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January 9, 1976

SUBJECT:

WHOLESALE PRICE INDEX
FOR DECEMBER

The Wholesale Price Index declined 0.4% in December, the first decline in six months. Unadjusted Wholesale Prices in December were 4.2% higher than a year ago, compared to a 20.9% jump from December 1973 to December 1974.

What's your reaction to the December WPI?

GUIDANCE: As you recall, there was 0 (zero) change in the WPI last month. With last month and this month, the data continues to indicate that inflation continues moderate, with no evidence of an acceleration in the current figures.

Isn't it correct, though, that the industrial component continued to increase at a rate of .6%?

GUIDANCE: That is correct. We find the industrial component still unsatisfactory. We do recognize that two or three months ago, the changes was in the area of 1.2%.

JGC

WHOLESALE PRICE INDEX

(Change)

| | <u>1975</u> | <u>1974</u> | <u>1973</u> |
|-----------|-------------|-------------|-------------|
| January | -0.3% | +3.1% | |
| February | -0.8% | +1.2% | |
| March | -0.6% | +1.3% | |
| April | +1.5% | +0.7% | |
| May | +0.4% | +1.3% | +2.0% |
| June | -0.1% | +0.5% | +2.3% |
| July | +1.2% | +3.7% | -1.4% |
| August | +0.8% | +3.9% | +6.2% |
| September | +0.6% | +0.1% | -1.5% |
| October | +1.8% | +2.3% | +0.3% |
| November | 0 change | +1.2% | +1.8% |
| December | -0.4% | -0.5% | +2.2% |

January 12, 1976

SUBJECT:

COMMERCE DEPARTMENT
ECONOMIC PROJECTIONS

The Commerce Department estimated yesterday that GNP would rise by 6 or 7% in 1976, that Unemployment would average between 7.5 and 7.75%, and the Consumer Prices were projected to rise by 6.5% this year.

What's your reaction to the Commerce Department figures, and are these the same predictions that will appear in the Budget?

GUIDANCE: It is my understanding that the figures released by the Commerce Department yesterday are assumptions and forecasts which are based on last year's mid-year review of the Budget. This is all old data and old information.

Can we assume that these assumptions are very close to the final projections which will come out in the Budget?

GUIDANCE: The assumptions and projections which will appear in the 1977 Budget on January 21 will be a reassessment and reevaluation of the most recent data. This evaluation will include a new analysis and a new review of the economic developments since that mid-year review.

The assumptions and forecasts could be very close to the mid-year figures, or it could be a wide variance; we will just have to wait for the final figures on January 21.

January 16, 1976

SUBJECT:

THE ECONOMY

The Commerce Department reports that fourth quarter GNP was only half that of third quarter GNP. What's your reaction to this?

GUIDANCE: We recognize that the economy has slowed somewhat in the fourth quarter after an extraordinary rise in the previous months. But I think the evidence as to the amount of GNP growth shows that the economy did not come to a halt in November and December. The December figures show that November slowdown was not extended into December. At Christmas, retail sales were extremely good. We see a revival in confidence that was off in early 1975.

A number of economists had great concern that as the economy recovers, this would reignite inflation. We see no evidence that the inflationary pressures are accelerating. This should hold true if the budget can be held in line.

We expect recovery in '76 to be solid, but I think we still have a substantial way to go, but the outlook continues to look quite favorable.

JGC

January 21, 1976

SUBJECT:

BROADENED STOCK OWNERSHIP

In the State of the Union Monday night, President Ford proposed tax incentives to encourage broadened stock ownership by low and middle income working Americans. It has been charged that the plan, because it requires a seven-year investment, would only benefit those who had "money to risk".

Doesn't the proposal defeat its own purpose and only benefit people in the middle and higher income brackets?

GUIDANCE: No. First of all, participation would be restricted to individuals in the middle and low income ranges though a limit on the maximum amount of the annual contribution which can be deducted, with participation phased out at higher incomes.

Also, the incentive factor is such that we expect people to realize that their long-term gain will outweigh any short-term inconvenience. Past history demonstrates that people will respond to such incentives.

Third, as the program is, of course, optional, it will benefit only those who opt to invest in it, but unless it is adopted, no one benefits.

ME

January 21, 1976

SUBJECT:

CPI AND THE ECONOMY

The Consumer Price Index for December rose .5%. This was an annual inflation rate of 7% in 1975--the best record in three years.

What's your reaction to the increase in the CPI?

GUIDANCE: This continues to indicate that inflation is not accelerating.

Of course, it is higher than we would like, but, nonetheless, sharply lower than we've had.

The Commerce Department reported that fourth quarter GNP was only half that of third quarter GNP. What's your reaction to this?

GUIDANCE: We recognize that the economy has slowed somewhat in the fourth quarter after an extraordinary rise in the previous months. But I think the evidence as to the amount of GNP growth shows that the economy did not come to a halt in November and December. The December figures show that November's slowdown was not extended into December. At Christmas, retail sales were extremely good. We see a revival in confidence that was off in early 1975.

A number of economists, including our own Administration economists, had concern that as the economy recovers, this would reignite inflation. We see no evidence that the inflationary pressures are accelerating. This should hold true if the budget can be held in line.

We expect recovery in '76 to be solid, but I think we still have a substantial way to go, and the outlook continues to look quite favorable.

CONSUMER PRICE INDEX

| | <u>1975</u> | <u>1974</u> | <u>1973</u> |
|-----------|-------------|-------------|-------------|
| January | +0.6% | +1.0% | |
| February | +0.6% | +1.3% | |
| March | +0.3% | +1.1% | |
| April | +0.6% | +0.6% | |
| May | +0.4% | +1.1% | +0.6% |
| June | +0.8% | +1.0% | +0.6% |
| July | +1.2% | +0.8% | +0.2% |
| August | +0.2% | +1.3% | +1.9% |
| September | +0.5% | +1.2% | +0.3% |
| October | +0.7% | +0.9% | +0.8% |
| November | +0.7% | +0.9% | +0.8% |
| December | +0.5% | +0.7% | +0.5% |

January 27, 1976

SUBJECT:

ECONOMIC STATUS OF COUNTIES

Yesterday at a briefing after their meeting with the President, representatives of the NACo raised objections to the CEA's 1976 predictions of surplus and expanded services at the State and local level.

The County executives referred to the report as "entirely fallacious...wrong". On what did the CEA base its rosy predictions, and is the President concerned about this apparent over-optimism?

GUIDANCE: The section of the CEA report dealing with the fiscal status of the State and local governments, which includes all available published data on the counties was based upon data received from the Department of Commerce.

Keep in mind that the report takes into account all State and local governments. Overall, as the report states (p.57) "toward the end of 1975, State and local governments had a small operating surplus, the first such surplus since late 1973. That surplus was \$1.5 billion for second half of 1975 for State and local governments combined.

Now, to be sure, that does not mean there are not substantial deficits in some municipalities and localities, but the overall picture is good.

Also, if you read the Wall Street Journal this A.M., you probably noted that the JEC subcommittee has found that 13 energy-producing and eight agricultural states ran in the black in fiscal 1975.

The President feels that there is ample evidence to support the CEA's conclusions. He believes, and the opinions of a large number of State and local officials support this, that his State of the Union proposals will benefit the States and localities, including the counties. (A large part of this issue, as he sees it, is who the Federal Government hears from, and it is not from those States and localities that are in good shape.)

ME

February 19, 1975

SUBJECT: RELEASE OF EPA POLLUTION FUNDS

It is my understanding the States must put up 25% of the construction funds, with the Federal Government putting up the remaining 75%. Several governors state that they are not able to match the 25%, thus cannot qualify for funds.

Why does the Federal Government impose this 25% matching requirement on the States?

GUIDANCE: We want the State and Local Governments to be very much involved in the projects for which these funds are applied. This is not strictly a national concern, but one of State and Local impact. We feel it is important for the States to bear a portion of the cost for these projects, so that these funds will be applied to the most important projects and the use of these funds will be scrutinized very closely. We do not want these ~~problems~~ looked upon as a free gift from the Federal taxpayers. *Bevels.*

Isn't it true that many States are not able to come up with the 25% matching requirement, and thus are unable to avail themselves of these pollution funds?

GUIDANCE: EPA says that have no evidence of any grants that would not be made because of insufficient matching funds at the local level.

I might again point out that even with the release of this additional \$5 billion, it will be at least 1980 and beyond before these funds will be utilized. There is still \$9 billion obligated during the last three years that has not been spent.

(More)

March 4, 1976

SUBJECT:

WHOLESALE PRICE INDEX
IN FEBRUARY

Wholesale prices fell five-tenths of a percent in February, the sharpest drop in nearly a year, as lower farm prices offset increases for industrial goods.

What is the President's reaction?

GUIDANCE: The latest report continues to confirm our progress against inflation. We are particularly pleased at the modest rise in the prices of industrial commodities, the smallest rise since the spring of '75 (.2% in May, .1% in March and April).

ME

March 19, 1976

SUBJECT: CONSUMER PRICE INDEX --
FEBRUARY

The CPI in February rose .1%, the lowest rate of increase in more than four years. The decline was mainly due to a seasonally adjusted drop in food prices of 1%. (Grocery prices declined 1.5%, the biggest monthly drop in 24 years).

GUIDANCE: This is clearly excellent news and we welcome it, and it is further evidence that the President's economic policies are working.

However, we recognize that it will be difficult to sustain this low rate of increase in the months ahead.

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April 1, 1976

SUBJECT:

WHOLESALE PRICE INDEX
FOR MARCH

The wholesale price index climbed 0.2% in March, following a 0.5% decline in February.

GUIDANCE: This demonstrates the fifth consecutive month of stability in the WPI, and shows the continuing progress of the economy. However, this slight increase should not be interpreted as a sign that our battle against inflation is over, as the percentage is being held down in large part by volatile food and fuel prices.

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| March | March. | | |
|-------|--------|---------|---|
| 75-76 | - | 5 1/2% | + |
| 74-75 | - | 12 1/2% | 0 |

ME

April 12, 1976

SUBJECT:

WALTER HELLER ON
ECONOMIC RECOVERY

Yesterday on "Meet the Press," Walter Heller said that after the election in November, the economy will drop "with a sickening thud" until Congress revises the President's budget. (He also stated that the President should have exercised aggressive leadership and labeled the Teamsters' agreement as inflationary, and he denied that Kennedy and Johnson expansionist programs had caused this recession.

What is your reaction to the Heller assessment of the economy?

GUIDANCE: The Administration simply disagrees with Heller's gloomy prediction. The difference between his assessment and the Administration's is that we are convinced that private demand is strong and getting stronger, that business fixed investment is on the increase, and that the strength in consumption will continue as savings ratios decline.

The President's economic advisors are convinced that a strong recovery will continue into 1977, and I think I should point out that so far their predictions on private demand, etc., have been correct. They believe, and the President agrees, that less fiscal stimulation is the best thing to encourage private investment and economic strengthening.

ME

August 12, 1976

SUBJECT: WHOLESALE PRICE INDEX
FOR JULY

The wholesale price index for July was .3%, following increases of .4% in June, and .3% in May (April was .8%).

What is the President's reaction to the wholesale price index?

GUIDANCE: We are pleased with the continued moderate rate of increase in the wholesale price index, which works out to an annual rate of less than 4%.

We are somewhat concerned over the .7% increase in industrial prices, but we have no evidence as yet of any underlying price acceleration.

(Note to RN: The industrial commodities figure reflects large increases in petroleum products, but petroleum figures are actually a month delayed.)

ME

April 19, 1976

SUBJECT: GROSS NATIONAL PRODUCT
FOR FIRST QUARTER

In the first quarter of 1976, the gross national product rose at an annualized rate of 7.5%, compared to the 5% growth rate of the previous quarter. The inflation rate during the first quarter was determined to be 3.7%.

GUIDANCE: We are gratified that the recovery is continuing in a solid way and we are particularly pleased at the continued diminution in the rate of inflation.

Does this mean that you will be revising the Administration's assumptions on the GNP?

~~Clearly, the unemployment rate figures are going to have to be revised.~~

As for real growth and inflation, the first quarter rate is greater than anticipated but is mainly attributable to increased inventory investment rather than consumption of goods and services. It is not yet clear what revisions will be required in the GNP, if any.

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ME

April 21, 1976

SUBJECT:

CONSUMER PRICE INDEX
FOR MARCH

In March the Consumer Price Index rose by 0.2%, following a rise of 0.1% in February. This means an annualized CPI rate of 2.9% for the first quarter of 1976, the smallest quarterly increase since the second quarter of 1972. The 2.9% compares to an average quarterly increase of 7% in 1975. Both food and gasoline prices dropped considerably in March.

What is the President's reaction to the CPI figures for March?

GUIDANCE: Once again, this is excellent news, and the President welcomes it. It is further evidence that the President's economic policies are working.

However, as we have said previously, we recognize that this low rate of increase will be difficult to sustain in the upcoming months.

ME

(5)

Comment on the Economic Situation
January-May, 1975

AFL-CIO

" Everything points downward... toward a depression," George Meany said at a news conference.

" In the face of this dangerously deteriorating situation," the AFL-CIO council said, " the Administration has proposed a complicated package of income tax reductions, more than offset by energy - related tax and price increases. On balance, this package is a formula for more unemployment, extended recession and prolonged inflation."

New York Times 2/21/75

AFL-CIO President George Meany already has written off President Ford's economic program as " peanuts for the poor."

A plan proposed by the Democratic congressional leaders has been discounted as " fuzzy" and nothing more than " political propaganda."

" Mr. Ford's program would not, in my book, expand purchasing power by one penny," Meany said.

" It looks very much like a recycling of consumer dollars by raising the cost of vital essentials with a promise we will get some or all of this additional expense back, in the form of reduced taxes."

" The cast of characters has not changed," Meany said. " Arthur Burns is still there, unrepentant and secure in his ivory tower at the Federal reserve. Alan Greenspan is there representing the philosophy of economic Darwinism, you know - the survival of the richest."

Los Angeles Times 1/22/75

AFL-CIO action program to put America back to work:

" America is in an economic emergency. The recession, which began more than a year ago, is already the most prolonged and the deepest since the 1930's. There is no end in sight. "

" The country is on the brink of depression. Immediate, massive, emergency measures are required to turn the economy from the edge of disaster. "

" Without this emergency action, unemployment will feed on unemployment. Production cutbacks will spread further. The threat of widespread bankruptcies of businesses and banks will become reality. "

" To spare the American people the misery of a depression and to turn the economy around and provide jobs for American workers, the AFL-CIO General Board urges the following and immediate actions by the Congress and the President:

" An immediate tax cut of at least \$20 billion, primarily for the low and middle income taxpayers. "

" Immediate government measures to reduce America's dependence on imported oil and establishment of a fair and equitable system of allocation and rationing. "

" Immediate reduction of interest rates and allocation of credit for high priority social and economic activities. "

" Immediate, massive federal efforts to create jobs for the unemployed. "

" Immediate action to protect existing jobs from unfair competition. "

" Immediate government assistance to the unemployed to minimize their hardships. "

AFL-CIO News 1/25/75

Lane Kirkland's remarks to the AFL-CIO General Board meeting, January 23, 1975:

" The recession is deepening, dragging down production, destroying public confidence in the government's ability to manage the economy... "

" President Ford's most recent economic proposals, outlined in

his State of the Union message, would mean more inflation, more recession and more unemployment."

AFL-CIO News 2/1/75

George Meany, citing worsening unemployment, said today that he now thought a tax cut of \$30 billion- \$10 billion more than the AFL-CIO proposed last month- was necessary to stimulate the economy...

As a result of the continuing high rate of joblessness in recent months, Mr. Meany said, "Unemployment is now feeding on unemployment."

New York Times 2/18/75

George Meany said today that a 10% unemployment rate by July "is inevitable,"...

Meany said that labor's original call for a \$20 billion tax cut was now inadequate "given the enormity of our dilemma."

"I'm very pessimistic about the whole situation," Meany said. "We are getting to the point now where unemployment is feeding on unemployment and we could go into the same vicious circle that we had in the days of the Great Depression."

"Such a circle," Meany said, "might even result in a breakdown of society and a sharp jump in crime."

New York Daily News 2/18/75

The AFL-CIO said today the recession is not nearing bottom, as the Ford administration maintains, but instead has begun "feeding on itself" and is plunging deeper.

Washington Post 2/21/75

AFL-CIO's Executive Council expressed an opposite view. "The bottom has not yet been reached," the council said in a resolution. "There

MEMBERS OF THE CONGRESS

SENATOR HUBERT H. HUMPHREY

"...on the basis of the evidence presented so far, the President appears to have chosen the least desirable set of alternatives. The President's plan would add to our inflation and deepen the recession with no assurance of substantially reducing energy consumption. ... I can't believe the President and his advisors really thought through what this energy plan will do to consumers and the economy."

The Congressional Record
January 23, 1975; Pp. S794-96

"...if the Democrats are blocking his program it is a great public service because the President's program, I believe most respectfully, is ill-conceived; it is inadequate and I think it is inequitable. I think it would add to inflation. I believe it would expand recession and it surely would increase unemployment..."

"Unless we take some very concrete and effective action, and very quickly, within the next 60 to 90 days, I think we would be approaching what you would call the dimensions of a depression..."

"...I think that unless the Administration gets with it, unless it begins to understand ... we will go into a depression."

"...the President's program will lead this country into further recession, increased inflation, and rising more unemployment."

"...we have a recession which can approach the dimensions of a depression unless we watch out..."

The Congressional Record
"Meet the Press"
February 16, 1975; Pp. H983-85

Senator Hubert H. Humphrey said the nation's main concern should not be inflation but "putting more than 10 million" unemployed back to work.

The Washington Post
May '9, 1975

SENATOR HENRY M. JACKSON

Senator Jackson told an audience ... at the Washington Press Club that President Ford was not "attuned to the hardest problems facing this country, and they are in the fields of energy and the economy." In the Ford White House, he said, "There's no one in charge of the store" on these issues.

Mr. Jackson described Mr. Ford as "an honest, honorable man, a decent man" who had failed on economic issue..."

The New York Times
February 8, 1975

CONGRESSMAN ROMANO L. MAZZOLI

"Overall, the Ford plan is not coordinated. It is not so much a program, but a collection of proposals."

The Congressional Record
January 23, 1975; Pp. E142

SENATOR EDMUND S. MUSKIE

... said that the Administration ought to worry about the dangers of doing too little to stimulate the economy and reduce unemployment.

The New York Times
March 13, 1975

CONGRESSMAN CARL D. PERKINS

"...the President made it all too clear that decisive and resourceful leadership will not be forthcoming from the executive branch to solve problems of soaring unemployment, runaway prices, and energy dependence.

The 94th Congress thus becomes the country's last and only hope. No one else is going to do the job."

The Congressional Record
January 23, 1975; Pp. H248

CONGRESSMAN MORRIS K. UDALL

"... (The President's) grand design is a design for failure, one which would yield growing unemployment, deepening recession, and a self-inflicted inflation of staggering proportions. His proposals would bring chaos in the short run and, I fear, collapse in the long run."

The Congressional Record
January 23, 1975; Pp. E119-20

ECONOMISTS

ALBERT H. COX, JR.

"Ford is going to kick the economy in the teeth," said chief economist Albert H. Cox, Jr. of Lionel D. Edie & Co. Inflation and interest rates are already on the way down, said Cox. But if fresh money is pumped into the economy by a tax cut, Cox fears "a resurgence of inflation, another boom-bust cycle to come in late 1976 and 1977."

Newsweek
January 27, 1975; Pp. 23

WALTER FACKLER

"We're going to cut our own throats," says economist Walter Fackler of the University of Chicago. "We're going to be in a terrible pickle on inflation in 1976."

Newsweek
February 24, 1975; Pp. 65

PIERRE RINFRET

Pierre Rinfret says the White House approach amounts to "benign neglect -- there is no program, and it has been done on purpose. Greenspan wants to let the economy take a deep bath to correct inflation." Rinfret himself would do little more, apart from providing more generous unemployment benefits, but he concludes: "I call it the year of the cave. It's a time to hide and try to survive, to protect your capital."

Newsweek
February 24, 1975; Pp. 65

ANDREW F. BRIMMER

Former Federal Reserve Board Governor Andrew F. Brimmer yesterday predicted that the recession would deepen beyond administration expectations, and called on the Fed to push the nation's banks into a more liberal lending policy.

Brimmer said that the deteriorating economic situation would result in average rates of unemployment of 9.3 percent this year, 8.9 percent in 1976 and 7.3 percent in 1977.

He told a reporter later that the jobless peak this year probably would be around 9.7 percent.

The Washington Post
April 19, 1975;

May 6, 1976

SUBJECT: WHOLESALE PRICE INDEX FOR APRIL

The wholesale price index increased by .8% for the month of April, the largest increase in the WPI in six months. The primary factors in the increase were the increased prices for farm products and processed foods.

GUIDANCE: The .8% increase is largely attributable to sharp increases in farm products and processed foods. Industrial price increases were moderate. Data on farm products and processed foods subsequent to the pricing deadline for the April index indicate no continuation of the rise.

The April figures in themselves are not a particular cause for concern. As we had indicated earlier, it was unrealistic to expect the exceptional price data of the last few months to continue. Early expectations of the May figures are for an improvement.

For further questions, ask the technicians.

June 4, 1976

SUBJECT: UNEMPLOYMENT AND WHOLESAL
PRICE INDEX FOR MAY

The unemployment rate for May was 7.3%, down from 7.5% in April. It was the first time since 1973 that the unemployment figures have shown no increase over an eight-month period.

The WPI was up .3%, after an increase of .8% in April. The May figures showed a decline in lumber products and transportation equipment.

GUIDANCE: Both sets of numbers are clearly encouraging. We are particularly pleased with the continued rise in employment as well as further decline in the unemployment rate.

As for the wholesale price index, as we had indicated last month, we expected the May figures to be better, and we are gratified that they are considerably lower.

* Number of employed up by 300,000 to 87.7 million

June 22, 1976

SUBJECT:

CONSUMER PRICE INDEX
FOR MAY

The CPI increased by .6% in May, up very slightly from .4% in April.

The higher rate of increase was due mostly to food (which increased by 1%, seasonally adjusted), although gasoline and apparel prices contributed as well.

GUIDANCE: Although we expected an acceleration in the CPI last month, the increase is somewhat larger than expected.

Nonetheless, these increases the last two months (.7% and .6%) after practically no increases earlier in the year do not represent significant departures from the forecast of less than 6% annual CPI change for the whole calendar year.

ME

July 9, 1976

SUBJECT: WHOLESALE PRICE INDEX
FOR JUNE

The wholesale price index increased by .4% for the month of June, following an increase of .3% in May, and .8% in April. Industrial commodities were up .5%, the largest increase in 6 months.

GUIDANCE: There is nothing especially significant in this month's index. (The increase is practically the same as last month's.) Industrial commodities are a shade higher than we would like to see, but they are not at this time an area of concern.

| | |
|---|--------|
| Annualized rate of inc. for wholesale prices /2nd qtr. -- | + 6.6% |
| " " " " 1st " -- | - 1.8% |

COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

July 20, 1976

ALAN GREENSPAN, CHAIRMAN
PAUL W. MACAVOY
BURTON G. MALKIEL

MEMORANDUM FOR RONALD NESSEN

Subject: Consumer Price Index

Seasonally adjusted, the Consumer Price Index increased 0.5 percent from May to June. Large increases in energy prices contributed to the rise while the increase in food prices moderated substantially from that of the last two months.

The increase was about as expected and confirms our view that the underlying inflation rate in the economy is between 5-1/2 and 6 percent.

Burt
Burton G. Malkiel



July 27, 1976

SUBJECT:

FY 76 BUDGET DEFICIT

Yesterday OMB and Treasury released their "final version" of the FY 76 budget figures, and stated that the deficit appears to be \$65.6 billion, \$4.0 billion less than the Mid-Session review estimate, and \$10.4 billion less than the January 1976 budget estimate.

What is the reason for the wide disparity in the anticipated budget deficit in January and the deficit as released yesterday? Doesn't this raise question of budget-padding and similar practices that were feared to be occurring last winter?

GUIDANCE: The deficit for FY 76 does appear to be significantly lower than was originally forecast; we are not totally sure of all the reasons why and how this has occurred.

Part of the reason, certainly, has to do with the change in fiscal years, which provides that funds appropriated for FY 76 can be carried through the end of the transition quarter; that is, until October 1. Another reason is that the cost on interest is lower than we had anticipated.

In any case, OMB will be looking into the discrepancy in the next few weeks, and it will be awhile before we know all the reasons for this occurrence. Federal Budget calculating is obviously a complicated and technical task, and whatever the combination of reasons, they have nothing to do with so-called "padding."

Inflation

Q. The rate of inflation, though much lower than in 1974, is still high by historic standards. Moreover, some observers fear that economic recovery will spark another round of inflationary pressures. How does your administration plan to deal with inflation, should it show signs of accelerating sharply?

A. It seems to me that there are several parts to your question.

(1) Although inflation is still high it is a far cry from the fevered 12 percent or so rates of two years ago. Actually, we have been quite pleased with the performance of the price indexes of late. In July wholesale prices rose by only 0.3 percent seasonally adjusted. Recent developments are quite in line with our expectations of a 5-6 percent increase in prices this year.

(2) Several factors suggest that the groundwork for a further reduction in inflation has been laid - if we follow prudent and sensible fiscal and monetary policies in the years ahead. Bumper harvests will tend to moderate food price increases in the next year or so. Energy prices, though still rising are not likely to shoot wildly upward. Wage settlements, with an exception or two, have been moderate. In such a situation adherence to sound and prudent fiscal policy would not only prevent the

reignition of inflation but might also allow the rate of price increase to be reduced further in the next year or so.

(3) Inflation, once underway can not be brought under control quickly or easily. The great difficulties which we are just now emerging from, make it all the more important to adhere to policies which will prevent a reignition of inflation.

ZERO BASED BUDGETING

Q. Jimmy Carter has said he will introduce Zero Based Budgeting into the Federal Government, if elected. What do you think of the idea?

A. I certainly support the purpose behind bills such as Zero Based Budgeting and the Sunset Laws: reform and greater efficiency in government.

One of my major goals as President has been to make the federal government more responsive, less expensive, less burdensome, and more understandable to the average citizen.

That will continue to be a major goal, if I am elected in November.

I have proposed to Congress an "Agenda for Government Reform Act", which provides for a disciplined and mandatory approach to reviewing governmental activities. I believe it is a sound proposal to force Congress to examine many programs which should, perhaps, be discontinued.

I hope Congress will act quickly on it.

As you doubtless know, we already have done a good deal of zero based budgeting - and produced a lot of good new programs. But the Democratic Congress has done nothing with the ideas. For instance, the Child Nutrition Block Grant Plan, and the many reductions proposed in the budget itself.

But although I support the concept, I can't say I support the bills to implement it which I have seen so far. They would merely create a mountain of paperwork rather than give us the results we all want.

JBS/OMB/8-12-76

September 2, 1976

SUBJECT: WHOLESALE PRICE INDEX
FOR AUGUST

The WPI in August was down .1%, following modest increases in June (.4%) and July (.3%). The decrease was due to a 2.9% decline in food prices.

What is the President's reaction to the decline in the wholesale price index?

GUIDANCE: Overall, we are obviously pleased with the continued moderation in the wholesale price index. We are particularly pleased to note that the year-over-year (August to August) increase has now fallen to 4.0%.

The industrial price increase does, as it did last month, cause us some concern, but the seasonally adjusted rate of increase over the past six months, at 5.3%, remains within the bounds of our forecast. We still do not believe it is an indication of any acceleration of inflationary forces.

Still, we must not become complacent.

ME

September 21 , 1976

SUBJECT:

CONSUMER PRICE INDEX

SITUATION: The Consumer Price Index rose .5 of a percent during August for the third month in a row.

QUESTION: What comment do you have on this increase?
Does the increase mean you are unsuccessful
in fighting inflation?

GUIDANCE: Consumer prices continue to grow at an annual rate of approximately six percent, in line with administration forecasts. While we are encouraged that the previous concern of an acceleration have so far proved unfounded, it is essential that we continue to work for still lower rates of inflation.

JBS

CONSUMER PRICE INDEX

| | <u>1976</u> | <u>1975</u> | <u>1974</u> | <u>1973</u> |
|-----------|-------------|-------------|-------------|-------------|
| January | +0.4% | +0.6% | +1.0% | |
| February | +0.1% | +0.6% | +1.3% | |
| March | +0.2% | +0.3% | +1.1% | |
| April | +0.4% | +0.6% | +0.6% | |
| May | +0.6% | +0.4% | +1.1% | +0.6% |
| June | +0.5% | +0.8% | +1.0% | +0.6% |
| July | +0.5% | +1.2% | +0.8% | +0.2% |
| August | +0.5% | +0.2% | +1.3% | +1.9% |
| September | | +0.5% | +1.2% | +0.3% |
| October | | +0.7% | +0.9% | +0.8% |
| November | | +0.7% | +0.9% | +0.8% |
| December | | +0.5% | +0.7% | +0.5% |

October 12, 1976

SUBJECT:

\$16 BILLION UNSPENT FUNDS

SITUATION: The New York Times reported this morning that "The Government has found itself unable to spend money this year as rapidly as it had planned, and many economists are beginning to think that this 'shortfall' in Federal spending is one of the main reasons why the economic recovery shows signs of weakening. The Government's own experts do not understand why spending is so far below what was expected."

GUIDANCE: Paul O'Neill, who does know why spending is below expectations, says this is an intricate and complicated subject beyond the competence of anyone but an expert to explain. He suggests two courses:

1. Say that a proper explanation requires a knowledge of macro and micro economic analysis, and of how spending works in the government, among other things. If the reporters really want to know what the situation is, we will hold a briefing with O'Neill and others to explain fully the situation. The briefing may take about four hours.
2. But in the interim we can give a political answer:
 - a. This report indicates where Carter's economic advisors really stand. They want more spending at whatever cost, as they have proved in the past. (In 1968 Okum and Schultz promised a balanced budget. They produced a \$25 Billion deficit.)
 - b. If these advisors were really interested in strengthening the economy, where were they when President Ford was trying to get Congress to cut the growth of Federal spending and cut taxes.

JBS

October 19, 1976

SUBJECT:

ECONOMIC INDICATORS

SITUATION:

The consumer price index rose .4% during September, it was announced today.

GUIDANCE:

Alan Greenspan suggests you say we are pleased with the further evidence of a reduction in inflation - September being the lowest rate since April. We are particularly pleased with the slowing of the rate of inflation in the commodity and service sector.

If asked: Real income declined.

SITUATION:

Another report issued today showed that real spending weekly earnings are down .5%. This statistic, of course, was published earlier this month.

GUIDANCE:

If you are asked about this, Alan Greenspan suggests you say this is wholly a result of the decline in average weekly hours. We expect real earnings to be growing through the rest of this year and next.

Weekly hours have declined because average hours have been fluctuating through the year. This is not a reliable indicator and Alan suggests you stay away from it.