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AMERICAN BANKERS ASSOCIATION, GREENBIRER HOTEL,
WHITE SULPHUR SPRINGS, W. VIRGINIA, APRIL 26,
1974, 11:00 A.M.

IT IS AN HONOR TO ADDRESS THE A.B.A.
AND TO MEET WITH SO MANY OLD FRIENDS.

FOR A ^{very} SHORT TIME I WAS IN THE BANKING
BUSINESS AS A BANK DIRECTOR. BUT IT WAS LONG
ENOUGH TO LEARN THAT BANKERS DO NOT SUBSCRIBE
TO THE OLD PURITANICAL AXIOM, "NEITHER A
BORROWER NOR A LENDER BE."



WHEN I GREW UP IN GRAND RAPIDS, THE
LEADING BANKER WAS KNOWN AS "OLD SIX PERCENT",
an alleged
~~A SORT OF~~ SHYLOCK BECAUSE OF THE EXORBITANT
Incidentally his Bank was one of the few Michigan Banks that made it unscathed through the 1932 disaster.
INTEREST RATE HE CHARGED. TIMES HAVE CHANGED.
BANKERS ARE NOT SHYLOCKS, BUT THE PRIME RATE
TODAY IS OVER 10%. INFLATION HAS HIT THE
ECONOMY OF THE INDUSTRIALIZED WORLD---
INCLUDING THE BANKS.



INFLATION HAS BECOME WORLD PUBLIC
ENEMY NO. 1. IF ATOMIC WAR COULD BE
DESCRIBED AS A POTENTIALLY FATAL STROKE
AFFLICTING ALL HUMANITY, THEN INFLATION MAY
BE TERMED A CANCER THAT COULD CAUSE A LINGERING
DEATH FOR THE INDUSTRIALIZED WORLD. UNLESS
SOMETHING IS DONE, THE CANCER OF INFLATION
COULD PROVE FATAL.



THE INFLATION RATE IN THE UNITED STATES
LAST YEAR WAS ABOUT 10%. THIS WAS THE
HIGHEST RATE SINCE 1950. HIGHER FOOD AND
ENERGY PRICES ACCOUNTED FOR TWO-THIRDS OF
THE RISE. LAST MONTH THE RATE WAS RUNNING
IN EXCESS OF 13%. IT IS PART OF A GLOBAL
PLAGUE.



LOOK AT THE RATES IN OTHER COUNTRIES --
JAPAN WITH A RATE OF 23%; BRITAIN, 12%,
WEST GERMANY, 7%, ITALY, 20%, FRANCE, 13%,
GREECE, 33%, SWITZERLAND, 12%, YUGOSLAVIA,
22%.

WHETHER YOU LOOK AT COMMUNIST COUNTRIES
OR CONSERVATIVE SWITZERLAND, THE DISEASE IS
RAMPANT. THE U.S. HAS DONE BETTER THAN MOST
COUNTRIES, BUT ALL OF THEM ARE INFECTED.



SOME PEOPLE VIEW THIS WITHOUT GREAT ALARM. OTHERS FEEL INFLATION IS LIKE THE FAMOUS, OR INFAMOUS, DESCRIPTION OF SIN -- "WHEN FIRST SEEN, VIEWED WITH TERROR; WHEN NEXT SEEN, THE TERROR IS GONE; AND AFTER MANY EXPOSURES, VIEWED WITH AFFECTION."

THE FEW WHO MAY PROFIT TEMPORARILY MERELY DRAMATIZE HOW UNFAIR INFLATION IS TO THE MANY.



SOME WOULD HAVE US RESIGN OURSELVES
TO INFLATION AT CURRENT RATES. THEY SUGGEST
WE GET "USED TO" THE INEVITABLE. I DO NOT
AGREE.

INFLATION SUCH AS WE HAVE IN THE
WORLD TODAY MUST BE VIEWED WITH CONTINUOUS
ALARM BECAUSE INFLATION HURTS.



more than

1. IT HURTS ¹ 20 MILLION AMERICAN PENSIONERS.

2. IT HURTS THE POOR WHO SPEND THE LARGEST SHARE OF THEIR INCOME ON FOOD.

3. IT HURTS THE CORPORATION WHOSE DEPRECIATION ALLOWANCE WILL NOT BUY NEW COSTLIER EQUIPMENT.

4. IT EVEN HAS HURT THE STOCK MARKET, A SUPPOSED SAFE HARBOR FROM ITS RAVAGES.



5. IT HURTS BECAUSE IT GIVES REASON
TO HOARD THINGS, TO SPEND AND NOT SAVE, TO
LIVE FOR TODAY AND FORGET TOMORROW.

6. IT HURTS BECAUSE IT DESTROYS
CONFIDENCE IN GOVERNMENT.



WORLD INFLATION MUST BE FOUGHT. IT MUST BE BROUGHT UNDER CONTROL. WE HAVE HEARD MANY DISCUSSIONS OF ITS CAUSES. NOT ALL ECONOMISTS AGREE. BUT, ALL ECONOMISTS NEVER AGREE. I THINK THERE ARE SOME CLEAR REASONS FOR THE INFLATION WE FACE. THESE, AMONG OTHERS, HAVE A SIGNIFICANT EFFECT.



FIRST, MORE PEOPLE ARE DIPPING INTO A LIMITED POT. NATURAL RESOURCES ARE LIMITED AT ANY ONE TIME. AS MORE PEOPLE TRY TO EMULATE THE AMERICAN STANDARD OF LIVING, THE INCREASED BIDDING FOR THESE RESOURCES INCREASES PRICES. THIS DEMAND HAS BEEN FURTHER AUGMENTED BY NATURAL RESOURCE NATIONS ENFORCING HIGHER PRICES ON BASIC COMMODITIES THROUGH A COORDINATED EFFORT TO MARKET THEIR PRODUCTS AND INCREASE THEIR SHARE.



A SECOND REASON FOR INFLATION:

MISJUDGMENT IN FINANCING THE WAR IN VIETNAM.

THIS ADMINISTRATION INHERITED AN UNDER-

FINANCED WAR. ^{For too long} WE TRIED TO HAVE BOTH GUNS

AND BUTTER, AND IT DIDN'T WORK. THE COST

HAD TO BE PASSED ON THROUGH GOVERNMENT

DEFICITS AND INFLATION. ALTHOUGH THE WAR IS

OVER, OUR UNSOUND FISCAL POLICIES OF THAT

ERA ARE STILL HAUNTING US.



A THIRD REASON: LACK OF REALITY IN FOREIGN EXCHANGE RATES. ALL DURING THE LATE 50'S AND 60'S THE U.S. SHIPPED PAPER DOLLARS ABROAD AND RECEIVED VOLKSWAGONS AND SONYS IN EXCHANGE. THE REST OF THE WORLD HAS NOW DECIDED TO CASH IN THESE DOLLARS AT THE NEW AND MORE REALISTIC RATES. THEY ARE INCREASING THEIR OWN STANDARDS OF LIVING. THEY ARE IMPORTING AMERICAN WHEAT, NOT PAPER DOLLARS. SO PRICES RISE.



FINALLY, THE MOST IMPORTANT REASON FOR OUR PRESENT RECORD RATE OF INFLATION: THE INABILITY OF FREE-ECONOMY GOVERNMENTS AROUND THE WORLD TO SOLVE THE PROBLEM OF FULL EMPLOYMENT WITHOUT INFLATION. THERE IS EVEN A THEORETICAL DEVICE -- "PHILLIPS CURVE" -- WHICH ATTEMPTS TO SHOW PRECISELY HOW UNEMPLOYMENT AND INFLATION ARE RELATED. THIS DEVICE ILLUSTRATES THAT WHEN EMPLOYMENT IS AT ITS HIGHEST, SO IS INFLATION. THE ONLY PROBLEM IS THAT NO ONE HAS EVER GOTTEN IT TO WORK EXACTLY THE SAME WAY TWICE.



AT A RECENT CONFERENCE OF ECONOMISTS AT THE UNIVERSITY OF ROCHESTER, ALL IN ATTENDANCE AGREED THAT INFLATION AND EMPLOYMENT ARE RELATED -- BUT AGAIN, OF COURSE, NOT ALL AGREED ON WHAT SHOULD BE DONE ABOUT IT.



NO ONE CLAIMS TO HAVE THE COMPLETE ANSWER. BUT AS A CITIZEN, FACING THIS PROBLEM EVERY DAY AS ALL OF YOU ARE, I KNOW WE NEED SOLUTIONS. I'M CONFIDENT WE WILL FIND THEM IF WE CLEARLY IDENTIFY THE PROBLEM AS OUR NUMBER ONE CONCERN.



*altho there is an
apparent last minute
last ditch effort
by some Democrats
to push for
an extension.*

CONTROLS ARE NOW BEING DROPPED, TEMPORARILY, THEY WERE HELPFUL, BUT THEY PROVED (AS THEY HAVE IN THE PAST) TO BE NO LONG RANGE SOLUTION. THESE SHOULD BE PUT ON A "STANDBY BASIS" FOR TEMPORARY ^{*for very limited*} USE ONLY.
1

THIS ADMINISTRATION NOW IS DEDICATED TO FINDING NEW SOLUTIONS. IT WILL BE A LONG AND DIFFICULT EFFORT. IT WILL REQUIRE PUBLIC SUPPORT AND A WILLINGNESS TO GO THE "HARD WAY." THE "HARD WAY" MEANS:



1) RESISTING THE EASY ROAD OF A "QUICK
FIX" BY A TAX CUT THAT MEANS MORE, NOT LESS,
INFLATION. *A tax cut may have superficial partisan political appeal
but the potential economic disaster from such action is ~~deadly~~ serious.*

2) REDUCED CONSUMPTION. ONE RESULT OF
THE ENERGY CRISIS HAS BEEN A DISCOVERY OF THE
VIRTUES OF REDUCED GASOLINE CONSUMPTION BY
MANY OF OUR CITIZENS. REDUCTION OF WASTEFUL
USE OF RESOURCES WILL HELP CONTROL INFLATION.



WE HAVE LEARNED THAT LESS DRIVING RESULTED
IN FEWER ACCIDENTS, MORE HOME LIFE, MORE
USE OF OUR CITY PARKS AND MUSEUMS, AND OTHER
UNFORESEEN BENEFITS. A CONSCIOUS EFFORT
BY ALL CITIZENS TO AVOID WASTEFUL USE OF *all*
RESOURCES ^{*in short supply*} WILL HELP CONTROL INFLATION.

ALSO, THE "HARD WAY" WILL MEAN A
REFUSAL TO PANIC OR TO HOARD. WE MUST GUARD
AGAINST THE TEMPTATION TO BUY FOR QUICK
GAIN AND BEYOND OUR NEED.



THE HARD WAY WILL REQUIRE US TO RETAIN
OUR CONFIDENCE IN THE FREE MARKET SYSTEM.
ITS ABILITY TO INCREASE PRODUCTION AND
RESTRAIN PRICES HAS BEEN PROVEN IN THE PAST.

MUCH OF OUR HISTORY REFLECTS OUR
CAPACITY TO PRODUCE MORE THAN WE CAN CONSUME.
OUR FREE ECONOMY SYSTEM CAN DO THIS AGAIN.
THE RECENT TURN-AROUND IN U.S. AGRICULTURAL
PRODUCTION IS GOOD EVIDENCE OF THIS CAPABILITY.



AND GOVERNMENT, TOO, MUST TAKE THE
"HARD WAY." IT MUST CONTROL EXPENSES.

INFLATION IS FIRST OF ALL A PROBLEM WHERE
GOVERNMENT ACTION IS ESSENTIAL, ^{both in spirit & in fact.} WHERE NATIONAL
GOVERNMENT MUST BE THE PRIME MOVER. THIS
INCLUDES BOTH THE LEGISLATIVE AND EXECUTIVE
BRANCHES. A MUCH-NEEDED GOVERNMENT ACTION
IS THE PROSPECTIVE PASSAGE OF THE CONGRESSIONAL
BUDGET ACT WHICH WILL GIVE CONGRESS A POWERFUL
TOOL IN CONTROLLING EXCESS EXPENDITURES.



THE ADMINISTRATION MUST, AND WILL,
CONTINUE ITS EFFORT TO REDUCE, DELAY, AND
CUT^{##}BACK EXPENDITURES AT THE FEDERAL LEVEL.
THIS IS NOT AN EASY^{or pleasant} JOB WHEN SO MANY DESIRABLE
PROGRAMS ARE SUGGESTED AND THE NEEDS OF PEOPLE
ARE SO CLEAR.

GOVERNMENT'S "HARD WAY" ALSO REQUIRES
A RESTRICTIVE MONETARY POLICY THAT MEANS,
AMONG OTHER THINGS, THE DISCIPLINE OF HIGH
INTEREST RATES, *hopefully on a temporary basis.*



GOVERNMENT'S "HARD WAY" ALSO INCLUDES SOME HARD THINKING ON NEW AND INNOVATIVE WAYS TO MEET OUR INFLATION PROBLEM. THE FIRST QUARTER OF 1974, WITH A 5% DROP IN GNP AND A 10% INFLATION RATE, MAKES IT IMPERATIVE THAT WE COME UP WITH SOME NEW AND BETTER IDEAS.



WE MUST FIND WAYS TO INCREASE PRODUCTION
AND MEET ANY PROBLEMS OF UNEMPLOYMENT CAUSED
BY ECONOMIC RESTRAINT. NEW AVENUES FOR
WORLD-WIDE ACTION TO CONTROL COMMODITY
MARKETS AND PRICES ARE NEEDED. SECRETARY
KISSINGER IS ALREADY AT WORK IN THIS FIELD.



ALTERNATIVE AND INNOVATIVE FINANCING
METHODS MUST BE DEVELOPED TO PREVENT INTEREST
RATES WHICH RESULT IN REDUCED HOUSING
PRODUCTION.

THE TAX AND REGULATORY SYSTEMS MUST
BE USED TO INCREASE PRODUCTION IN INDUSTRIES
WHERE SHORTAGES EXIST.



THE TRADE REFORM ACT MUST BE PASSED
SO THE PRESIDENT MAY NEGOTIATE ELIMINATION
OF BARRIERS TO TRADE. THESE BARRIERS
PRESENTLY COST THE U.S. SEVERAL BILLION
DOLLARS A YEAR IN THE FORM OF HIGHER CONSUMER
PRICES AND THE INEFFICIENT USE OF RESOURCES.
FREER WORLD TRADE WILL MEAN LOWER CONSUMER
PRICES AND MORE AND BETTER JOBS HERE AT HOME.



FURTHER STUDY ON THE RELATIONSHIP OF INFLATION AND UNEMPLOYMENT IS NEEDED. NEW THOUGHTS AND BETTER SOLUTIONS ARE REQUIRED.

PRIMARY IS THE RECOGNITION THAT INFLATION IS A WORLDWIDE DISEASE WHICH MUST BE DIAGNOSED AND CONTROLLED. THIS IS MUCH MORE IMPORTANT THAN WATERGATE OR EVEN OUR ENERGY PROBLEMS. INFLATION, UNCHALLENGED, IS A MAJOR THREAT TO OUR FREE ECONOMY AND OUR FORM OF GOVERNMENT. IT MUST BE CONTROLLED. I AM PERSONALLY DEDICATED TO THIS GOAL. IT CAN BE ACHIEVED.

I thank you.



REMARKS BY VICE PRESIDENT GERALD R. FORD
AMERICAN BANKERS ASSOCIATION
GREENBRIER HOTEL
WHITE SULPHUR SPRINGS, WEST VIRGINIA
11:00 A.M. FRIDAY, APRIL 26, 1974

FOR RELEASE AT 11:00 A.M. FRIDAY

It is an honor to address the A.B.A. and to meet with so many old friends.

For a short time I was in the banking business as a bank director. But it was long enough to learn that bankers do not subscribe to the old Puritanical axiom, "neither a borrower nor a lender be."

When I grew up in Grand Rapids, the leading banker was known as "old six percent", a sort of Shylock because of the exorbitant interest rate he charged. Times have changed. Bankers are not Shylocks, but the prime rate today is over 10%. Inflation has hit the economy of the industrialized world -- including the banks.

Inflation has become world public enemy No. 1. If atomic war could be described as a potentially fatal stroke afflicting all humanity, then inflation may be termed a cancer that could cause a lingering death for the industrialized world. Unless something is done, the cancer of inflation could prove fatal.

The inflation rate in the United States last year was about 10%. This was the highest rate since 1950. Higher food and energy prices accounted for two-thirds of the rise. Last month the rate was running in excess of 13%. It is part of a global plague.

Look at the rates in other countries -- Japan with a rate of 23%,

Britain, 12%

(more)

West Germany, 7%

Italy, 20%

France, 13%

Greece, 33%

Switzerland, 12%

Yugoslavia, 22%.

Whether you look at Communist countries or conservative Switzerland, the disease is rampant. The United States has done better than most countries, but all of them are infected.

Some people view this without great alarm. Others feel inflation is like the famous, or infamous, description of sin -- "when first seen, viewed with terror, when next seen, the terror is gone, and after many exposures, viewed with affection."

The few who may profit temporarily merely dramatize how unfair inflation is to the many.

Some would have us resign ourselves to inflation at current rates. They suggest we get "used to" the inevitable. I do not agree.

Inflation such as we have in the world today must be viewed with continuous alarm because inflation hurts.

- 1) it hurts 20 million American pensioners.
- 2) it hurts the poor who spend the largest share of their income on food.
- 3) it hurts the corporation whose depreciation allowance will not buy new costlier equipment.
- 4) it even has hurt the stock market, a supposed safe harbor from its ravages.
- 5) it hurts because it gives reason to hoard things, to spend and not save, to live for today and forget tomorrow.
- 6) it hurts because it destroys confidence in government.

World inflation must be fought. It must be brought under control. We have heard many discussions of its causes. Not all economists agree. But, all economists never agree. I think there are some clear reasons for the inflation we face.

(more)

These, among others, have a significant effect.

First, more people are dipping into a limited pot.

Natural resources are limited at any one time. As more people try to emulate the American standard of living, the increased bidding for these resources increases prices. This demand has been further augmented by natural resource nations enforcing higher prices on basic commodities through a coordinated effort to market their products and increase their share.

A second reason for inflation: Misjudgment in financing the war in Vietnam. This Administration inherited an under-financed war. We tried to have both guns and butter, and it didn't work. The cost had to be passed on through government deficits and inflation. Although the war is over, our unsound fiscal policies of that era are still haunting us.

A third reason: Lack of reality in foreign exchange rates. All during the late 50's and 60's the United States shipped paper dollars abroad and received Volkswagons and Sonys in exchange. The rest of the world has now decided to cash in these dollars at the new and more realistic rates. They are increasing their own standards of living. They are importing American wheat, not paper dollars. So prices rise.

Finally, the most important reason for our present record rate of inflation: The inability of free-economy governments around the world to solve the problem of full employment without inflation. There is even a theoretical device -- "Phillips curve" -- which attempts to show precisely how unemployment and inflation are related. This device illustrates that when employment is at its highest, so is inflation. The only problem is that no one has ever gotten it to work exactly the same way twice. At a recent conference of economists at the University of Rochester, all in attendance agreed that inflation and employment are related -- but again, of course, not all agreed on what should be done about it.

(more)

No one claims to have the complete answer. But as a citizen, facing this problem every day as all of you are, I know we need solutions. I'm confident we will find them if we clearly identify the problem as our number one concern.

although a last-gasp effort is being made -- mostly by Democrats -- to extend them.
Controls are now being dropped. Temporarily, they were helpful, but they proved -- as they have in the past -- to be no longrange solution. Controls should be put on a "standby basis," for *for a very ltd.* temporary use only.

This Administration now is dedicated to finding new solutions. It will be a long and difficult effort. It will require public support and a willingness to go the "hard way." The "hard way" means:

Resisting the easy road of a "quick fix" by a tax cut that means more, not less, inflation.

Reducing consumption. One result of the energy crisis has been a discovery of the virtues of reduced gasoline consumption by many of our citizens. Reduction of wasteful use of resources will help control inflation. We have learned that less driving resulted in fewer accidents, more home life, more use of our city parks and museums, and other unforeseen benefits. A conscious effort by all citizens to avoid wasteful use of *all* resources *in short supply* will help control inflation.

Also, the "hard way" will mean a refusal to panic or to hoard. We must guard against the temptation to buy for quick gain and beyond our *immediate* need.

which is highly essential
The hard way will require us to retain our confidence in the free market system. Its ability to increase production and restrain prices has been proven in the past.

Much of our history reflects our capacity to produce more than we can consume. Our free economy system can do this again. The recent turn-around in United States agricultural production is *the best evidence I know* of this capability.

And government, too, must take the "hard way." It must control expenses. Inflation is first of all a problem where

(more)

governmental action is essential, where national government must be the prime mover, *both in spirit & in fact.* This includes both the legislative and executive branches. A much-needed governmental action is the prospective passage of the Congressional Budget Act which will give Congress a powerful tool *- a new device -* in controlling excess expenditures. *I'm glad that my former colleagues, Al Chuman, & the time & effort to explain this.* The Administration must, and will, continue its efforts to reduce, delay, and cut back expenditures at the federal level. This is not an easy job when so many desirable programs are suggested and the needs of the people are so clear.

Government's "hard way" also requires a restrictive monetary policy that means, among other things, the discipline of high interest rates.

Government's "hard way" also includes some hard thinking on new and innovative ways to meet our inflation problem. The first quarter of 1974, with a 5% drop in GNP and a 10% inflation rate, makes it imperative that we come up with some new and better ideas. We must find ways to increase production and meet any problem of unemployment caused by economic restraint. New avenues for world-wide action to control commodity markets and prices are needed. Secretary Kissinger is already at work in this field.

Alternative and innovative financing methods must be developed to prevent high interest rates which result in reduced housing production.

The tax and regulatory systems must be used to increase production in industries where shortages exist. *five in the field of energy. Simon. tax policy can be helpful. & This is a biggie.* The Trade Reform Act must be passed so the President *And he must have the flex. to negotiate a hard, fair way.* may negotiate elimination of barriers to trade. These barriers presently cost the United States several billion dollars a year in the form of higher consumer prices and the inefficient use of resources. Freer world trade will mean lower consumer prices and more and better jobs here at home.

Further study on the relationship of inflation and unemployment is needed. New thoughts and better solutions

(more)



are required.

Primary is the recognition that inflation is a *serious -*
could be - catastrophic disease -
~~worldwide disease~~ which must be diagnosed and controlled.

This is much more important than Watergate or even our energy problems. Inflation, unchallenged, is a major threat to our free economy and our form of government. *Inflation -* ~~It~~ must be controlled.

I am personally dedicated to this goal. It can be achieved.

#



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Inflation has become world public enemy No. 1. If atomic war could be described as a potentially fatal stroke afflicting all humanity, then inflation may be termed a cancer that could cause a lingering death for the industrialized world. Unless something is done, the cancer of inflation could prove fatal.

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#

~~ROUGH~~

DRAFT

Remarks By Vice Pres. G.R.F.
American Bankers Association
Greenbrier Hotel
White Sulphur Springs, W. Va.
INFLATION --- PUBLIC ENEMY NO. 1



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The inflation rate in the United States last year was about 10%. This was the highest rate since 1950. Higher food and energy prices accounted for ~~2/3~~ ^{two-thirds} of the rise. Last month the rate was running in excess of 13%. It is part of a global plague.

Look at the rates in other countries -- Japan with a rate of 23%,

Britain, 12%

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Whether you look at communist countries or conservative Switzerland, the disease is rampant. The U. S. has done better than most countries, but all of them are infected.

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Such as we
Inflation ~~like~~ we have in the world today must be viewed with continuous alarm because inflation hurts ~~the~~

- American*
- 1) it hurts 20 million pensioners.
 - 2) it hurts the poor who spend the largest share of their income on food.
 - 3) it hurts the corporation whose depreciation allowance will not buy new costlier equipment.
 - 4) it even has hurt the stock market, a supposed safe harbor from its ravages.
 - 5) it hurts because it gives reason to hoard things, to spend and not save, to live for today and forget tomorrow.
 - 6) it hurts because it destroys confidence in government.

World inflation must be fought. It must be brought under control. We have heard many discussions of its causes. Not all economists agree. But, all economists never agree. I think there are some clear reasons for the inflation we face. These, among others, have a significant effect.

First, more people are dipping into a limited pot. Natural resources are limited at any one time. As more people try to emulate the American standard of living, the increased bidding for these resources increases prices. This demand has been further augmented by natural resource nations enforcing higher prices ^{on basic commodities} through a coordinated effort to market their products and increase their share.

A second reason for inflation: Misjudgment in financing the war in Vietnam. This Administration inherited an under-financed war. We tried to have both guns and butter, and it didn't work. The cost had to be passed on through government deficits and inflation. *Although the war is over our un sound fiscal policies of that era are still haunting us*
A third reason: Lack of reality in foreign exchange rates. All during the late 50's and 60's the U. S. shipped paper dollars abroad and received Volkswagons and Sonys in



exchange. The rest of the world has now decided to cash in these dollars at the new and more realistic rates. They are increasing their own standards of living. They are importing American wheat, not paper dollars. So prices rise.

Finally, ~~and~~ ^{the} most important reason for our present record rate of inflation: The inability of free-economy governments around the world to solve the problem of full employment without inflation. There is even a theoretical device -- "Phillips curve"--which attempts to show precisely how unemployment and inflation are related. ^{THIS} ~~The~~ device illustrates that when employment is at its highest, so is inflation. The only problem is ^{THAT} ~~no~~ one has ever gotten it to work exactly the same way twice. At a recent conference of economists at the University of Rochester, all in attendance agreed that inflation and employment are related -- but again, of course, not all agreed on what should be done about it.

No one claims to have the complete answer. But as a citizen, facing this problem every day ^{on} ~~like~~ all of you, ^{on} I know we need solutions. I'm confident we will find them if we clearly identify the problem as our number one concern.

Controls are now being dropped. Temporarily, they were helpful, but they proved ^{as} they have in the past ^{to} be no long ^{range} solution. ~~These~~ ^{Controls} should be put on a "standby basis" for temporary use only.

This Administration now is dedicated to finding new solutions. It will be a long and difficult effort. It will require public support and a willingness to go the "hard way." The "hard way" means:

Resisting the easy road of a "quick fix" by a tax cut that means more, not less, inflation.



Reducing ~~ing~~ consumption. One result of the energy crisis has been a discovery of the virtues of reduced gasoline consumption by many of our citizens. Reduction of wasteful use of resources will help control inflation. We have learned that less driving resulted in fewer accidents, more home life, more use of our city parks and museums, and other unforeseen benefits. A conscious effort by all citizens to avoid wasteful use of resources will help control inflation.

Also, the "hard way" will mean a refusal to panic or to hoard. We must guard against the temptation to buy for quick gain and beyond our need.

The hard way will require us to retain our confidence
in the free market system. Its ability to increase
production and restrain prices has been proven in the past.

Much of our history reflects our capacity to produce
more than we can consume. Our free economy system can do
this again. The recent turn-around in U. S. agricultural
production is good evidence of this capability.

And government, too, must take the "hard way." It must
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Government's "hard way" also requires a restrictive
monetary policy that means, among other things, the discipline
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Government's "hard way" also includes some hard thinking on new and innovative ways to meet our inflation problem. The first quarter of 1974, with a 5% drop in GNP and a 10% inflation rate, makes it imperative that we come up with some new and better ideas. We must find ways to increase production and meet ^{any} ~~the~~ problem of unemployment caused by economic restraint. New avenues for world-wide action to control commodity markets and prices are needed. Secretary Kissinger is already at work in this field.

Alternative and innovative financing methods must be developed to prevent high interest rates which result in reduced housing production.

The tax and regulatory systems must be used to increase production in industries where shortages exist.

The Trade Reform Act must be passed so the President may negotiate elimination of barriers to trade. These barriers presently cost the U. S. several billion dollars a year in the form of higher consumer prices and the inefficient use of resources. Freer world trade will mean lower consumer prices and more and better jobs here at home.



Further study on the relationship of inflation and unemployment is needed. New thoughts and better solutions are required.

Primary is the recognition that inflation is a worldwide disease which must be diagnosed and controlled. This is much more important than Watergate or even our energy problems. ~~⇒~~ Inflation, unchallenged, is a major threat to our free economy and our form of government. It must be controlled. I am personally dedicated ^A to this goal. *It can be achieved*



4/25 400 PM

R O U G H D R A F T

INFLATION -- PUBLIC ENEMY No. 1

It is an honor to address the A.B.A. and to meet with so many old friends.

For a short time I was in the banking business as a bank director. But it was long enough to learn that bankers ~~do~~ not subscribe to the old Puritanical axiom, "neither a borrower nor a lender be."

When I grew up in the town of Grand Rapids, the leading banker was known as "old six percent", a sort of Shylock, because of the exorbitant interest rate he charged. Times have changed. Bankers are not shylocks but the prime rate today is over 10%. Inflation has hit the economy of the industrialized world--including the banks.

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The few who may profit temporarily merely dramatizes the unfairness to the many.

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