about
9/25/74

OFFICE OF THE PRESIDENT

WASHINGTON, D.C.

From the President:

To: Bill Seidman or Dean Burch

Date: Time a.m. p.m.

Write acknowledgment.

He should be praised

for thoughtful proposals etc.

GRF

THE PRESIDENT HAS SEEN

BILL GRADISON for CONGRESS COMMITTEE
Room 17, Dixie Terminal Building
Cincinnati, Ohio 45202
(513) 579-9172

September 25, 1974

The President
The White House
Washington, D.C.

Dear Mr. President:

I appreciate this opportunity to convey to you and your advisors the attached recommendations on what the Federal government can do about the inflationary crisis which grips our Nation and the world. These ideas are my own, but do take into account the suggestions which have come to me from citizens from all walks of life in Ohio's First Congressional District.

As I see it all Americans - all parts of our economy - are looking to Washington for a signal that halting inflation will be our Nation's top priority and that first steps in this direction will be taken now. The clearest sign that could be given would be for you to call on the Congress to remain in session until it cuts the spending rate (not appropriations, not authorizations, but spending) to an annual rate of $300 billion or less for the current fiscal year. I would further suggest that you indicate that if the Congress is not able or willing to prescribe the needed spending cuts, you would be willing to have Congress grant authority to you to make the needed reductions.

If I can be of further assistance, I stand ready to assist you and your advisors at any time.

Respectfully yours,

Willis D. Gradison Jr.

Willis D. Gradison, Jr.

WDGJr/ljh

WHAT THE FEDERAL GOVERNMENT CAN DO ABOUT INFLATION

World-wide inflation has resulted from excess demand coupled with an inadequate supply of goods and services. Rising living standards are pressing against finite resources. Life-time savings are being confiscated, thrift discouraged, and the spector of unemployment caused by inflation haunts the working men and women of our Nation.

Price competition has been restrained by monopolistic practices and shortages of productive capacity. And government actions have intensified the inflationary tendencies by counter-productive fiscal policies and by a pattern of political promises with costs far in excess of available revenues. This buy now, pay later attitude must end. In performing on its promises for more spending (validating the voters' expectations and stimulating even larger pressures for future spending) the government has levied a tax in the form of inflation to pay for its inability to balance its income and outgo or to resist political pressures.

While this analysis is based on what the Federal Government can do about inflation, we must recognize that it cannot deal with all aspects of the problem. The price increases exacted by the major oil producing nations, crop shortages in the Soviet Union or the Peoples Republic of China, monetary instability -- these and other events are beyond the power of our government to cope with (at least in the short run). Obviously industry and labor have major roles to play in successfully containing inflation, but right now the question is who should take the first step. And it clearly must be the government itself which must recognize its leadership role, and that it cannot expect others to act until it acts.

What then can the Federal Government do?

1. Fiscal Policy and the Budget

The cumulative effects of huge Federal deficits have required large Federal borrowings and these in turn have absorbed savings which otherwise would have been available for job-creating capital investment and for housing. Sound management of Federal financing in recent years would have required surpluses, not deficits. The rapid increase in spending coupled with the expansion of credit-guarantee programs has played a major role in the present inflation. The current situation calls for a cut in spending rather than an increase in taxes, since the latter would likely be used as a justification for even higher outlays. Spending cuts should begin in the Federal Government's own programs, not only to restrain demands on credit but also to increase the productivity of Federal spending. Examples abound where cuts should be made:

The postal deficit with its hidden subsidy for newspapers and magazines.

Other business subsidies such as shipbuilding, Penn Central, Lockheed, private airlines.

Space projects which could be spread out over a longer period of years.

Agriculture where acreage restrictions and price supports should be ended for all crops.

Livestock loans which keep meat prices from falling as dictated by supply and demand.

Overlapping welfare programs where too much of the Federal dollar is absorbed in administration at the Washington and regional levels.

Poor administration such as ADC in Ohio with 28.7% of all cases ineligible or receiving overpayments.

Coupled with a pruning of existing programs <u>all new expenditure programs should be deferred</u> until revenues are available to pay for them, or cuts in older programs free funds for more urgent activities. A good place to start would be the construction projects of the U.S. Corps of Army Engineers such as the Red River Gorge in Kentucky.

2. <u>Monetary Policy and Interest Rates</u>

For years monetary policy has carried the laboring oar in the fight against inflation, with fiscal policy usually pulling in the opposite direction. <u>As effective</u>

fiscal policy moves from speeches and promises into action steps towards monetary ease will follow. Without stern action by the Federal Reserve the inflationary situation would have been far worse; but as we have seen such action cannot do the job alone. We are at a critical stage where even higher interest rates could cause a massive flow of funds from thrift institutions, an even more severe drop in housing than has already taken place, and require rescue operations by the Federal Reserve and the Treasury which would all but doom to defeat further efforts to stop inflation.

3. Taxation

The time for tax reform is always with us, and changes are obviously needed in the interest of equity and to assure that everyone carries his fair share of the tax burden. With reference to inflation, however, tax reform takes on a new dimension, namely the need to stimulate expansion of productive capacity, research, and development. This need not result in favoritism to anyone; merely a removal of present restraints on savings and investment would help. For example, utilities, which have huge needs for capital and expansion, receive an investment credit of only 4% while the credit in other industries is 7%. Depreciation allowances are based on historic cost rather than present (and higher) replacement cost. Individuals can exclude from income a portion of dividends received but not of interest on thrift accounts (which are the main source of funds for housing). And while the tax rate on investment gains has increased, the opportunity to write-off losses against other income continues to be severely limited. In this regard leadership is needed from the Federal level in educating the general public to the need for savings, thrift, and investment, and to the way in which prices, job opportunities, and consumption in the future are related to capital creation today.

4. Energy

Until the Federal Government establishes the ground rules, expansion of energy output is likely to lag. Taxation, price regulations, rules with respect to coal mining on public lands, environmental standards and other aspects of public policy all bear upon the ability and the willingness of energy companies to commit the resources needed for expansion. Such policies should be developed with the objective of stimulating output and fostering research, not with a spirit of vindictiveness or hostility. The need for capital is so great and the opportunities for investment of capital outside the energy field so large that unduly harsh government policies would discourage investment and intensify both energy shortages and our dependence on foreign sources. A Presidential veto of the Energy Transport Security Act would be a signal that energy prices will not be permitted to rise unnecessarily.

5. Federal Regulations

Over the years Federally sanctioned rules have inhibited competition and indeed led to price-fixing in many industries. All such limits on competitive prices should end. Examples abound ranging from freight rates for railroads and trucks to dairy prices to stock brokerage commissions to charges for interstate moving. Low priced imports from abroad are restricted. Farm co-operatives can fix prices higher than rates which the market would set. A comprehensive review of all such inflationary rules should be undertaken immediately with a view to ending them all.

6. Food Prices

A 60-day moratorium should be declared on food exports until the present harvests are completed and an assessment can be made of how much food is needed at home, and how much could be sent abroad. No increase in food commitments under P.L. 480 should occur during the moratorium, and future increases should be conditioned on other major food-producing nations doing their fair share. The United States has quite properly taken the lead over the years in playing a humanitarian role, but must first be sure that needs are met at home before increased gifts are considered abroad.

7. Employment

Inflation itself - at double digit rates - causes rising unemployment; for example, in home building. And the effects of the transition to a non-inflationary economy may cause unemployment. Steps must be taken to protect those who cannot protect themselves: the unemployed. The Emergency Employment Act should be expanded, the level to be triggered by the unemployment rate in local labor markets. This approach offers great speed and flexibility and has the virtue (unlike most other Federal programs) of automatically shrinking when economic conditions justify (when unemployment falls).

8. Anti-trust

Vigorous anti-trust action should be pursued with special emphasis on actions which keep prices high. For example, in the automobile industry the anti-trust implications of annual model changes should be examined, and in the oil industry dealer agreements which discourage vigorous retail price competition. Anti-trust efforts which may actually increase costs (and prices) should be reconsidered. For example, breaking up integrated oil companies may be costly to the consumer since it could lead to redundant refining capacity. Penalties for anti-trust violations should be substantially increased. The present $50,000 penalty is a mere slap on the wrist to large companies and does not deter violators.

Conclusion

What is needed, then, is a new attitude, an approach which looks at all programs old or new and asks "What will this do about inflation?" When this question is asked about banning all surface mining of coal in the United States the answer must be "No, it would make inflation worse." When this question is asked about the Energy Transport Security Act the answer must be "No, it would unnecessarily increase the price of gasoline." When this question is asked about increasing expenditures under P.L. 480 the answer must be "No, not now, not until we're sure how much food is needed at home."

Just as inflationary tendencies have been built into our fiscal and monetary policies in the past, we need new mechanisms to encourage fiscal and monetary restraint in the future.

1. The Employment Act of 1946 should be amended to include "reasonable price stability" as a goal of National policy. The actual wording of the Act, its legislative history, and experience since 1946 all suggest that this would be helpful in focusing the attention of Congress and the Administration on prices as well as "maximum employment, production, and purchasing power."

2. <u>Inflation impact statements should be required on all measures under consideration by the Congress</u>. Just as environmental impact statements are now required and have resulted in greater awareness of environmental considerations before action is taken, so too the proposed inflation impact statements would discourage inflationary actions from being taken by alerting the public to the inflationary effects of measures which on the surface are politically appealing.

3. <u>The Constitution should be amended to require a balanced budget except when the President and the Congress find that a national military or economic emergency exists</u>. This requirement would put the burden on those who wish to spend more than revenues can finance rather than the present situation which virtually invites continuing inflationary deficits regardless of the stage of the economic cycle. The required finding that an emergency exists should be made annually so that a frequent reassessment of any waiver of the balanced budget rule would be required.

Inflation is man-made, and can be man-cured. It will not be stopped by price-wage controls or indexing which cover up the causes of inflation and in the long run only make it worse.

Our people are crying out for leadership and action from those who have the knowledge and the power to act. If we disappoint them our entire society is in jeopardy.

THE WHITE HOUSE

WASHINGTON

September 25, 1974

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN

FROM: JERRY H. JONES

The attached letter was returned in the President's outbox with the following notation:

> -- Write acknowledgment. He should be praised for thoughtful proposals, etc.

Please follow-up with the appropriate action.

Thank you.

cc: Al Haig
Dean Burch