but space available for Working Groups to continue discussions over lunch.)
2:00 pm	Plenary Session
	45 minute presentation and discussion by: Oil & Gas Group Recreation & Environment Group
3:30 pm	Break
3:45 pm	45 minute presentation and discussion by: Minerals & Materials Group Coal & Electrical Generation Group
5:15 pm	Summary and remarks by Secretary Morton
5:30 pm	Adjourn

* Cost covered by registration fee.

** Four or five discussion topics presented to each Working Group, based on fundamental questions in President's letter refined to deal with Working Group's particular segment of the economy.

NATURAL RESOURCES AND RECREATION
CONFERENCE ON INFLATION
DALLAS, TEXAS
SEPTEMBER 16, 1974
SECRETARY ROGERS C. B. MORTON, CHAIRMAN

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Coal and Electrical Generation (C&E)
Minerals and Materials (M&M)
Recreation and Environment (R&E)