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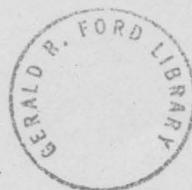
WHY NOT TRY THE TRUTH?

A REPUBLICAN'S CALL FOR A SERIOUS PARTY PLATFORM

By William E. Simon

"Political campaigns," James Harvey Robinson complained in 1937, "are designedly made into emotional orgies which endeavor to distract attention from the real issues involved, and they actually paralyze what slight powers of cerebration man can normally muster." What was already too true in 1937 is even more so today. The modern presidential race, from its primary kick-off in New Hampshire to its ceremonial culmination in Washington on Inauguration Day, is one long media carnival of color, charisma, sound, fury, and only an occasional stray fact.

The trend to vagueness in American politics has been building for many years and the hardest hit casualty has been the party platform as a politically significant document. In a country where presidential elections and the national destiny were once decided on the basis of platform issues



(slavery, tariffs and the fate of the Union itself, to name a few) most recent party platforms have been studies in political silly putty -- soft, shapeless heaps of meaningless rhetoric larded with impossible promises and intended to be all things to all men.

This is particularly true of the current Democratic Party platform which Governor Carter's operatives publicly strove to make as elastic and amorphous as possible. What a sad comedown for the party of Harry Truman, who wrote in his memoirs that, "To me, party platforms are contracts with the people." Today, they are not so much contracts as long strings of eloquent loopholes. Having said this, I hasten to add that recent Republican platforms have suffered from the same combination of political cynicism and philosophical cowardice and that, once again this year, we will probably end up with a bland, neutered Republican Platform that will try to fight Jello with Jello.

The recent tendency has been for both candidates and parties to try to "out vague" each other, thereby hoping to capture most of the middle ground and a generous share of both fringes. There have been times when this tactic has worked. I submit, however, that it would be a fatal mistake for the GOP to pursue this strategy in 1976.

The only way for the Republican Party to emerge from the threat of permanent underdog status is to take a clear stand on the crucial issues that our natural constituency -- and



all Americans -- can understand and sympathize with. Instead of fighting Jello with Jello, I believe we can cut through the smoggy, formless Democratic consensus with a clear, hard-hitting platform.

Abraham Lincoln, the first Republican president, said, "I have faith in the people ... The danger is in their being misled. Let them know the truth and the country is safe." It is high time we adhered to this maxim of Lincoln's and appealed to the basic good sense and hunger for the truth that most Americans share.

The alternative is to limp out of a potentially bitter convention battle this summer with a watered-down imitation of the Democratic Platform and the very untempting prospect of having to out-charm and out-obfuscate a masterful opponent, -- all this while saddled with the traumatic White House record of the last eight years and a much smaller voter base in every region of the country.

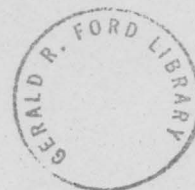
For the grim statistics are inescapable -- from an almost even split with the Democrats in the early 1940's, the national political balance has tilted to the point where, in George Gallup's latest (May 1976) measuring of party identification, Democrats outnumber Republicans by more than 2 to 1 (46% to 22% with the remaining 32% independent). And Governor Carter's appeal as a native son threatens to deeply erode the Democratic crossover vote in the South that helped the GOP to capture the White House in both 1968 and 1972. Add to this the fact that Republican strength in the Senate, the House, state legislatures



and governors' mansions is at its lowest ebb since the debacle of 1964 and it becomes clear that this is no time for business as usual -- business as usual having brought us more than a generation of Republican decline.

Since the Great Depression, the GOP has elected only two Presidents. One of them, Dwight Eisenhower, was perceived by most of the public as an apolitical war hero; the other, Richard Nixon, was narrowly elected in 1968 on a wave of public revulsion at the mishandled Vietnam War, domestic violence and chaos, and the broken promises of the New Frontier and the Great Society. 1968 was far from a total victory -- the narrow election of a Republican President was balanced by the election of Democratic majorities in both houses of the Congress. The country clearly wanted a breathing spell after eight frenetic and basically unsuccessful years of Democratic Presidents, but the GOP itself had not yet captured the imaginations or sympathies of most voters, a majority having cast their ballots for either Hubert Humphrey or George Wallace, as well as for Democratic Congressional and Senate candidates.

Things moved a step closer to a new Republican consensus in 1972. But here, too, Democratic folly -- in this case the party's temporary capture by George McGovern's New Left apostles -- may have had as much to do with the outcome as Republican wisdom. President Nixon's popular foreign policy initiatives and his other positive achievements



deserve a good part of the credit for his win in 1972 but it only reached landslide proportions because millions of Democrats and Independents feared and distrusted what they perceived to be the dangerous and foolish radicalism of McGovern positions on everything from foreign policy to taxation. However, despite the one-sided Presidential returns, with Richard Nixon sweeping every state but Massachusetts, the same voters returned strong Democratic majorities in both the Senate and the House of Representatives.

Throughout the first term of the Nixon Administration, the President had found it necessary to trade off many domestic Republican policies and goals in order to carry out his foreign policy. Given the composition of the Congress, perhaps this was inevitable, but it led to the disillusionment of many conservative supporters, Republican, Democratic and Independent alike, who saw government spending and debt continue to pile up and government programs and red tape continue to proliferate. The over-all domestic track record of the first Nixon Administration was a striking case of what columnist Pat Buchanan has called "Conservative Votes, Liberal Victories". As he points out in his recent book of the same title:

...looking back at the budget, economic and social policies of the Republican years, it would not be unfair to conclude that the political verdict of 1968 had brought reaffirmation, rather than repudiation, of Great Society liberalism.



In early 1973, before his Administration began to die the lingering death of the Watergate crisis, President Nixon did turn to domestic policy in a big way. His 1973 State of the Union Address, and the detailed proposals that followed it were true to genuine Republican principles. Bolstered by his landslide, the President launched an all-out "Battle of the Budget" intended as the first stage in a long series of domestic Republican initiatives that would cut back the runaway growth of big government and restore the nation to fiscal sanity. But, thanks to Watergate, this promising beginning of a policy geared to what conservative political analysts like Kevin Phillips had heralded as an "Emerging Republican Majority" went up in smoke.

It is greatly to President Ford's credit that, despite the sweeping Democratic gains in the 1974 elections, he has successfully rallied the Republican minority in the Congress and used the power of the veto to fight inflation and recession and lead America to a healthy, balanced economic recovery. If all of the massive spending measures advocated by the Democratic majority in the past two years had become law, we would be on our way to a new and deeper recession today.

The 1976 Democratic Platform, which, according to one estimate, would add another \$200 billion in annual government spending could, if implemented, plunge us into economic catastrophe. That Platform calls for nearly \$1000 in new federal spending for every man, woman and child in the United States and would mean dangerous erosion through runaway inflation, of the savings, earnings and economic security of all Americans, rich and poor alike. Hardest hit of all would be low-income Americans and those who, like many of our senior citizens, live on fixed incomes.

A Democratic Congress in cooperation with a Democratic President like Governor Carter, who has already committed himself to massive new spending programs including a compulsory national health plan, the Humphrey-Hawkins bill guaranteeing a job for every American at government expense if necessary, massive Federal aid to the cities, and a nationwide system of child care centers, would inevitably follow this economic game plan -- a game plan which is a blueprint for disaster.

Yet here we are, only a few months away from the 1976

elections and, despite the contrast between President Ford's performance and an abysmal Democratic legislative record, that party is heavily favored in the polls to hold its strong majorities in the House and Senate and to recapture the White House. Meanwhile, President Ford and Governor Reagan are engaged in a down-to-the-wire battle for the GOP nomination. And once that internecine struggle is over -- and regardless of its outcome -- a shaken Republican Party will have to face the most unified Democratic Presidential effort mounted since the days of F.D.R.

How did we reach this point? "The trouble with the Republican Party," as Woodrow Wilson once observed, "is that it has not had a new idea for 30 years. I am not speaking as a politician," he added. "I am speaking as a historian." Well, it has been another 51 years since Woodrow Wilson made his observation and I am afraid it still holds true, at least in the minds of a growing number of voters.

As far as they are concerned, the Republican Party, except for its good record in avoiding wars (only a potent issue while the guns are still smoking), stands for very little indeed. It isn't so much that the average voter thinks the GOP is too conservative or needs more "bleeding hearts"; the problem is that he thinks we ignore, do not relate, and are irrelevant to, the average American, who, ironically, is still a pretty conservative, very common-sense fellow. Too many voters see the GOP not as a party, but as a narrow, vested interest -- a barely disguised front for big corporations, bankers and the Chamber of Commerce. Unfortunately this misconception is as potent as it is false.

By contrast, the Democratic Party, from the days of Franklin Roosevelt on, has managed to hold the loyalties of millions of blue collar workers, liberal elitists and regional, ethnic and racial minorities who bury their individual differences, to co-exist under the Democratic umbrella when the time comes to vote. The GOP has never managed to coalesce an equally potent, cross-class, inter-regional appeal since the Great Depression. Even our traditional base constituency of skilled workers, farmers, white collar workers and business and professional people -- the expanded American middle class that covers more social and economic ground than the European Bourgeoisie -- has been severely shaken by Watergate



and our failure (due in large measure to overwhelming Democratic Congressional opposition) to fully match our domestic policy to our political rhetoric during eight years in the White House. In addition, looking further down the road, more and more of the sons and daughters of this potential Republican power base are demonstrating their lack of faith in either party by registering as Independents.

But more immediately to the point, the GOP has not done a very good job of serving this natural Republican constituency. As Senator Bill Brock of Tennessee recently put it,

There is much frustration in our natural base -- the small businessman who is being driven crazy by bureaucracy and regulation ... lots of them are saying it doesn't matter who's in charge in Washington; no one can stop it. We've failed to pay attention to older Americans, to the suburbs, to the urban communities. By accident or design, we're driving people away from participation.

To bend slightly a phrase of Daniel Patrick Moynihan's the Republican Party today is suffering from a massive dose of self-inflicted Malign Neglect. What will it take to turn the party -- and its potential majority constituency -- away from the road to political demise? More than an attractive candidate. This year we have two good men fighting for the GOP nomination. Both have a different set of strengths and weaknesses, appeals and defects, and both are personally attractive, appealing candidates. But I would submit that the identity of the 1976 Republican Presidential nominee, while

important, is not the only crucial thing at stake for the GOP and the future of the two party system in America.

Just as important to our salvation as a party, and to the possibility of victory in November, is a common sense appeal to the American voters -- a platform that is, in Harry Truman's words, a genuine contract with the people, a commitment to more than vague good intentions. We need to spell out, in plain language, what we stand for and what we believe in.

Where should we stake out our ideological ground? To begin, we believe in the maximum possible individual freedom and the minimum possible degree of government interference in the lives of our people. We recognize, however, that certain aspects of the welfare state -- although not the cumbersome and costly nature of the state mechanism itself -- are here to stay in one form or another. But, as Professor Irving Kristol recently pointed out in a provocative essay in the Wall Street Journal, there is no reason why America, under effective Republican leadership, cannot develop a conservative form of compassionate government which meets basic human needs with an emphasis on individual freedom of choice and a heavy reliance on the productivity and economic vitality of our free enterprise system rather than massive government planning, control and taxation.

We have reached the point, Professor Kristol maintains, where most Americans expect some form of government action to help them cope with problems like old age, illness and



unemployment: "They need such assistance; they demand it; they will get it. The only interesting political question is: How will they get it?"

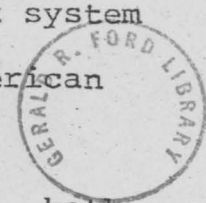
Instead of trying to do a little less, a little later than the Democrats, we must have a positive program of our own. It does not have to be complicated to be effective. All it requires is an underlying moral commitment to personal freedom and care for those who genuinely need help.

This moral commitment would be linked to four equally explicit policy goals:

- Prosperity and economic growth through encouragement of the private sector that provides five of every six jobs in America and generates the abundance that pays for government as well.
- Skillful management of economic affairs by creating an environment of sustained, non-inflationary growth which will benefit every man, woman and child in our country.
- Reducing the growth of runaway government which more and more Americans recognize as the biggest single domestic problem facing our country today.
- Lowering the level of taxation in America. Taxes are too high for almost everyone. We must reduce the overall level of taxation so that our vital economy and society are spared the stultification and decay we have seen in other societies where the state has consumed an ever larger part of the national product.

These moral and practical guidelines would provide the basis for the most sweeping reform of American government in our history. Many areas would be affected, but two would be paramount, taxes and welfare. The goal for both would be the same: equity, efficiency and simplicity.

As they are now constituted, America's tax and welfare systems are a national disgrace. Our complex, contradictory and inequitable tax laws are a boondoggle for lawyers and accountants and sheer hell for everyone else. Successive Democratic Congresses have tinkered with tax legislation to curry favor with pressure groups, court temporary popularity at election time, and generally wreak havoc with the economy. The result has been economic instability and taxpayer distrust and frustration. It is time to restructure the tax system to provide a fair deal and tax relief for every American taxpayer.



Our welfare system has been equally disastrous, both socially and economically. It degrades millions of our citizens; it wastes billions of dollars through inefficiency and duplication of effort, and it offers welfare recipients little or no encouragement to build meaningful, productive lives for themselves and their families. Republican welfare reform should sweep away the current myriad of conflicting, ad hoc programs such as Aid to Dependent Children, Food Stamps, and Supplementary Security Income, and replace them with a single comprehensive income maintenance program. This would include rigorous work requirements to guarantee that all those who are able to work do so, and work incentives to allow marginal earners to seek employment or stay on the job while receiving needed assistance. The truly needy would be helped more directly and with less costly red tape and confusing program duplication, but self-help and upward movement into the

labor force would be strongly encouraged.

A sound Republican platform could also harness private sector know-how to replace cumbersome and wasteful government programs in the area of job training, especially for minorities and the underprivileged. Let me give you one striking example of how a few highly motivated community leaders with a sound understanding of private sector job requirements began an organization that has since helped hundreds of thousands of potential welfare recipients to become productive members of society. In 1964 Reverend Leon H. Sullivan, a black pastor and civic leader, founded the first Opportunity Industrialization Center in an abandoned jailhouse in a high crime section of North Philadelphia. His aim was as simple as it was important -- to avoid bureaucratic red tape and waste and to provide relevant job training and placement with maximum efficiency at a minimum cost.

The success of Reverend Sullivan's program was such that there are now local OIC affiliates in every part of the country. And between 1964 and 1975 the program trained 353 thousand men and women and placed 250 thousand in jobs with an impressive 85% retention rate. These OIC-trained and placed workers earned nearly \$5 billion during the same period, paid \$600 million in Federal taxes and saved the taxpayer \$1.5 Billion in potential welfare payments.

OIC is not now and never should become a political football. But it is the kind of effective, private sector-oriented

approach to job training and underprivileged minorities that a Republican Platform should espouse in place of multi-billion dollar Democratic proposals for federal employment boondoggles.

Another area rich in potential for a solid Republican Platform is the whole range of Federal deregulation. Year after year the Federal regulatory bureaucracy, with a will and a life of its own, and with the support of a wide range of special economic and political interest groups, has grown like toadstools after a heavy rain. Today the Federal regulatory apparatus employs an army of 100 thousand people and costs the private sector (ultimately, the American consumer) \$40 billion a year just to fill out forms.

President Ford has worked long and hard for regulatory reform despite Congressional opposition. A serious Republican Platform should carry on this work and call for an across the board cost-benefit analysis of all Federal regulatory agencies to determine which ones provide needed services to the public which justify their costs. Those that do not should be abolished for the sake of the consumer, the small businessman and the taxpayer alike.

Deregulation is only one of many "sleeper" issues that could rally support from millions of Americans -- but only as part of a clearly enunciated Republican Platform. Other platform planks should deal forcefully and directly with:

- Congressional Reform: A real clean-up of the inefficient and all-too-often corrupt system of mismanagement that has built up under the Democratic Congressional power monopoly of more than a generation. The platform should also provide for the closest possible coordination and cooperation between GOP Presidential and Congressional candidates. Winning the White House without making substantial gains in the Congress would be a hollow victory at best; an effective Republican President can only excel with strong Republican Congressional support on the legislative front.
- A Thorough Study of Federal/State/Local Relationships: Because of the vast changes in government, society and the economy, and because of the complex variety of legislative and administrative measures that are now a part of government at all levels, it is past time for a thorough examination of the relationship between the three layers of government. The findings would make it possible to tailor future legislation and planning to reality rather than rhetoric, and would clearly re-define limits and distinctions that have become blurred by sloppy legislation and ambiguous court rulings.
- Automatic Phaseout of Redundant Government Programs and Personnel: Every Federal program should have an automatic phaseout date and face automatic elimination, like Federal regulatory agencies, unless its extended existence can be justified on a regular, periodic basis. The burden of proof should lie with the programs and bureaucrats who soak up billions of dollars in revenues, not with the taxpayers who foot the bill.
- Limitation of Terms in Office: One of the biggest problems in trying to govern responsibly in Washington is the obstruction of elected officials who have built up personal political empires over the years and who think only in terms of perpetuating them. Their sole concern is winning the next election -- not protecting the next generation. We should give strong consideration to a Constitutional amendment limiting terms of public office -- possibly to a single six-year Presidential term, two six-year Senate terms and four three-year Congressional terms.

Reforms like these must be made if America is to survive as a free and prosperous nation. All of them directly address the issue that is fast becoming the main public concern of our times -- the dangerous, uncontrolled growth of big government and the resultant loss of personal and economic freedom. The Democrats invented big government in America. Many of their leaders still openly call for its expansion. Others pay half-hearted lip service to the idea of dismantling their own monster. But, like Doctor Frankenstein, their hearts really aren't in it; it's their baby and their political status quo.

Even Governor Carter, who preaches so movingly against Washington and big government isn't really what he seems. Already, in the words of political columnist Robert Novak, he has "officially embraced the Holy Trinity of liberal Democratic nostrums" -- the multi-billion dollar Humphrey-Hawkins Bill, compulsory national health insurance, and Federal aid to the cities mentioned earlier. Thus, while preaching against big government, he is prepared to enlarge its domain significantly.

Only a united, revitalized Republican Party, running on a detailed, well thought out platform, can achieve the kind of political and economic reform our country needs and our people want. But time is running out. 1976 may be the last opportunity our party will

have to stem the tide of big government and thinly-disguised state socialism as practiced -- if not preached -- by the Democratic Party.

"Those who won our independence," wrote Justice Louis Brandeis, "believed that the final end of the State was to make men free to develop their faculties ... They valued liberty both as an end and as a means. They believed liberty to be the secret of happiness and courage to be the secret of liberty."

What the Republican Party needs today is the courage of its convictions -- a renewed belief in the fundamental truths of liberty that the Party of Lincoln embodies, along with the guts and vision to take the truth to the people. We can only succeed if we act as statesmen instead of politicians, if we build and expound a platform of programs instead of platitudes and offer serious ideas and practical policies based on common sense and common decency.

Is the Republican Party finished? An awful lot of people seem to think so. But, if we are failing, it is because, in a very real sense, we have not yet begun to fight. For unless we enunciate and battle for our principles, we cannot reasonably expect the American people to give us the mandate we need to effectively govern.

And whether we succeed or fail, much more is at stake than just the future of our party. The issues have never been more clearly explicit; we must keep them from getting buried in political flim flam.



Mike Deval

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
OF THE UNITED STATES
AT THE OECD MINISTERIAL MEETING IN PARIS
JUNE 22, 1976

AS WE MEET TODAY TO STRENGTHEN THE SPIRIT OF COOPERATION
AND CONSULTATION, WE DO SO WITH HEIGHTENED CONFIDENCE. WE
CAN REFLECT WITH SATISFACTION ON THE IMPROVED PATTERN OF
GROWTH AND EMPLOYMENT WITHIN THE INDUSTRIAL WORLD. THE
STRONG ECONOMIC RECOVERY IN THE UNITED STATES AND OTHER
INDUSTRIAL NATIONS IS BEGINNING TO IMPROVE ECONOMIC
PROSPECTS FOR OTHER NATIONS AS THEIR EXPORTS INCREASE. WE
HAVE REACHED AGREEMENT ON THE MAIN ELEMENTS OF A NEW
INTERNATIONAL MONETARY SYSTEM WHICH, WHEN RATIFIED BY OUR
PARLIAMENTS, WILL PROVIDE THE LEGAL STRUCTURE FOR FLEXIBLE
AND RESILENT ARRANGEMENTS PATTERNED TO THE NEEDS OF TODAY'S
WORLD.

YET THE TASKS BEFORE US REMAIN FORMIDABLE:



FIRST, WE MUST SEEK TO CONVERT THE CURRENT RECOVERY INTO SUSTAINABLE ECONOMIC EXPANSION. THE INDUSTRIAL COUNTRIES HAVE RECOVERED FROM THE WORST RECESSION IN FORTY YEARS. RECOVERY MUST NOW BE CONVERTED INTO SUSTAINABLE EXPANSION THROUGH THE IMPLEMENTATION OF PRUDENT ECONOMIC AND FINANCIAL POLICIES AIMED

AT REDUCING INFLATION. BECAUSE CONDITIONS VARY FROM COUNTRY TO COUNTRY, DIFFERENT, THOUGH COMPATIBLE STRATEGIES WILL BE REQUIRED.

SECOND, WE MUST ACHIEVE A PATTERN OF INTERNATIONAL PAYMENTS WHICH REFLECTS THE REALITIES OF THE EXCHANGE MARKET AND IS SUSTAINABLE. THERE CAN BE NO STABILITY IN EXCHANGE RATES OR SUSTAINABILITY IN INTERNATIONAL PAYMENTS PATTERNS, UNTIL STABILITY HAS BEEN RESTORED IN UNDERLYING ECONOMIC AND FINANCIAL CONDITIONS. SUBSTANTIAL AND IN SOME CASES DIFFICULT ADJUSTMENTS ARE REQUIRED FOR BOTH DEFICIT AND SURPLUS COUNTRIES.

THIRD, WE MUST ADOPT POLICIES THAT WILL INSURE A FREE AND OPEN WORLD TRADE AND INVESTMENT ORDER.

FOURTH, WE MUST REALISTICALLY ADDRESS THE LEGITIMATE CONCERNS OF THE DEVELOPING WORLD. BUT, WE MUST AVOID PROMISING WHAT CANNOT BE DELIVERED AND POLICIES WHICH WOULD DISTORT THE PROPER FUNCTIONING OF OUR MARKET-ORIENTED ECONOMIC SYSTEM.

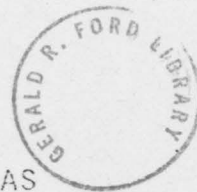
WE MUST FACE THESE CHALLENGES TOGETHER. HISTORY HAS TAUGHT US THAT NO COUNTRY OR GROUP OF NATIONS CAN SOLVE ECONOMIC PROBLEMS IN ISOLATION. ECONOMIC PROGRESS AND PROSPERITY CANNOT BE ACHIEVED IF COUNTRIES SEEK TO EXACT AN EXORBITANT PRICE FROM OTHERS OR EXPORT THEIR ECONOMIC DIFFICULTIES. OUR FUTURE DEPENDS ON OUR WILLINGNESS TO COOPERATE AND OUR ABILITY TO LEAD.

LET US EXAMINE IN MORE DETAIL THE TASKS BEFORE US.

THE PREREQUISITE TO SUSTAINED EXPANSION

WE HAVE ACHIEVED RECOVERY. HOWEVER, WE MUST REMAIN PARTICULARLY CAUTIOUS, FOR WE HAVE LEFT THE DEEPEST OF POST-WAR RECESSIONS WITH INFLATION RATES THAT REMAIN HIGH IN HISTORICAL TERMS AND UNACCEPTABLE AS PART OF A RECOVERY FORECAST. OUR CONCERN TODAY IS THAT INFLATION BE FURTHER REDUCED SO THAT EXPANSION CAN BE SUSTAINED.

IN THE UNITED STATES THE RECOVERY THAT BEGAN IN MARCH 1975 IS NOW WELL INTO ITS SECOND YEAR OF A RELATIVELY STRONG AND BALANCED EXPANSION: REAL OUTPUT HAS INCREASED 7.1 PERCENT OVER THE LAST FOUR QUARTERS WHILE INFLATION HAS DECLINED TO AN AVERAGE RATE OF 5.5 PERCENT; EMPLOYMENT HAS RISEN SHARPLY BY 3.6 MILLION WORKERS AND THE UNEMPLOYMENT RATE HAS DROPPED FROM ALMOST 9 PERCENT TO 7.3 PERCENT IN MAY; AND OUR TRADE BALANCE HAS DECLINED FROM RECORD SURPLUS



TO SUBSTANTIAL DEFICIT AS THE PACE OF ECONOMIC EXPANSION AND THE END OF THE INVENTORY ADJUSTMENT INCREASES OUR DEMAND FOR IMPORTS. WHILE PERSONAL CONSUMPTION PROVIDED THE BASIC THRUST FOR THE RECOVERY, MORE RECENTLY BUSINESS SPENDING FOR INVENTORIES AND A GRADUAL TURNAROUND IN THE HOUSING SECTOR HAVE ADDED MOMENTUM. A FURTHER STEP IN THE RECOVERY SEQUENCE INVOLVES THE ACCELERATION OF BUSINESS SPENDING FOR PLANT AND EQUIPMENT WHICH APPEARED TO BOTTOM OUT LATE LAST YEAR AND HAS BEGUN SHOWING FAVORABLE SIGNS THAT THE IMPROVEMENT NOW EXPECTED TO BEGIN BY LATE 1976 AND EARLY 1977 WILL OCCUR ON SCHEDULE.

THERE ARE, OF COURSE, PROBLEM AREAS WHICH WE ARE CLOSELY MONITORING: (1) THE BEHAVIOR OF RAW MATERIAL PRICES WHICH CAN BE EXPECTED TO RISE AS THE EXPANSION CONTINUES; (2) THE MAJOR LABOR CONTRACT NEGOTIATIONS SCHEDULED FOR THIS YEAR; AND (3) THE PERENNIAL CONCERN ABOUT THE IMPACT OF WEATHER ON THE CROP HARVESTS. FORTUNATELY, WHOLESALE INDUSTRIAL COMMODITY

PRICE INCREASES HAVE REMAINED RELATIVELY MODERATE TO DATE WITH SUCH PRICES RISING AT AN ANNUAL RATE OF 3.7 PERCENT DURING THE LAST SIX MONTHS. AVERAGE COMPENSATION GAINS HAVE BEEN RISING AT AN 8 PERCENT ANNUAL RATE AND MOST CONTRACT SETTLEMENTS HAVE CONTINUED THE PROCESS OF SLOWLY GEARING DOWN COST PRESSURES. WITH PRODUCTIVITY GAINS SOMEWHAT ABOVE THE HISTORICAL AVERAGE AT THIS STAGE OF THE CYCLE, THE INCREASE IN UNIT LABOR COSTS IS MODERATE. FINALLY, THE CROP SITUATION LOOKS RELATIVELY FAVORABLE.

OUR ECONOMIC PROJECTIONS FOR 1976 HAVE BEEN REVISED. OUR NEW PROJECTIONS ANTICIPATE OUTPUT NEAR 7 PERCENT, WELL ABOVE THE ORIGINAL ESTIMATE OF 5 PERCENT; THE INFLATION RATE NEAR 5 PERCENT, WELL BELOW THE ORIGINAL ESTIMATE OF 6 PERCENT; AND THE UNEMPLOYMENT RATE TO DECLINE BELOW 7 PERCENT BY YEAR-END. MOREOVER, WE ARE CONFIDENT THAT THE EXPANSION CAN BE SUSTAINED WELL BEYOND 1976.

VIRTUALLY ALL OF THE ECONOMIES OF THE OECD AREA ARE EITHER EXPERIENCING RECOVERY OR, LIKE THE UNITED STATES,

HAVE MOVED BEYOND THE RECOVERY STAGE TO SOLID EXPANSION.
THE CONCERN TODAY IS NO LONGER ONE OF RECOVERY BUT OF
SUSTAINING OUR GROWTH. SOME ANALYSTS BELIEVE THAT DEMAND
WILL NOT BE STRONG ENOUGH TO SUPPORT FURTHER EXPANSION.
I DO NOT SEE MAJOR NEAR-TERM DISTORTIONS IN THE CONTINUED
EXPANSION FROM THE DEMAND SIDE. TO THE CONTRARY, THE
GREATEST THREAT TO THE SUSTAINED EXPANSION IS THE RISK OF
A RESURGENCE OF INFLATION.

ON THE BASIS OF PRESENT POLICIES, THE OECD SECRETARY
EXPECTS AN AVERAGE INFLATION RATE OF 8.2 PERCENT IN 1976.
IN SOME COUNTRIES PRICE INCREASES ARE EXPECTED TO BE NO LESS
THAN 15 PERCENT. UNLESS THESE INFLATION RATES CAN BE BROUGHT
DOWN FURTHER THERE IS NO WAY THAT OUR EXPANSION CAN BE
LASTING.

THE POLICY ERRORS OF THE PAST AND OUR HOPES FOR
THE FUTURE FORCE US TO RECOGNIZE A BASIC REALITY; INFLATION
IS THE GREATEST THREAT TO SUSTAINED ECONOMIC DEVELOPMENT
AND THE ULTIMATE SURVIVAL OF ALL OF OUR BASIC INSTITUTIONS.
THE LESSONS OF HISTORY CLEARLY INDICATE THAT WHEN INFLATION

DISTORTS THE ECONOMIC SYSTEM AND DESTROYS INCENTIVES THE PEOPLE WILL NO LONGER SUPPORT THAT SYSTEM AND SOCIETY DISINTEGRATES. OUR UNIQUELY CREATIVE AND PRODUCTIVE SOCIETY WILL BE SEVERELY DAMAGED IF INFLATION CONTINUES TO DOMINATE ECONOMIC AFFAIRS. THERE IS NO TRADEOFF BETWEEN THE GOALS OF PRICE STABILITY AND LOW UNEMPLOYMENT AS SOME CRITICS HAVE ERRONEOUSLY CLAIMED. TO THE CONTRARY, THE ACHIEVEMENT OF BOTH GOALS IS INTERDEPENDENT. IF WE ARE TO SUSTAIN THE OUTPUT OF GOODS AND SERVICES AND REDUCE UNEMPLOYMENT, WE MUST FIRST CONTROL INFLATION. INFLATION RESTRICTS THE HOUSING INDUSTRY BY INCREASING THE PRICES OF HOMES AND INTEREST COSTS ON MORTGAGE LOANS. IT IS INFLATION WHICH DESTROYS THE PURCHASING POWER OF OUR PEOPLE AS THEY STRIVE -- TOO OFTEN

IN A LOSING STRUGGLE -- TO PROVIDE THE BASIC NECESSITIES OF
FOOD, HOUSING, CLOTHING, TRANSPORTATION AND MEDICAL
ATTENTION. INFLATION ERODES THE PACE OF NEW BUSINESS
INVESTMENT IN PLANTS AND EQUIPMENT NEEDED TO CREATE ADDITIONAL
JOBS. INFLATION IS THE GREATEST ENEMY OF SAVINGS AND
INVESTMENT.

WE WANT TO AVOID THE RECESSIONS THAT SO CRUELLY WASTE
HUMAN AND MATERIAL RESOURCES AND THE TRAGIC UNEMPLOYMENT
THAT LEAVES SERIOUS ECONOMIC AND PSYCHOLOGICAL SCARS LONG
AFTER ECONOMIC RECOVERY OCCURS, BUT WE SOMETIMES FORGET
THAT IT IS INFLATION WHICH LEADS TO THOSE RECESSIONS. INFLATION
SHOULD BE IDENTIFIED FOR WHAT IT IS: THE CRUELEST HOAX
EVER PERPETUATED FOR THE EXPEDIENT PURPOSES OF A FEW AT THE
COST OF MANY. THERE SHOULD BE NO UNCERTAINTY ABOUT ITS
DEVASTATING IMPACT, PARTICULARLY FOR LOW-INCOME FAMILIES,
THE ELDERLY DEPENDENT UPON ACCUMULATED FINANCIAL RESOURCES
AND PENSIONS AND THE MAJORITY OF WORKING PEOPLE WHO DO NOT
HAVE THE POLITICAL OR ECONOMIC LEVERAGE TO BEAT THE SYSTEM

BY KEEPING THEIR INCOMES RISING EVEN MORE RAPIDLY THAN PRICES. WHEN INFLATION TAKES OVER AN ECONOMY THE PEOPLE SUFFER AND RESPONSIBLE LEADERS MUST RECOGNIZE THIS BASIC POINT.

WE MUST DO EVERYTHING POSSIBLE TO BUILD A PUBLIC UNDERSTANDING OF THE TRAGIC EFFECTS OF INFLATION. WE MUST BUILD PUBLIC SUPPORT FOR THE SOUND ECONOMIC AND FINANCIAL POLICIES WHICH OFFER THE ONLY PATH TO LASTING STABILITY. WE MUST ESTABLISH GREATER UNDERSTANDING THAT WAGE AND PRICE CONTROLS CANNOT SUBSTITUTE FOR SOUND ECONOMIC AND FINANCIAL POLICIES IN ERADICATING OR CONTROLLING INFLATION. THEY SIMPLY DO NOT SOLVE THE UNDERLYING PROBLEMS AND THE ACTUAL EFFECT IS COUNTER PRODUCTIVE. EVEN SOME OF THE MORE GENERAL "SOCIAL CONTRACTS" BETWEEN GOVERNMENT AND GROUPS IN SOCIETY WILL, IN MY JUDGMENT, PROVE COUNTER PRODUCTIVE IN THE MEDIUM TERM IF THEY INVOLVE DISTORTIONS IN THE ALLOCATION OF RESOURCES.

WE ALL DESIRE HIGH EMPLOYMENT AND IMPROVED PERSONAL LIVING STANDARDS. BUT NEITHER OF THOSE GOALS CAN BE REALIZED AND MAINTAINED OVER TIME UNLESS THERE IS ADEQUATE INVESTMENT IN THE PLANT AND EQUIPMENT NEEDED TO EMPLOY LABOR AND PRODUCE THE GOODS AND SERVICES A HIGHER STANDARD OF LIVING REQUIRES. THAT INVESTMENT CANNOT BE ACHIEVED IN A CLIMATE OF INFLATION. INDUSTRY MUST HAVE ADEQUATE PROFITABILITY TO MAKE INVESTMENT WORTHWHILE AND TO PROVIDE RESOURCES TO FINANCE INVESTMENT. SUCH CAPITAL INVESTMENT IS A PRE-REQUISITE FOR CREATING JOB OPPORTUNITIES AND THE OUTPUT OF GOODS AND SERVICES OUR PEOPLE WANT AND DESERVE. THERE IS VASTLY MORE PROMISE OF HIGHER EMPLOYMENT AND IMPROVED LIVING STANDARDS FOR ALL IN THE PURSUIT OF INCREASED TOTAL PRODUCTION THAN IN A STRUGGLE FOR INCOME REDISTRIBUTION WHICH LEADS TO INFLATION.

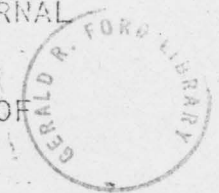
THE NEED FOR BALANCE OF PAYMENTS ADJUSTMENT

INFLATION IS ALSO A THREAT TO ECONOMIC PROSPERITY THROUGH ITS IMPACT ON THE TRADE AND PAYMENTS SYSTEM. WE HAVE SEEN WHAT IT HAS DONE TO THE CURRENCIES OF SOME OF OUR MEMBER STATES AND IT HAS BECOME GLARINGLY OBVIOUS THAT THERE CAN BE NO STABILITY IN EXCHANGE RATES WITHOUT REASONABLE STABILITY IN DOMESTIC PRICES. THE FAILURE TO CONTROL INFLATION WILL DAMAGE NOT ONLY THE COUNTRY WHICH INFLATES, BUT ULTIMATELY ITS TRADING PARTNERS AS WELL. IF PEOPLE LACK CONFIDENCE IN A GOVERNMENT'S ANTI-INFLATION POLICIES, THE DOWNWARD PRESSURES ON RATES OF EXCHANGE REACH LEVELS WHICH TEMPT GOVERNMENTS TO TAKE DISRUPTIVE, RESTRICTIVE ACTIONS.

IN THE EFFORT TO AVOID -- OR TO POSTPONE -- EXCHANGE RATE CHANGES, COUNTRIES MAY LOOK FOR CREDITS FROM ABROAD TO HELP FINANCE THEIR DEFICIT, AND PURSUE A POLICY OF INTERVENTION TO SUPPORT THEIR CURRENCIES ARTIFICIALLY IN EXCHANGE MARKETS.

LEADERS WILL BECOME INCREASINGLY RELUCTANT TO FINANCE
EXPANDING CURRENT ACCOUNT DEFICITS UNLESS BORROWING
NATIONS MAKE FUNDAMENTAL CHANGES IN THEIR DOMESTIC
ECONOMIC POLICIES.

THE LESSON WE HAVE LEARNED -- THE FUNDAMENTAL CHANGE
WHICH THE JAMAICA AGREEMENT INCORPORATES IN THE MONETARY
SYSTEM -- IS THE RECOGNITION THAT WE MUST ATTACK THE CAUSES
OF OUR PROBLEMS, INSTEAD OF THE RESULTS. WHEN AN INDUSTRIAL
COUNTRY BEGINS TO ENCOUNTER DIFFICULTY IN BORROWING FROM
THE PRIVATE MARKETS, IT IS A CLEAR AND UNMISTAKABLE SIGN
THAT MORE FUNDAMENTAL MEASURES ARE NEEDED THAT WILL
EFFECTIVELY DEAL WITH THE UNDERLYING ECONOMIC CONDITIONS
AND WILL ELIMINATE THE NEED TO RELY ON SPECIAL EXTERNAL
FINANCING. THE IMF AND OTHER MULTILATERAL BALANCE OF
PAYMENTS LENDING INSTITUTIONS HAVE LIMITED RESOURCES.
THE FINANCIAL SUPPORT FUND -- FOR WHICH WE ARE STRONGLY
URGING AFFIRMATIVE CONGRESSIONAL ACTION -- WILL HOPEFULLY
SOON BE IN A POSITION TO PROVIDE SUPPLEMENTAL FINANCING



IN THE PRESENT TRANSITIONAL PERIOD, BUT NONE OF THESE DEVICES EITHER CAN OR SHOULD DO MORE THAN PROVIDE A KIND OF "BRIDGE" FINANCING TO TIDE A COUNTRY OVER THE PERIOD BETWEEN THE INITIATION OF THE NECESSARY ECONOMIC AND FINANCIAL POLICIES AND THE DELAYED IMPACT ON THE PAYMENTS BALANCE. IF THE OPEN TRADE AND PAYMENTS SYSTEM IS TO SURVIVE, COUNTRIES IN A WEAK POSITION MUST RECOGNIZE THE NEED TO ADJUST AND PUT THE NECESSARY POLICIES IN PLACE QUICKLY -- BEFORE THEY FIND THEMSELVES IN A CRISIS POSITION FROM WHICH THERE IS NO ESCAPE OTHER THAN RESTRICTIONS. COUNTRIES ARE THEN FORCED TO MAKE POLITICAL DECISIONS RATHER THAN RELYING ON SOUND ECONOMICS.

COUNTRIES IN A RELATIVELY STRONG POSITION HAVE AN EQUALLY IMPORTANT RESPONSIBILITY -- TO WORK TOWARD THE ELIMINATION OF INFLATION, TO PROMOTE SUSTAINABLE ECONOMIC EXPANSION, TO KEEP THEIR MARKETS OPEN TO IMPORTS, TO ALLOW THEIR

EXCHANGE RATES TO APPRECIATE IN RESPONSE TO MARKET FORCES AND TO ACCEPT THE DECLINE IN THEIR CURRENT ACCOUNT POSITIONS WITHOUT WHICH IT IS IMPOSSIBLE FOR THE WEAKER COUNTRIES TO ADJUST. THE ECONOMIC HEALTH OF THE WORLD DEPENDS ON THE WAY IN WHICH WE MAKE THE ADJUSTMENT.

A FREE AND FAIR TRADING SYSTEM

TWO YEARS AGO WHEN FACED WITH THE DIFFICULT TASK OF ADJUSTING TO RAPIDLY INCREASING OIL PRICES, WE DEMONSTRATED BOTH COURAGE AND FORESIGHT BY JOINING TOGETHER IN A COOPERATIVE EFFORT TO REFRAIN FROM ADOPTING TRADE DISTORTING PROTECTIONIST MEASURES, MEASURES WHICH WOULD HAVE HAD DISASTROUS CONSEQUENCES. THAT'S A BATTLE WE HAVE WON; BUT THE WAR REMAINS. NOW THAT ECONOMIC EXPANSION IS WELL UNDERWAY, WE MUST RENEW OUR COMMITMENT TO AVOID THE ADOPTION OF ANY TRADE RESTRICTIVE MEASURES.

THAT IS WHY I SO STRONGLY SUPPORT THE RENEWAL OF THE TRADE PLEDGE WE MADE TWO YEARS AGO AND CONTINUED LAST YEAR.

BUT IT IS NOT ENOUGH TO AGREE ON WHAT WE WILL NOT DO -- IMPORTANT THOUGH THIS MAY BE TO HELP AVOID SLIPPING BACKWARD. WE SHOULD ALSO AGREE ON WHAT POSITIVE STEPS WE WILL TAKE. ONLY IN A FULLY FREE AND OPEN WORLD TRADING AND INVESTMENT SYSTEM CAN OUR INDIVIDUAL NATIONAL ECONOMIES ACHIEVE OUR GOAL OF SUSTAINED NON-INFLATIONARY GROWTH. WE NEED AN OPEN WORLD MARKET TO ALLOCATE THE RAW MATERIAL AND CAPITAL RESOURCES IN ORDER TO SUPPLY ABUNDANT GOODS AND SERVICES TO OUR PEOPLE AT NON-INFLATIONARY PRICES.

WE HAVE FOUND THAT OPENING OUR MARKETS TO IMPORTS HAS OFTEN RESTORED HEALTHY COMPETITION AT HOME -- TO THE LONG RUN BENEFIT OF CONSUMERS AND PRODUCERS ALIKE.

THIS COMPETITION, HOWEVER, MUST BE FAIR. THERE IS NO INCONSISTENCY BETWEEN FREE TRADE AND FAIR TRADE, AND THE ASSURANCE OF THE LATTER IS WHAT ENABLES US TO PROGRESS IN ACHIEVING THE FORMER. UNFAIR TRADE PRACTICES, SUCH AS ARTIFICIAL EXPORT SUBSIDIES, ARE DETRIMENTAL FOR SEVERAL REASONS. FIRST, THEY DISTORT THE MARKET FORCES AND INTERFERE WITH THE PROPER ALLOCATION OF CAPITAL. SECOND, THEY ARE AN EXPENSIVE USE OF LIMITED GOVERNMENT RESOURCES WHICH ARE TRANSFERRED FROM THE EXPORTING NATION TO ITS TRADING PARTNERS IN THE FORM OF THE EXPORT SUBSIDY. FINALLY, THE USE OF EXPORT SUBSIDIES MAY FORCE OTHER NATIONS TO RAISE TARIFFS OR CREATE QUANTITATIVE QUOTAS TO PROVIDE RELIEF.

LET ME ASSURE YOU THAT THE U.S. IS AS FIRM AS EVER IN ITS COMMITMENT TO A FREE AND FAIR TRADING SYSTEM. I AM PROUD OF OUR RECORD OVER THE PAST YEAR -- DESPITE FEARS FROM ABROAD THAT WE WERE DRIFTING TOWARDS A POLICY OF

PROTECTIONISM, ALTHOUGH THERE HAVE BEEN RECENT DETERMI-
NATIONS OF THE INTERNATIONAL TRADE COMMISSION IN FAVOR OF
IMPORT RELIEF AND ALTHOUGH THERE HAS BEEN A GREAT DEAL OF
ATTENTION TO SOME COUNTERVAILING DUTIES AND ANTI-DUMPING
INVESTIGATIONS, WE HAVE MAINTAINED, WITH MINOR EXCEPTIONS,
AN OPEN MARKET FOR IMPORTS FROM OUR TRADING PARTNERS.
THE TREASURY DEPARTMENT IS REQUIRED BY LAW TO INVESTIGATE
ALL FORMAL COMPLAINTS. INDUSTRIES IN EVERY NATION ARE
PROTECTED FROM INJURY CAUSED BY INTERNATIONAL DUMPING OF
MARGINAL OR EXCESS PRODUCTION. NOR SHOULD DOMESTIC
COMPANIES BE REQUIRED TO COMPETE AGAINST GOVERNMENT-
SUBSIDIZED IMPORTS. THE ANTIDUMPING AND COUNTERVAILING
DUTY LAWS ARE DESIGNED TO PREVENT SUCH ABUSES. THE
CURRENT NUMBER OF INVESTIGATIONS IS THE RESULT OF PRO-
CEDURAL REQUIREMENTS THAT ALL PENDING CASES RECEIVED OVER
THE PAST FEW YEARS MUST BE COMPLETED WITHIN A VERY SHORT
TIME FRAME UNDER THE TRADE ACT. BUT OF THE OVER EIGHTY
PETITIONERS WHOSE CASES HAVE BEEN PROCESSED UNDER THE

ANTI-DUMPING AND COUNTERVAILING DUTY LAWS IN 1975, ONLY ABOUT 10 PERCENT HAVE BEEN REWARDED RELIEF. THESE FACTS CERTAINLY REFUTE ANY CHARGES THAT AMERICA IS TURNING PROTECTIONIST.

ON BEHALF OF THE UNITED STATES, I RENEW OUR PLEDGE TO PURSUE A LIBERAL AND FAIR TRADE POLICY. WE WILL CONTINUE TO WORK TO SEE THAT THE SPIRIT OF FREE AND OPEN MARKETS BECOMES AN INTEGRAL AND MORE PERMANENT ELEMENT OF THE WORLD TRADING SYSTEM.

THE FULFILLMENT OF THESE OBJECTIVES WILL REQUIRE THE COOPERATION OF BOTH INDUSTRIAL AND DEVELOPING NATIONS. WE WILL STRIVE IN THE MTN TO REDUCE TARIFF AND NONTARIFF BARRIERS TO TRADE AND TO IMPROVE THE INTERNATIONAL TRADING SYSTEM.

WE HAVE AGREED THAT THESE NEGOTIATIONS WILL BE CONCLUDED IN 1977. BOTH IN THIS ORGANIZATION AND IN THE GATT THE UNITED STATES WILL WORK FOR THE COMPLETE LIBERALIZATION OF TRADE FOR THE BENEFIT OF ALL NATIONS.

PROGRESS ON INTERNATIONAL INVESTMENT

JUST AS LIBERAL TRADE IS CRUCIAL TO WORLD ECONOMIC PROGRESS, SO IS A HOSPITABLE CLIMATE FOR INTERNATIONAL

INVESTMENT, WE MUST WORK TOGETHER TO DISPEL THE
IMPRESSION THAT MULTINATIONAL CORPORATIONS ARE HARMFUL.
SUCH CORPORATIONS, AND THE INVESTMENT THEY BRING SHOULD
BE WELCOME BECAUSE OF THE POSITIVE CONTRIBUTION THEY MAKE
TO ECONOMIC PROSPERITY. IN THAT REGARD, I AM PARTICULARLY
PLEASED BY OUR ACTION YESTERDAY IN APPROVING THE NATIONAL
TREATMENT AND INCENTIVES/DISINCENTIVES AGREEMENTS AND THE
GUIDELINES FOR MULTINATIONAL ENTERPRISES THAT HAVE BEEN
NEGOTIATED OVER THE PAST THREE YEARS



IN THIS ORGANIZATION. IN APPROVING THIS PACKAGE WE HAVE
ACKNOWLEDGED OUR DEDICATION TO THE MAINTENANCE OF A LIBERAL
CLIMATE FOR INTERNATIONAL INVESTMENT AND THEREBY MADE A
SIGNIFICANT CONTRIBUTION TO ITS IMPROVEMENT.

PARTICULARLY HELPFUL IN IMPROVING THE INVESTMENT CLIMATE
IS THE FACT THAT THE PACKAGE MAKES IT CLEAR THAT GOVERNMENTS
HAVE OBLIGATIONS TOWARD INVESTORS JUST AS INVESTORS HAVE
OBLIGATIONS TOWARD THE COUNTRIES IN WHICH THEY OPERATE. IN
PARTICULAR, I WAS ENCOURAGED THAT THE PACKAGE RECOGNIZES THE
FACT THAT MEMBER COUNTRIES SHOULD GRANT NATIONAL TREATMENT
CONSISTENT WITH INTERNATIONAL LAW TO FOREIGN INVESTORS AND
THAT THE GUIDELINES FOR MULTINATIONAL ENTERPRISES RECOGNIZE
THAT MEMBER COUNTRIES HAVE THE RESPONSIBILITY TO TREAT FOREIGN
INVESTORS EQUITABLY AND IN ACCORDANCE WITH INTERNATIONAL LAW
AND CONTRACTUAL OBLIGATIONS AND TO COOPERATE TO RESOLVE ANY
CONFLICTING REQUIREMENTS THAT MAY BE PLACED ON INTERNATIONAL
INVESTORS.

LOOKING BEYOND THIS TO THE BROADER CONTEXT OF INTERNATIONAL INVESTMENT, I THINK WE SHOULD ALSO UNDERTAKE NEW EFFORTS TO LIBERALIZE THE INTERNATIONAL FLOW OF PORTFOLIO CAPITAL. SPECIFICALLY, I PROPOSE THAT THE COMMITTEE ON FINANCIAL MARKETS BE CHARGED WITH IDENTIFYING THE VARIOUS IMPEDIMENTS TO INTERNATIONAL FLOWS OF PORTFOLIO CAPITAL AND ESTABLISHING A PROCEDURE FOR CONSULTATIONS WITH A VIEW TOWARD REDUCING SUCH IMPEDIMENTS.

REGARDING DIRECT INVESTMENT, I BELIEVE THAT IT IS PARTICULARLY IMPORTANT THAT WE STEM ANY EROSION OF PUBLIC CONFIDENCE IN MULTINATIONAL ENTERPRISES. THE GUIDELINES WE HAVE APPROVED ARE AN IMPORTANT STEP IN THAT DIRECTION. MNEs HAVE MOBILIZED CAPITAL ON AN UNPRECEDENTED SCALE AND HAVE CHanneled IT TOGETHER WITH NEW TECHNOLOGY AND MANAGEMENT KNOW-HOW TO COUNTRIES WHERE THEY OPERATE. THEIR ACTIONS HAVE

INCREASED ECONOMIC OUTPUT AND CREATED EMPLOYMENT IN COUNTRIES IN WHICH THEY OPERATE WHILE THEIR HOME COUNTRIES HAVE BENEFITTED DIRECTLY FROM INCREASED EXPORTS AND A RETURN FLOW OF DIVIDEND AND ROYALTY PAYMENTS. AS A RESULT THE WHOLE INTERNATIONAL ECONOMY HAS BENEFITTED FROM THE GREATER EFFICIENCY WITH WHICH INTERNATIONAL RESOURCES ARE UTILIZED. THERE ARE MANY FACTORS THAT CONTRIBUTE TO ECONOMIC PROGRESS, BUT IN THE FINAL ANALYSIS, CAPITAL INVESTMENT IS THE SOURCE OF INCREASED PRODUCTIVITY AND HIGHER STANDARDS OF LIVING FOR ALL.

AS WE GAIN EXPERIENCE WITH IMPLEMENTATION OF THE GUIDELINES AND WITH PROCEDURES FOR CONSULTATIONS WITHIN THE OECD, WE SHOULD KEEP IN MIND THAT THEIR SUCCESS DEPENDS ON THEIR VOLUNTARY ACCEPTANCE BY MNEs. ANY TEMPTATION TO TURN THE CONSULTATION PROCEDURES INTO A COMPLAINT OR QUASI-JUDICIAL PROCEDURE AGAINST MULTINATIONAL ENTERPRISES MUST BE AVOIDED. MY GOVERNMENT, THEREFORE,

FIRMLY BELIEVES THAT WE MUST AVOID ANY PROCEDURES WHICH WOULD ENTAIL EVIDENTIARY SUBMISSIONS OR HEARINGS CONCERNING SPECIFIC ENTERPRISES.

THE GUIDELINES ALSO INCORPORATE A PROVISION RELATING TO BRIBERY AND ILLEGAL POLITICAL ACTIVITIES. BRIBERY IS NOT ONLY ETHICALLY ABHORRENT, BUT IT ALSO DISTORTS THE OPERATIONS OF MARKETS, UNDERMINES THE INVESTMENT CLIMATE, AND THREATENS THE FREE ENTERPRISE SYSTEM. WE ARE CONFIDENT THAT THE VAST MAJORITY OF AMERICAN BUSINESSMEN HAVE CONDUCTED THEMSELVES PROPERLY. NEVERTHELESS, THE ACTIONS OF A FEW HAVE CLOUDED THE CONDUCT OF BUSINESS IN GENERAL.

THE PROVISION IN THE GUIDELINES IS AN IMPORTANT STEP IN ADDRESSING THIS PROBLEM. HOWEVER, THIS IS NOT ENOUGH. THE UNITED STATES HAS PROPOSED THE ESTABLISHMENT OF A WORKING GROUP UNDER THE AUSPICES OF THE UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL TO DEVELOP AN INTERNATIONAL

AGREEMENT TO DEAL WITH THIS PROBLEM. I URGE THAT
GOVERNMENTS JOIN US IN BUILDING THE CONSENSUS NECESSARY
FOR THE EARLY NEGOTIATION OF SUCH AN AGREEMENT.

PROGRESS IN DEVELOPING COUNTRIES

FINALLY, LET US DISCUSS THE SUBJECT OF RELATIONS
WITH DEVELOPING COUNTRIES WHICH WE CONSIDERED YESTERDAY.
THE DIALOGUE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES
IS NOW MOVING FROM HIGHLY POLITICAL AND VISIBLE FORUMS
SUCH AS THE SEVENTH SPECIAL SESSION AND UNCTAD IV TO
WHAT WE HOPE WILL BE TECHNICAL WORK IN SPECIALIZED FORUMS
AND THE CIEC COMMISSIONS. AS SECRETARY KISSINGER EMPHASIZED
YESTERDAY, IT IS CRUCIAL THAT THE WESTERN DEVELOPED COUNTRIES
MAINTAIN UNITY AS WE CONSIDER CONCRETE ISSUES. I WOULD
SUGGEST SEVERAL BASIC PRINCIPLES THAT SHOULD GUIDE OUR WORK.

FIRST, WE MUST BE REALISTIC. IT DOES NO GOOD TO RAISE FALSE EXPECTATIONS AS TO WHAT CAN BE DONE. WE MUST MAKE CLEAR TO THE DEVELOPING COUNTRIES THAT THEIR FUTURE ULTIMATELY DEPENDS ON THEIR OWN EFFORTS. WE INDUSTRIALIZED NATIONS CAN, THROUGH CONSTRUCTIVE POLICIES ON TRADE AND TECHNICAL AND FINANCIAL ASSISTANCE, HELP THEM TO HELP THEMSELVES; BUT WHAT WILL ULTIMATELY DETERMINE THEIR RATE OF DEVELOPMENT IS THE DEGREE TO WHICH THEY UTILIZE THEIR OWN HUMAN CREATIVITY AND INVEST THEIR RESOURCES, NOT ONE-TIME TRANSFERS OF WEALTH.

SECOND, WE MUST ENLARGE THE WORLD ECONOMIC PIE.

THE STRONGEST EXTERNAL STIMULUS TO DEVELOPING COUNTRIES WILL COME THROUGH THE ECONOMIC RESURGENCE OF OUR OWN ECONOMIES. AS OECD COUNTRIES' INDUSTRIAL PRODUCTION RISES AND AS EMPLOYMENT AND PERSONAL INCOMES IMPROVE, OUR ECONOMIES WILL CREATE RENEWED DEMAND FOR THE MINERAL, AGRICULTURAL AND MANUFACTURED PRODUCTS OF DEVELOPING COUNTRIES.

THIRD, WE SHOULD NOT BE HESITANT ABOUT DEFENDING THE USE OF FREE MARKETS TO ALLOCATE RESOURCES, BOTH DOMESTICALLY AND INTERNATIONALLY. IF WE LOOK AT THE DEVELOPING COUNTRY ECONOMIC SUCCESS STORIES, SINGAPORE, BRAZIL, MEXICO, HONG KONG, TAIWAN AND SOUTH KOREA, WE NOTE THAT ALL HAVE ALLOWED THEIR PRIVATE SECTORS A MAJOR ROLE IN DETERMINING CONSUMPTION AND INVESTMENT PATTERNS. THESE SAME COUNTRIES HAVE ALSO ACTIVELY ENGAGED IN WORLD COMMERCE. IN A WORLD OF RAPID TECHNOLOGICAL CHANGE AND SHIFTING CONSUMER DEMAND, NATIONAL ECONOMIES RISK OBSOLESCENCE AND STAGNATION IF THEY INSIST ON TURNING ALL DECISION MAKING OVER TO GOVERNMENT. ON THE INTERNATIONAL LEVEL, WE MUST RESIST THE TEMPTATION TO REPLACE FREE MARKETS BY DECISION-MAKING THROUGH INTERNATIONAL BUREAUCRACIES OR GOVERNMENT ORGANIZATIONS. WE WANT TO HELP THE DEVELOPING WORLD BUT THERE ARE NO INSTANT SOLUTIONS. REAL PROGRESS DEPENDS ON MAXIMIZING THE USE OF THEIR HUMAN AND NATURAL RESOURCES, THROUGH STRENGTHENING THEIR PRIVATE SECTOR.

FINALLY, IN ADDRESSING THE PROBLEMS OF THE DEVELOPING COUNTRIES, WE MUST AVOID FACILE GENERALIZATIONS. EACH DEVELOPING COUNTRY, EACH COMMODITY, EACH INDUSTRY IS UNIQUE. ULTIMATELY THE DEBT OR BALANCE OF PAYMENTS PROBLEM OF A DEVELOPING COUNTRY, THE MARKET STRUCTURE OF A SPECIFIC COMMODITY, THE ESTABLISHMENT OF A PARTICULAR INDUSTRY, MUST BE DEALT WITH ON A CASE-BY-CASE BASIS.

IT IS ON THE BASIS OF THESE PRINCIPLES THAT THE UNITED STATES HAS MADE SPECIFIC PROPOSALS OF OUR OWN AND RESPONDED TO THE RECOMMENDATIONS OF OTHERS.

IN ORDER TO IMPROVE THE STABILITY OF EXPORT EARNINGS

FOR COUNTRIES PARTICULARLY DEPENDENT ON EXPORTS OF RAW MATERIALS, WE URGED MAJOR CHANGES IN THE IMF COMPENSATORY FINANCING FACILITY AT THE UN SEVENTH SPECIAL SESSION. MANY OF THOSE SUGGESTIONS HAVE ALREADY BEEN IMPLEMENTED BY THE IMF. THIS YEAR, THROUGH THE END OF MAY, COUNTRIES HAVE DRAWN \$815 MILLION FROM THE LIBERALIZED COMPENSATORY FINANCE FACILITY, MORE THAN TWICE DRAWINGS IN ANY PREVIOUS WHOLE YEAR. WE ARE THUS ATTACKING THE ROOT PROBLEM OF DISRUPTION IN DEVELOPMENT EFFORTS CAUSED BY FLUCTUATIONS IN EXPORT EARNINGS WHILE ALLOWING MARKETS TO CONTINUE THEIR FUNCTION OF DETERMINING COMMODITY PRICES.

WE ALSO BELIEVE THAT THE LONG-TERM ANSWER TO MANY OF THE PROBLEMS OF THE DEVELOPING COUNTRIES LIES IN FOREIGN INVESTMENT. WE HAVE PUT FORWARD PROPOSALS TO INCREASE SUCH INVESTMENT, SUCH AS THE INTERNATIONAL RESOURCES BANK. WE REGRET THAT OTHER COUNTRIES REFUSED TO STUDY THIS BANK; WE BELIEVE SUCH A BANK WOULD BE BENEFICIAL TO ALL COUNTRIES. IN THIS

REGARD, THERE MAY BE SOME PUBLIC MISUNDERSTANDING ABOUT THE BANK, AND IT IS IMPORTANT TO UNDERSTAND WHAT IT WOULD DO AND WHAT IT WOULD NOT DO. IT WOULD REDUCE THE NON-COMMERCIAL, OR POLITICAL RISKS, RELATED TO SOME INVESTMENT IN SOME DEVELOPING COUNTRIES. THE PRICE RISK INHERENT IN ANY INVESTMENT WOULD REMAIN. AS SUCH, IT IS AN INSURANCE VEHICLE TO PROTECT AGAINST SUCH OCCURRENCES AS EXPROPRIATION OR NATIONALIZATION. IT IS NOT A LENDER OF MONEY, AND WOULD NOT BE A FINANCING VEHICLE TO SUBSTITUTE FOR THE PRIVATE SECTOR. FURTHER, IT IS NOT INTENDED TO BECOME INVOLVED IN ONGOING INVESTMENTS BUT TO ENCOURAGE ADDITIONAL INVESTMENT. SEEN IN THIS WAY, WE BELIEVE IT CAN MAKE AN IMPORTANT CONTRIBUTION TO THE NEED TO INCREASE INVESTMENT IN THE DEVELOPING WORLD. WE WILL CONTINUE TO SEEK CONSIDERATION OF SUCH A CONCEPT.

WE HAVE ALSO PROPOSED THAT THERE SHOULD BE PRODUCER-CONSUMER FORUMS FOR ALL KEY COMMODITIES, SO THAT WHERE PROBLEMS EXIST, THEY CAN APPROPRIATELY BE ADDRESSED ON A CASE-BY-CASE BASIS. IN THESE FORUMS, WE WILL BE PROPOSING

AND SEEKING CONSTRUCTIVE SOLUTIONS BASED UPON IMPROVEMENT OF MARKETS AND TRADE EXPANSION, RATHER THAN RESTRICTIVE ARRANGEMENTS DESIGNED TO FIX PRICES. AS SUCH, WE HAVE MADE CLEAR OUR REJECTION OF THE PROPOSAL FOR A COMMON FUND TO FINANCE AND MANAGE A SERIES OF BUFFER STOCK ARRANGEMENTS WHICH WE BELIEVE IS UNNECESSARY, UNWORKABLE AND NOT A CORRECT UTILIZATION OF SCARCE RESOURCES.

WE HAVE ALSO ADOPTED POLICIES IN THE UNITED STATES AND MADE SPECIFIC PROPOSALS IN THE TRADE AREA WHICH WOULD BENEFIT DEVELOPING COUNTRIES. WE HAVE ADOPTED A GENERALIZED SYSTEM OF PREFERENCES THAT HAS GREATLY ASSISTED DEVELOPING COUNTRIES TO EXPAND THEIR EXPORTS. IN THE MTN, WE HAVE PROPOSED A TARIFF CUTTING FORMULA WHICH WOULD DECREASE TARIFF ESCALATION, AND URGED THAT SPECIAL TREATMENT BE PROVIDED FOR DEVELOPING COUNTRIES IN NEW CODES ON SAFEGUARDS AND ON SUBSIDIES AND COUNTERVAILING DUTIES.

IN THESE CIRCUMSTANCES, THE U.S. HAS AGREED TO GIVE QUICK AND CONSTRUCTIVE CONSIDERATION TO REQUESTS FROM THE DEVELOPING NATIONS FOR THE DISCUSSION OF THEIR DEBT STATUS IN A MULTILATERAL FRAMEWORK. WE HAVE ALSO AGREED THAT COMMON FEATURES TO BE USED IN DEBT RESCHEDULING PROCEDURES BE STUDIED IN AN INTERNATIONAL FORUM.

THERE HAS BEEN A GOOD DEAL OF PUBLICITY ON THE DEBT PROBLEMS OF DEVELOPING COUNTRIES. BECAUSE OF THE HIGH OIL PRICES AND SLOWER ACTIVITY IN THE OECD, THE RATE OF DEBT INCREASE HAS BEEN HIGHER THAN IN YEARS OF HIGH COMMODITY PRICES AND GROWING MARKETS. THIS SITUATION HOWEVER, IS NOW UNDERGOING CHANGE, AND WE SHOULD BE SURE THAT THE SOLUTIONS WE SEEK ARE AIMED AT THE PROBLEMS THAT EXIST TODAY, NOT WHAT EXISTED A YEAR OR TWO AGO. WITH INTERNATIONAL TRADE AS THE MEDIUM, THE ECONOMIC UPTURN IN THE INDUSTRIALIZED COUNTRIES IS BRINGING INCREASED INCOME TO THE DEVELOPING COUNTRIES THROUGH GREATER EXPORT VOLUME AND FIRING OF EXPORT PRICES. AS A RESULT, THE DEBT BURDENS

WILL DIMINISH. THAT'S NOT TO SAY THAT INDIVIDUAL COUNTRIES WILL NOT CONTINUE TO FACE DEBT PROBLEMS, BUT THE ANSWER DOES NOT LIE IN GENERALIZED DEBT RESCHEDULING. SUCH AN APPROACH WOULD BE INEQUITABLE, WOULD CALL INTO QUESTION THE CREDITWORTHINESS OF THE LDCs AS A GROUP, AND WOULD BE COUNTERPRODUCTIVE TO OUR EFFORTS TO ENCOURAGE COUNTRIES TO ADOPT APPROPRIATE ECONOMIC POLICIES. WE WILL CONTINUE TO EVALUATE THE MERITS OF EACH DEBT REORGANIZATION PROPOSAL, PREDICATED ON THE PRINCIPLE THAT COUNTRIES SHOULD ADHERE TO SCHEDULED TERMS OF CREDIT PAYMENTS.

FINALLY, MINDFUL OF THE NEED TO STRENGTHEN THE TECHNOLOGICAL CAPACITY OF DEVELOPING COUNTRIES, THE U.S. HAS MADE A SERIES OF PROPOSALS TO STIMULATE THE DEVELOPMENT AND TRANSFER OF TECHNOLOGY NEEDED BY DEVELOPING COUNTRIES.



OVER THE NEXT FEW MONTHS THE DEVELOPED COUNTRIES WILL BE PARTICIPATING IN A DIALOGUE WITH DEVELOPING COUNTRIES ON COMMODITIES, DEBT, TRANSFER OF TECHNOLOGY, TRADE, AND MULTINATIONAL CORPORATIONS. WE MUST CONTINUE RESPONDING TO THE LEGITIMATE PROPOSALS OF THESE COUNTRIES AND MAKE OUR OWN PROPOSALS. BUT WE OWE IT TO THE DEVELOPING COUNTRIES, AS WELL AS TO OURSELVES, TO ASSURE THAT OUR RESPONSES ARE NOT GEARED TO SHORT TERM POLITICAL CONSIDERATIONS, BUT RATHER REFLECT WHAT WE TRULY BELIEVE IS PRACTICABLE, DELIVERABLE, AND WILL ENHANCE THE LONG-RUN ECONOMIC INTERESTS OF ALL NATIONS.

CONCLUSION

MR. CHAIRMAN, FELLOW MINISTERS, IN A MULTITUDE OF WAYS, WE HAVE IN THE PAST YEAR MADE GREAT STRIDES IN COPING WITH THE COMPLEX OF PROBLEMS WE FACE. IF WE LOOK FORWARD TO AS MUCH PROGRESS IN THE YEAR AHEAD, WE CAN INDEED TAKE AN OPTIMISTIC VIEW. BUT PROGRESS WILL ONLY COME IF WE CAN BUILD

A WORLDWIDE FRAMEWORK OF COOPERATION, AS SUCH, WE NEED
NOT DISTORT OUR ECONOMIC SYSTEM IN ORDER TO SATISFY ONE OR
TWO INTERESTS AT HOME OR TO APPEASE A FEW ABROAD. INSTEAD,
WE MUST AVAIL OURSELVES OF A RARE OPPORTUNITY TO FIGHT FOR A
POLICY WHICH IS BOTH PRINCIPLED AND IN THE ECONOMIC INTEREST
OF THE WORLD. LET US RENEW OUR COMMITMENT
TO CONTINUED VIGILANCE AND COOPERATIVE EFFORT, WHICH IS
THE ROAD TO THE MAINTENANCE OF AN EQUITABLE, FREE AND
PROSPEROUS WORLD ECONOMY.

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JUL 29 REC'D

OFFICE OF THE SECRETARY OF THE TREASURY

July 29, 1976

TO BILL SEIDMAN:

Secretary Simon has asked that the attached copy of his speech be delivered to you.

Debbi Karoczun
Secretary to the
Secretary

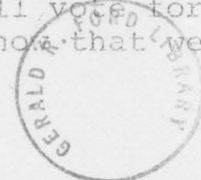
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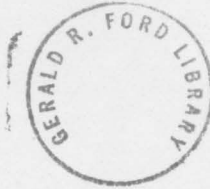
ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE MONMOUTH COUNTY REPUBLICAN ORGANIZATION
JULY 29, 1976

I'm very pleased to have this opportunity to be back in Monmouth County this evening. And, I'm particularly happy to be with so many old friends, because I'd like to speak with you on a subject of critical importance. I'm referring to the election of 1976 and the meaning it holds for the future of America.

The newspapers and media are calling for the election of a man who has a vision of where our country is going for its third century. Well, the American people have a clear choice -- perhaps the clearest choice that has ever been presented to them in what I believe is the most important election of my life. Why do I say that? Because, the decision the American people make this year at the polls will determine not only our nation's course for the next four or eight years, but well into the next century. And after all the political speeches have been made, and the editorials written, what that decision will really boil down to is this -- a choice between the freedom for each of us to live our lives as we best see fit, or the surrendering of more of that freedom to an increasingly powerful government in exchange for a false promise of security and permanent prosperity.

Many people simply do not realize there is such a fundamental difference between the Republican and Democratic parties in their respective approaches to the important issues facing our nation. Republicans are the minority party in numbers; but there are still many millions of Americans who believe in traditional principles of limited federal government, financial solvency, and constitutional balance in the power of government. They will vote for our candidates if they can only be made to know that we stand for their principles.





I believe that one of the keys to our salvation as a party, and to the possibility of victory in November, is a common sense appeal to the American voters -- a platform that is, in Harry Truman's words, a genuine contract with the people, a commitment to more than vague good intentions. We need to spell out in plain language, what we stand for and what we believe in.

Instead of trying to do a little less, a little later than the Democrats, we must have a positive program of our own. It does not have to be complicated to be effective. All it requires is an underlying moral commitment to personal freedom and care for those who genuinely need help. This moral commitment would be linked to four equally explicit goals:

- * Prosperity and economic growth through encouragement of the private sector that provides five of every six jobs in America and generates the abundance that pays for government as well.

- * Skillful management of economic affairs by creating an environment of sustained, non-inflationary growth which will benefit every man, woman and child in our country.

- * Reducing the growth of runaway government spending which more and more Americans recognize as the biggest single domestic problem facing our country today.

- * Lowering the level of taxation in America. Taxes are too high for almost everyone. We must reduce the overall level of taxation so that our vital economy and society are spared the stultification and widespread inefficiencies we have seen in other societies where the state has consumed an ever larger part of the national product.

These moral and practical guidelines would provide the basis for the most sweeping reform of American government in our history. And they would breathe new life into our party.

What about our opponents? If indeed a platform is a contract with the people, then the Democratic party platform is a stark statement of the principle of spend-spend, elect-elect, inflation, controls, bigger and bigger government syndrome that has been at the very root of our economic problems during the postwar period, especially the past ten years, and still remains alive and well in Washington, D.C. today.



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There has been a lot of talk this year about politicians who don't keep their promises, who have lost the trust of the American people, and who have forgotten the meaning of the simple word, integrity. Yet even though our opponents are using all those key words, it's clear to me from studying their platform that a genuine committment to honesty is lacking.

This year's platform should really be called "Promises Promises Promises," for just like Santa Claus, and all the platforms from years past, it has something for everybody. The trouble is, playing Santa with the taxpayer's money dispenses neither good will nor integrity. The only thing it does dispense is pure hypocrisy.

Take a look at the platform and see what it calls for:
Guaranteed jobs for all at government expense;
national economic planning;
national day care systems;
a mandatory national health system;
a phased-in federal takeover of welfare;
entirely new programs for transportation;
new public needs employment programs for the cities;
substantially increased federal payments to education;
countercyclical aid to state and local governments;
more federal subsidies for public housing;
higher commodity prices for farmers, yet lower food prices for consumers. And then to top it all off, we're promised a balanced budget.
Isn't it wonderful? There's more money for literally everything that lives and breathes. But what it all adds up to is bigger and bigger government, higher and higher inflation, and eventually more unemployment and greater economic instability.

And in all of this, mind you, not a word about who would pay for all these programs or even how much they would cost. Well they do cost, and they're going to cost a lot, because there is no such thing as a "free" lunch or "free" education, or "free" health care. In fact there is no free anything.

What is the price of these instant cure-alls? The programs of this platform could easily exceed an additional \$200 billion -- that's \$1,000 for every man woman and child in America or over one-half of what our federal budget is today. The average American taxpayer would have to work for



half the year just to support government, and only then could he start to support himself and his family.

But, the platform makes the appealing claim that all these programs are possible without substantial new inflation given a federal policy of full employment because for every one million newly employed people who pay taxes, the federal deficit will supposedly be decreased by \$16 billion. But how are these people to become employed? Why by spending more money of course. This means that the deficit will not disappear by such steps but will only grow.

So where would the additional needed revenue come from to balance the budget? It could be raised by borrowing or taxing from the private sector, but that would only lead to a loss of jobs in the private sector. The other alternative would be to inflate the money supply which would merely set us off on another boom-bust cycle. The supposed cure turns out to be illusory, and what results is new and higher inflation which in turn would only lead to a new and higher level of unemployment.

The issues involved here are by no means narrowly economic. They concern fundamental principles of equity and of social stability. The trouble with growing government spending is that however good the intentions which underlie the growth, those intentions are not achieved; that instead, the growth in government spending makes low-income people worse off, undermines social cohesion and threatens the very foundation of a free society.

Here the outstanding fact is that in every country in which this percentage has increased there has been a tendency to move toward instability, toward minority government and toward a threat to a free society. Have we forgotten the inextricable relationship between our economic freedom and our social and political freedoms?

Our desire for progress, in the form of improved living standards and employment opportunities, will surely be frustrated unless we better control the insidious inflation which has destroyed economic stability by triggering a costly series of booms and recessions. The tragic policy errors of the past and our hopes for the future must force us to recognize a basic reality: inflation is the greatest

threat to the sustained progress of our economy and the ultimate survival of all of our basic institutions. There is a clear record from the past: when inflation distorts the economic system and destroys the incentives for real improvement the people will no longer support the system and society disintegrates. I am convinced that our uniquely creative and productive society will also collapse if we permit inflation to dominate our economic affairs. There is no tradeoff between the goals of price stability and low unemployment as some critics have erroneously claimed. If we are to increase the output of goods and services and reduce unemployment, we must first make further progress in reducing inflation.

The intensity of my feelings about inflation has resulted in some critics labeling me a obsessed, however, I am not so much obsessed as I am downright antagonistic toward those who consistently vote for bigger deficits. We must always remember that it is inflation that causes the recessions that so cruelly waste our human and material resources and the tragic unemployment that leaves serious economic and psychological scars long after economic recovery occurs. It is inflation which destroys the purchasing power of our people as they strive -- too often in a losing struggle -- to provide the necessities of food, housing, clothing, transportation, and medical attention. Inflation is not now, nor has it ever been, the grease that enables the economic machine to progress. Instead, it is the monkey wrench which disrupts the efficient functioning of the system. It is the most vicious hoax ever perpetrated for the expedient purposes of a few at the cost of many. And there should be no uncertainty about its devastating impact, particularly for low-income families, the elderly dependent upon accumulated financial resources and the majority of working people who do not have the political or economic clout to beat the system by keeping their incomes rising even more rapidly than inflation. When inflation takes over an economy it is the poorest people who suffer most and turn to the government. It's an insidious process, because they become willing clients of the state and the very policies which created their misery.

The Democratic party platform then, far from being a guide to a new prosperity built upon sustained non-inflationary growth, is in reality a blueprint for economic disaster. By advocating such a massive and undesirable federal takeover of our national economy without even stipulating the means,

the cost, or the method of payment, the Democratic party not only insults the good faith and intelligence of the American taxpayer, but it also proves itself incapable of understanding the fundamental lesson of the past decade -- excessive fiscal and monetary policies caused the worst inflation in our peacetime history which in turn led to the worst recession in more than a generation. Our people have paid a terrible price for that ignorance.

The Republican party has emerged from the past ten years with a new attitude -- "never again." And at the head of that party we have a man who knows that real leadership is not always saying yes, because he has had the courage to say no. Thanks to his prudent tough policies, we now have the best chance in a long time to enter an era of durable economic stability.

Our critics term the President's policies "Government by veto." But it is precisely because the President has vetoed more than 50 bills passed by the reckless free-spending Congress that the taxpayers have saved more than \$14 billion. It is precisely because of the President's sound fiscal actions that the budget deficit did not exceed \$70 billion last year.

Restraint on spending brought about by the President is the reason inflation has been cut in half, inflationary expectations have been lessened, and 87 million people are now working, more than at any other time in the nation's history. In essence, we've come a long way from the depths of the recession in 1975 and we're now well advanced into a period of economic expansion.

I'm proud of President Ford's record, and I hope you are too. The essential point to remember, however, is that the President acted as he did because he had to. We must never forget that the Democrats have controlled both houses of Congress in all but four years since 1930. During this campaign they are telling the American people that they want to try new ideas, to spend a lot more money to create public employment which will allow them to balance the budget. This is a total contradiction; more of the same old quack nostrums which have in reality produced budget deficits in 38 out of the past 46 years. Every time you see the sun rise here in Monmouth County, be reminded that your Federal



Government, spurred by an undisciplined Congress has spent more than a billion dollars of your hard-earned money. And if you think that's incredible, let me give you some more dazzling facts about government spending.

Since 1962, our budget has exploded from \$100 billion to a figure that will certainly top \$400 billion in 1977. That's an increase of 400% in 15 years. The government is now growing much faster than our ability or willingness to pay for it.

The U.S. Treasury in just the past 10 years has borrowed half a trillion dollars -- in the private capital markets. That's money that was swallowed up by the Washington bureaucracy that could and should have been invested in the dynamic private sector.

Added to that, the weight of excess government regulations which threaten to overwhelm many small businesses. Government now controls over 10% of everything we produce in the economy and indirectly controls most of the rest. That translates into a cost to consumers of \$125 billion a year. One-hundred and thirty million man-hours are spent just filling out the forms. The Administration is trying to get rid of unnecessary, overlapping and often contradictory government regulations.

It doesn't take a Ph.D. in economics to realize that the federal government has become the nation's biggest single employer, the biggest consumer, and its biggest borrower, and thus, the biggest source of inflation in the United States economy.

I am frankly astonished that whenever our critics are confronted with such irrefutable evidence proving we have too much government, they nevertheless plow on trying to make the case that there is not enough. The casualties of this misguided logic are jobs.

Free lives, individual lives, productive lives are built on capital investment, not on the red ink and the printing press of the government. If we are going to create the kind of jobs that will keep people permanently employed, that will meet the needs of a growing labor force and that will reduce our inflation by expanding our output of goods and services, then we must equip our workers

with new and efficient plant, machinery, and tools. These capital needs of the future are staggering, about \$4-1/2 trillion in the next decade -- or about three times as much as we spent in the last.

Savings are the source of this needed capital. But savings are currently being drained by excessive government deficits. Resources absorbed by government for its spending today cannot simultaneously be invested in expanded plant and machinery to employ more people tomorrow. We cannot have both bigger government and a healthy expanding private sector. Government never creates wealth -- people do. We cannot continue to transfer each year an increasing percentage of our national wealth from the most productive to the least productive sector of our economy without endangering the economic future of our children.

If we're really sincere about providing more productive and lasting jobs for our economy we will only succeed by invigorating our free enterprise system, and that, I might add constitutes the centerpiece of President Ford's program. This means controlling government spending, getting rid of excessive and counterproductive regulations, reducing personal and corporate taxes, and striking a new balance that favors less consumption and government spending and more savings and investment. The only way to wage a real war on poverty is to create jobs in the private sector, not jobs for bureaucrats.

In the past, we have looked upon our dynamic free enterprise system as the Golden goose that produced all our blessings and encouraged the self-initiative that has made our country the envy of the world. But today the Democratic Congress is spending faster than the goose can lay its eggs. And should we get a Democratic President, he and a Democratic Congress could not only steal all the eggs, but together they would kill the goose itself.

What a tragedy it would be. And, if we allow that to happen, just look at what we would be sacrificing:

The private sector produces the food we eat, the goods we use, the clothes we wear, the homes we live in.

It is the source of five out of every six jobs in America, and it provides directly and indirectly, almost all the resources for the rest of the jobs in our all-too-rapidly expanding public sector.

It is the foundation for defense security for ourselves and most of the Free World.

It is the productive base that pays for government spending to aid the elderly, the jobless, the poor, the dependent and the disabled. Indeed, far from being the inhuman monster caricature painted by political demagogues, the American private sector is in reality the mightiest engine for social progress and individual improvement ever created.

This, ladies and gentlemen, is the crucial theme that must be communicated broadly and deeply into the national consciousness: The American production and distribution system is the very mainspring of our nation's strength -- the source of present abundance and the foundation of our hopes for a better future.

Yet we could lose it unless we act. Let's face it. Under a Democratic President, we will return to a buddy system. There will be no vetoes, no confrontations, only a massive increase in federal spending which will inevitably be followed by a new round of double-digit inflation and a wrenching recession. And that means more cries for government help and more calls for government intervention. So what we're talking about is the survival of our free enterprise system, and more importantly, whether the protection of our human liberties could survive in its absence.

Ladies and gentlemen, the question is, are we going to promote the individual or the government? We cannot do both. That is the issue, and our freedom and your children's is at stake. Do we want more freedom of choice and more freedom of individual action? Or do we want to see these freedoms and all the other individual freedoms we hold so dear gradually erode under more and more government encroachments on our lives. That is the true, crucial decision behind the rhetoric and personalities of this election year. And the choice we make will affect not only our own futures, and our children's, but the future of our country itself as America embarks on its third century as the hope and inspiration of free people everywhere.

Gerry Ford has taken his stand. He's taken a stand to protect the dignity and freedom of millions of individuals

like yourselves by leading the battle to slow the growth in government. Control over government spending will allow you to keep more of your own money. President Ford made those tough decisions despite persistent criticisms, because he knows that it's the hard-working taxpayers who keep this country going. And those people need to be protected, not punished. That's the honest way to run an Administration, nothing flashy, no gimmicks, just facing up to the job at hand each day and doing it. And by succeeding, he's also demonstrated that he understands what the real meaning of compassion is all about.

Two-hundred years ago Thomas Jefferson said, "To preserve our independence we must not let our rulers load us with perpetual debt. We must make our choice between economy and liberty, or profusion and servitude." That was the choice 200 years ago and it remains the same today. But time is now running out. 1976 may be the last opportunity our party will have to stem the tide of big government and thinly disguised state socialism as practiced -- if not preached -- by the opposing party.

If we love our freedom, then we must be prepared to defend it. Between now and election day I urge each one of you to decide how you can most effectively contribute to the preservation of a society that in 200 years has come to symbolize man's capacity to attain freedom, prosperity, and dignity. This is an election in which the efforts of individual citizens will make the difference.

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