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NINE MAJOR ERRORS

(Washington Star, September 16, 1976)



1. Began with Nixon's announcement that the Federal Government "would take no interest when major companies decided to raise their prices." The result was predictable and prices rose faster than at any time since the Korean War.
2. Nixon's second mistake was to over-react to inflation "by putting people out of work" with high interest rates and tight fiscal policies. As a result, unemployment rose from 3.4 percent to 5.9 percent and later "Gerald Ford was to beat this terrible record."
3. Nixon's third mistake was the wage and price controls which stifled the economy.
4. The fourth mistake was Nixon's attempt in 1972 to pump up the economy with massive federal spending.
5. Nixon's fifth mistake was the "massive clandestine sale of wheat to Russia that cheated the American farmer and left the American consumer totally unprotected against inflation.
6. The sixth mistake was Nixon's attempt in 1973 to fight inflation by cutting back the money supply which drove up mortgage interest rates.
7. The seventh Republican error was Ford's asking Congress to raise taxes in October 1974 which caused unemployment to soar with the result that 2.3 million additional people were jobless after Ford's first six months in office.
8. The eighth Republican error was the deliberate attempt to raise energy prices. "The Nation needs to conserve fuel, but Mr. Ford's crude policies seemed designed to save gasoline by making sure that no one had a job to drive to."
9. The ninth error was Ford's vetoes of legislation for programs "that could reduce unemployment and increase productivity by training and targeting workers for the jobs the Nation needs done."

The "Nine Major Errors" statement is a combination of truths, cleverly exaggerated half truths and errors. The concentration on wage and price controls as a symbol of total economic management effectiveness is a particularly revealing example of self-serving analysis.

1. Began with Nixon's announcement that the Federal Government "would take no interest when major companies decided to raise their prices." The result was predictable and prices rose faster than at any time since the Korean War.

Facts:

If President Nixon actually said he would take "no interest" (no source cited) the comment is taken out of the context of the general message that the ineffective--sometimes disruptive, jawboning efforts of the Kennedy-Johnson era would not be perpetuated. Those distortions helped push the rate of inflation from the average of 1.3 percent from 1958 to 1965 up to much higher levels by the end of the Democratic Administration. A simple review of the facts refutes the first claim. The annual rate of increase in the Consumer Price Index is summarized as follows (in percent):

<u>Year</u>	<u>Percent</u>	<u>Year</u>	<u>Percent</u>
1961	1.0	1969	5.4
1962	1.1	1970	5.9
1963	1.2	1971	4.3
1964	1.3	1972	3.3
1965	1.7	1973	6.2
1966	2.9	1973	6.2
1967	2.9	1974	11.0
1968	4.2	1975	9.1



As indicated, President Nixon's policies did reduce the rate of inflation following the normal lags while earlier policies worked their way out through the system.

It was only after the economy was again overheated by excessive monetary and fiscal stimulus combined with exogenous effects of crops, oil, devaluations, and the serious shortages and investment distortions caused partly by the wage and price controls themselves that inflation once again escalated in 1973. The avoidance of jawboning was not the cause of the 1973 acceleration of inflation and anyone interested in going beyond phony political rhetoric would admit that.

2. Nixon's second mistake was to over-react to inflation "by putting people out of work" with high interest rates and tight fiscal policies. As a result, unemployment rose from 3.4 percent to 5.9 percent and later "Gerald Ford was to beat this terrible record."

Facts:

It is an exaggeration to label the elimination of the excessive fiscal and monetary policies of the mid-1960's as an over reaction. The unemployment rate of 3.4 percent referred to is one of the 4 examples in the 21 years when the rate was below 4 percent. In fact, over the period 1955-1975 unemployment has averaged 5.2 percent. The 3.4 percent figure was the result of policies in the mid-1960's which overheated the economy and created the inflation and stop-and-go pattern that we are still suffering from ten years later. As to the use of unemployment under President Ford, credit should be given to the fiscal and monetary policies that preceded his tenure for causing the severe recession he inherited.



5. Nixon's fifth mistake was the "massive clandestine sale of wheat to Russia. that cheated the American farmer and left the American consumer totally unprotected against inflation.

Facts:

In retrospect, the first sale of grain to the Russians is widely criticized because of the non-disclosure of important information by the Russians. At the time it was widely applauded by farmers, foreign affairs specialists and trade experts as a desirable export sale that increased farm income, the use of American ships and crews, improved our trade balance and contributed to the prospects for detente. The second time the issue was raised--this time under President Ford--the earlier information and strategic errors were corrected and most analysts agree that an effective transaction occurred.



6. The sixth mistake was Nixon's attempt in 1973 to fight inflation by cutting back the money supply which drove up mortgage interest rates.

Facts:

Whoever wrote the Democratic piece has an intellectually dishonest approach in using isolated specific examples to prove an exaggerated generalization. Of the three policies--fiscal, monetary and controls--the writer keeps shifting his arguments and usually uses the statistics improperly. The accusation about "cutting back" the money supply as a cause of the rise in mortgage interest rates ignores the real need to correct for the exaggerated monetary stimulus of 1971-1972--but the moderation occurred in 1974-75--properly so, not during 1973.

Annual Rate of Growth

	Money Stock	Money Stock plus Monetary Net Time Deposits	Base
1956 to 1965 average	2.3	---	2.7
1966 to 1975 average	5.8	---	6.4
1968	7.2	9.0	6.2
1969	6.0	6.5	4.8
1970	3.9	4.2	4.3
1971	6.7	11.6	7.8
1972	7.0	10.6	7.2
1973	7.5	9.6	8.1
1974	↓ 5.5	↓ 8.4	↓ 7.9
1975	↓ 4.2	↓ 7.6	↓ 7.1

The critic has his facts wrong. As to mortgage interest rates, he again exaggerates the effects. The things that hurts housing are: (1) the stop-and-go economic policies of the past; (2) the excessive inflation rates that push interest rates up; and (3) the fantastic inflation of home prices in recent years. The actual mortgage rates did not change that much in 1973 as he implies. The upward shift came later as inflation escalated to double-digit levels.

New Home Mortgage Yields -- FHLBB

1970	8.45	1972	7.60	1974	8.92
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7. The seventh Republican error was Ford's asking Congress to raise taxes in October 1974 which caused unemployment to soar with the result that 2.3 million additional people were jobless after Ford's first six months in office.

Facts:

In October 1974, the President asked for specific temporary taxes on businesses and high income individuals to specifically pay for the increase in unemployment compensation benefits and other anti-inflation actions. The entire package was fiscally neutral and was based on the novel assumption that the government has a responsibility to provide the revenues, to pay for the programs adopted rather than simply increasing spending without regard for the chronic deficits of the past. Since Congress did not act on this proposal it can hardly be cited as the specific cause of severe recession, and related unemployment, which was actually caused by the accumulated inflation pressures and the oil embargo shock. The writer has either a poor memory or a lack of economic understanding, or perhaps both.

8. The eighth Republican error was the deliberate attempt to raise energy prices. "The Nation needs to conserve fuel, but Mr. Ford's crude policies seemed designed to save gasoline by making sure that no one had a job to drive to."

Rebuttal

President Ford's energy policy is based, in part, on the need to (1) provide for the expansion of domestic energy supplies so that we can sustain a full employment economy from domestic energy sources and (2) to reduce our vulnerability to import interruptions which would lead to a reduction in GNP and employment.

The major objectives of the President's energy program have been to stimulate energy conservation and to increase the domestic supply of natural gas, oil, and nuclear energy. Also, the President supports and encourages research and commercialization of advanced energy technology to obtain energy from solar, geothermal, fusion and other sources.

One of the most efficient means to achieve these objectives is through decontrol of energy prices. Decontrol of oil and gas prices will permit domestic crude and alternate energy sources to assume their true relative value -- a fact which would make a major contribution to the solution of our national energy dilemma.

9. The ninth error was Ford's vetoes of legislation for programs "that could reduce unemployment and increase productivity by training and targeting workers for the jobs the Nation needs done."

Facts:

The President sharply increased unemployment compensation benefits and the scope of coverage. He also asked for, and got from Congress, an expansion of specific manpower and education funds--including a reasonable increase in public service employment funding. He vetoed the so-called "job bills" because the spending increases went far beyond what could be effectively spent and created the risks of renewed inflation pressures which are the major destroyer of jobs.



DETROIT NEWS
DECEMBER 16, 1976

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TO: CHARLES ARNOLD
OFFICE OF SECRETARY OF TREASURY

FROM: INTERNAL REVENUE SERVICE, DETR

Carter accuses GOP of economic errors

By CLARK HALL

DETROIT (AP) —

Democratic presidential nominee Jimmy Carter lashed out at his opponents in Michigan last night and his own party's leaders yet, accusing President Ford's economic policies and linking them to that of his predecessor, Richard Nixon.

At Mr. Ford was addressing an audience in Ann Arbor, Carter told 1,000

people

that he was not a Carter supporter, but a Ford supporter, and that he was not a Republican, but a Democrat.

The Democratic vice president of Michigan, Charles W. Ford, said that he was not a Carter supporter, but a Ford supporter, and that he was not a Republican, but a Democrat.

TO: CHARLES ARNOLD
OFFICE OF SECRETARY OF TREASURY

FROM: INTERNAL REVENUE SERVICE, DETROIT

44 - THE DETROIT NEWS - Thursday, January 11, 1968

Carter's welcome — it's peanuts

By Lowell Cantwell

It was a quiet, unremarkable

But it wasn't really apparent in

Jimmy Carter's welcome at Detroit

Michigan Airport yesterday — which

was an arrival from the candidate of the
Democratic Party who drew a line of about 10
miles of cars, which included Detroit
Mayor Coleman A. Young, Secretary of
State Richard Austin and State Atty. Gen.
Frank Kelly.

Reporters who were allowed within the
airport area found the young man they
saw called a Secret Service man who he
thought was the police man in front of