

The original documents are located in Box D21, folder “Mid-America Gas Dealers Association, Kansas City, MO, September 13, 1966” of the Ford Congressional Papers: Press Secretary and Speech File at the Gerald R. Ford Presidential Library.

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FOR RELEASE UPON DELIVERY AT 2 P.M., TUESDAY, SEPT. 13, 1966

ADDRESS BY HOUSE REPUBLICAN LEADER GERALD R. FORD, MID-AMERICA GAS DEALERS ASSN.
AT KANSAS CITY, MISSOURI

The President has finally dropped the other shoe. Thus far all we have heard is a loud thump in the Administration's announced battle against inflation. We can only guess what the results will actually be.

Mr. Johnson has proposed suspension of the 7 per cent investment tax credit and the accelerated depreciation allowance for buildings. He promised to cut federal spending. He is postponing the sale of certain government securities. He has asked the Federal Reserve Board to do what it can to reduce interest rates.

These five points have been billed as an anti-inflation program. Had they been offered last January when the Administration was faced with choosing between rifles and ruffles, the label might have been authentic.

I have been asked by inquiring newsmen whether the President's two legislative recommendations--suspension of the investment tax credit and the allowance for accelerated depreciation--will be approved by the Congress. My answer was that the Administration will have to prove to Congress that this is the proper medicine for what ails the economy at this time. The Administration will have to prove that these actions are preferable to other alternatives.

Please note that three of the five points in the President's so-called anti-inflation program call for administrative action.

It is without partisanship that I simply state the obvious: The President could have cut federal spending months ago, and he could have ordered a halt long ago to direct sale of federal securities in the private money market by federal agencies.

In offering his five-point program, the President is saying that non-essential federal spending helps fuel the fires of inflation. He also is saying that direct sale of federal securities by federal agencies competes for tight money and helps drive up interest rates.

In my view, the President is admitting that the federal government has played a major role in touching off the inflation and high interest rate situation which now plague the economy. I maintain that this is not a partisan observation but a conclusion which one cannot help but draw from the points listed in the President's anti-inflation program.

First off, I think the President's program may be of some value in reducing interest rates, but I do not expect prices to drop or even to stabilize at present levels as a result.

If suspension of the investment tax incentives is approved by Congress, I would look for a slackening of demand for plant expansion funds and this should

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produce a softening of interest rates. But how soon this would develop is a matter for conjecture only. The best-educated guesses are that the impact will not become readily apparent for perhaps six months.

The cost of borrowing money is, of course, one of the costs of doing business. And from that standpoint, it is a factor in pricing. But it is only one factor. And if a reduction in this cost factor does not develop for at least six months, it can have little immediate effect on retail prices.

Borrowing costs are a factor in what is known as cost-push inflation. An excess of dollars floating throughout the economy figures in what is known as demand-pull inflation.

Cuts in government spending are aimed at taking some of this excess in money supply out of the economy.

Now, is the President talking about spending less money than was contemplated in his \$112.8 billion fiscal 1967 budget? Or is he talking only about clipping the wings of a Democratic Congress which is exceeding his budget requests by several billion dollars?

I believe when the President talks about freezing some federal funds during this fiscal year he is talking about congressional appropriations over and above his requests. I do not expect any cutback in his own contemplated level of spending.

Assuming this, I do not expect that Mr. Johnson's announced intention to reduce government spending will take much of the foam off the economic brew that now is turning bitter.

Republicans sought in this session of Congress to hand the President a budget-cutting directive that would have been meaningful in terms of actually cutting government spending. On five occasions we offered amendments which would have held spending in a particular area to 95 per cent of the amount the President had requested. But our best efforts failed.

The record shows that an overwhelming number of House Republicans favored these economy moves while more than four out of five Democrats opposed them.

Now that the President himself has announced a drive to cut spending, Republicans in Congress will, of course, seek to help him.

We are afraid that since the spending cuts contemplated by the President are not truly meaningful, the Johnson Administration's next step will be an increase in corporate and personal income taxes.

Economists who are experts in these matters tell us an increase in personal income taxes would, of course, have immediate impact on inflation. It would cut down on consumer demand and thus hit directly at consumer prices. But why should the

public be penalized for the Administration's failure to take timely anti-inflationary action?

Corporate profits are high, and some members of Congress are urging an increase in the corporate income tax before any other action is taken to combat inflation.

We know that between 1960 and 1965 corporate profits before taxes climbed by 52 per cent and after taxes by 67 per cent. Dividend payments to stockholders rose 43 per cent during that period.

These big profit gains are a target for the more than two million unionized workers whose contracts expire the rest of this year and in 1967. To the extent that these unions win fat wage increases, more price boost pressures will be built into the economy. It is argued that a tax increase which skimmed off some of the corporations' heavy profits would take some of the steam out of unions' wage boost demands and thus help to hold down prices.

Let's take a look at what's been happening to the American worker. In some industries, wage increases in terms of real earnings are not keeping up with living costs. Factory workers' purchasing power, measured by the Labor Department's index (1957-59 equals 100) was 115.5 a year ago but now is down to 115.2. In short, it has been falling.

Spendable income of the average American--with deductions for taxes and inflation--is down, too, according to the Commerce Department. In the first quarter of 1966, it was \$2,287; in the second quarter, \$2,277.

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What all this adds up to is that we can expect organized labor to make a big push for hefty wage increases in the months ahead. It's obvious there will continue to be new pressures contributing to cost-push inflation in 1967.

What the President has proposed to date as anti-inflationary medicine is just the first spoonful, and it isn't going to cure the patient. If Washington's rumor mill is accurate, the President is preparing for a general tax increase proposal late this year or in January to step up the fight against inflation and to pay the accelerating costs of the Vietnam War.

It has taken Mr. Johnson a long time to "get off the dime," as the saying goes. I personally believe the country has suffered as a result.

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Instead the Administration chose to keep the country on a peacetime footing. No sacrifices were demanded of anybody except families whose sons were sent to Vietnam. It was business as usual and everybody grab your share.

Not only did the Administration make a guns and butter choice last January, but the White House criticized the Federal Reserve Board for increasing the bank rediscount rate last December. The Administration said the Board's timing was bad.

Yet during the first eight months of this year the President relied almost entirely on the Federal Reserve Board and high interest rates to try to curb an economy that was obviously overheated and over-stimulated.

Early in 1966 it became obvious that the rate of rise in the cost of living was becoming dangerously steep. At mid-year the six-month rise was the sharpest of any six-month period in the past eight years. And as we approach year's end, the indications are that 1966 will be the most inflationary period in 14 years.

Where, then, are we headed?

We are entering into a new period of deficit spending and increased taxes after a six-year period when accumulated deficits have totalled \$30 billion. The national debt has climbed to more than \$320 billion, and the interest on that debt costs us \$12.3 billion a year.

Most economists agree that deficit spending by the central government looses the forces of inflation. In fact, Walter W. Heller, who was chairman of the Council of Economic Advisers under the late President Kennedy and for a time under Mr. Johnson, recently urged substantial cuts in federal spending along with a tax cut as an antidote to inflation.

We are entering into a new period of heavy deficit spending because the Johnson Administration refused to cut non-defense spending while fighting a multi-billion-dollar war halfway around the world.

Rather than cut non-defense spending, the Administration has chosen to expand it in the area of Great Society programs. To increase its Great Society outlays in fiscal 1967, the Administration sought to make free use of the budgetary device known as Participation Sales. The idea was to draw in \$4.2 billion of private money, giving investors certificate shares in government-held mortgages and paying them interest considerably higher than that earned by regular government securities.

Now Mr. Johnson has called a halt to his own scheme because of tight money and painfully high interest rates.

This stop action means the government will not aggravate the high interest situation with sales of participation certificates. It also means the government's deficit figure for fiscal 1967 will be written large and clear for all the public to see.

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When it does come, the tax plea will be wrapped around an Administration request for a special appropriation of perhaps \$10 to \$15 billion for Vietnam.

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