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THE WHITE HOUSE
WASHINGTON

12/20

TO: DOROTHY DOWNTOWN

FROM: JOHN O. MARSH, JR.

(Handwritten initials in a circle)

For Direct Reply

*Please to
Richard*

_____ For Draft Response

_____ For Your Information

_____ Please Advise

The attached is forwarded to you for appropriate handling. It was sent to me for forwarding to the President.
Thanks.

BE 5

Karl R. Bendetsen
Chairman of the Executive Committee

 **Champion International**

2918 Garfield Terrace, N.W.
Washington, D.C. 20008

December 16, 1974

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

The principal purpose of this letter is to recommend a course of action which would serve to generate a sufficiently broad base of understanding of the causes and the cures for inflation. Such a basis of understanding does not now exist. If it did, Congress would not behave as it is now preparing to behave in the next session. If this lack of understanding is not substantially diminished at the grass roots level, then our national existence in the form we know, love and desire to maintain will be in great jeopardy.

It is urgently necessary that the myths about the causes and cures, such as the myth about price and wage controls for example, be laid to rest - exploded. There is not now and never has been an adequate effort to do this. Such an effective effort could only be mounted by you. The foundation for this should be laid in the forthcoming State of the Nation address in January. Time is very short.

Following this, Mr. President, I recommend that you deliver a series of nationwide fireside talks on prime time. I would envision that this series would probably require as many as ten or a dozen superbly prepared, but simple addresses. As there is great power in repetition, some vital themes would be often repeated in various ways. The series would culminate with program specifics - what is to be done - what would be asked of the Congress - what would be asked of the people.

I realize that the networks would probably balk at carrying such a number of nationwide prime time talks. But the need is critical. Time is of the essence. The necessary pressure should be applied.

There is, of course, no doubt that we are in a recession. It is the recession which now captures the headlines. But more importantly, our nation suffers serious inflation and a pervasive long-term energy problem. All three of these devils, as you have so aptly named them, occupy the center of your

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attention. To deal with them requires firm measures and great national self-discipline, generated by an understanding of the devastating consequences of inadequate and wrong measures. How can you possibly effectuate the necessary programs if neither the public nor the Congress understands the problems?

No one with compassion can escape feelings of sympathy for those who have held steady jobs or new jobs and have lost them due to the recession. However, many of these people will receive for some time to come significant continuation of income benefits. When the need arises for help and the individual is not simply refusing to help himself, then help must be provided. You have made this clear already.

In contrast, those on fixed pension incomes, whose pensions were established sometime ago and who have no escalation benefits, are seldom in the headlines at all. They are suffering perhaps much more severely than many others. Their situation is not due to recession - only inflation. They too should be aided in a rational way at Federal expense.

It is a fact that from a national economic point of view the automobile industry has had a progressively declining sphere of influence in the entire U.S. economy in the last fifteen years. This is clearly demonstrated by the statistics emerging both from the last two UAW strikes and also from the post World War II recession data. But the automakers and the automobile unions are making the headlines and the loudest noise, and most people believe that this industry can bring down the whole economy into depression. Their plight is made to sound as though disaster will befall the entire nation. It should be understood that this is by no means necessarily so.

As you have said, if anti-recession measures are given priority over inflation-fighting steps, we are ultimately doomed to ignite a more ravaging inflation than we are now experiencing. This is absolutely correct, but not enough people in the grass roots or in Congress believe it. Put as simply as possible, while Americans do hate inflation, substantial numbers of them love most everything that causes it.

In parallel with this condition of almost abject ignorance about the fact that only the Federal Government can cause inflation and no other power on earth can cure it, is the other falsehood. This is the one so enthusiastically furthered by the commentators and the columnists (let us use

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Agronsky & Company on Saturday nights, for example) to the effect that no one really knows what to do about inflation. This contention, patently false, is so often repeated that it too is widely believed. This greatly complicates the problem of getting the right things done. There are a great many people, both in and out of Government, who know what should be done to avert disaster to our economy. Our inflationary condition is already showing signs of beginning to recede. These favorable signs of amelioration in the degree of inflation will not endure if what is being urged on Capitol Hill and elsewhere is placed in effect. The opposite will of course happen. The result of such proposals will be about the same as pouring gasoline on a bonfire.

It is necessary that the Federal Government continue to supply the money and credit required to finance not only the Federal deficits. It is also required to finance the unfavorable balance of payments caused by the more rapid export of dollars to pay the high cost of imported crude and refined petroleum. Here we have a built-in inflationary problem. The only way that this can be dealt with is substantially to limit the importation of petroleum and at the same time to decrease the Federal spending deficits. Both are financed by the equivalent of printing press money. The outflow of dollars to buy crude is in effect made up by the Federal Reserve. This aggravates inflation.

I should like to observe that the phrase "Cost-push inflation," widely used, is an impossibility - like pushing a car up hill with a rope. Unless there is "demand-pull," rising wages, costs and prices would be ineffective. We have already seen the price of beef-on-the-hoof fall. "Demand-pull" has to be financed for it to exist. It can only be financed by the Federal Government through the Federal Reserve Bank which in reality also finances Federal spending deficits. It must. And this creates more money and credit and more "demand-pull." Unless the Federal Government takes the steam out of "demand-pull," step by step, it will be impossible ever to bring inflation down to an acceptable level.

Mr. President, if I may say so, it has become a part of the mythology that politics is The Art of the Possible. This is so often stated and restated, it has almost become an article of faith. Most unfortunately! As a guideline, it is and always has been against the public interest. It is an excuse, not a reason. To the contrary, politics should be The Art of Making Things Possible. By this I mean, specifically, making

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it possible to prevent vast Federal deficits, such as pump priming on a vast scale, coupled with tax cuts to increase the purchase of automobiles which would use still more gas, etc.; making it possible to put a ceiling on imports of crude; making it possible to increase gasoline taxes in lieu of rationing; making it possible to increase other taxes to avert large Federal deficits; making it possible to avoid wage and price controls, etc. We must ameliorate rationally the adverse impact of recession without pump priming. This will increase the deficit. Obviously, we must avoid this by increased taxes. Otherwise, the supply of money and credit will be further expanded, the problems will be exacerbated all over again as they always have been in the past, greater inflation will be generated and a new and deeper recession - perhaps depression - will be certain to follow. It is about time we stopped reenacting the same scenario over and over again.

This time we cannot afford the luxury of exacerbation which is the path of least resistance. We will otherwise inevitably risk in the United States the tragic experience of, let us say, the German nation following World War I. There, within 48 months the deutsche mark fell from approximately four to the dollar to one trillion per dollar.

If due to the world oil price level, some of the nations of western Europe led, let us say, by Italy and Britain, suffer financial collapse, the adverse impact upon the economy of the United States would be severe. Our own recession would very probably turn into a deep depression. The social consequences of this might be unmanageable. The only way the United States can establish effective leadership in the international sense in dealing with the financial crisis caused by the high price of crude is to set the example. This example would be set by placing a ceiling on importation of crude at a significantly lower level than at present. If this is done, it will certainly strengthen the United States for its own sake, and it may persuade others to follow suit.

Turning to unemployment statistics, they are very misleading. All of us know this, but we still persist in being guided by them. The number of people who have held steady jobs and who are out of work through no fault of their own is very probably not over 2% of the work force. If the help wanted situations in the United States were also statistically reported and cut in half in making the report, the number of jobs going begging with no takers would very probably almost equal the reported percentage of unemployment, which we now use as a guidepost without regard to help wanted.

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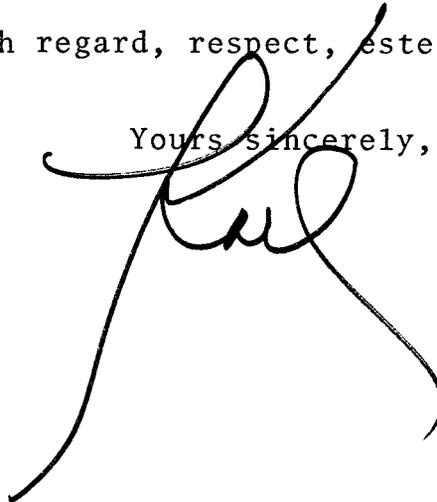
I urge that the legalization of gold bullion purchasing be indefinitely postponed. The uncertainties would seem to me to be too great to risk the disintermediation of savings and the additional export of dollars to purchase foreign gold at this stage of our national affairs.

Inflation cannot be corrected in a short span of time - certainly not, Mr. President, by July 4, 1976. It is not realistic that any such expectation should be furthered. It will take several years during which, with the right programs, we would achieve successfully declining levels of inflation until we reach, at the end of a time span of say four or five years, an acceptable annual rate and a relatively stable condition.

Mr. President, I earnestly hope that the foregoing recommendations are favorably considered and adopted.

With assurances of my high regard, respect, esteem and support,

Yours sincerely,

A large, stylized handwritten signature in black ink, likely belonging to Robert Kennedy, written over the typed name "Robert Kennedy". The signature is highly cursive and extends significantly below the baseline of the text.

KRB/gp