The original documents are located in Box 118, folder "Economy (3)" of the Ron Nessen Papers at the Gerald R. Ford Presidential Library.

June 17, 1975

SUBJECT: HOUSE REJECTS PROPOSED DEBT LIMIT INCREASE

The House yesterday rejected a proposed increase in the national debt ceiling of $599.99 billion. At midnight on June 30th, the current $531 billion ceiling will expire. Unless it is renewed or raised, the Government will run out of borrowing authority to pay its bills. The House Ways and Means Committee had recommended a new ceiling of $616.1 billion, but this was reduced by the full House to $599.99 billion, prior to being killed.

Do you expect the debt limit to be increased prior to the June 30th deadline?

GUIDANCE: If the debt limit is not increased by June 30th, the Treasury will be able to operate on cash for a few days. Following a few short days, the Treasury will run out of borrowing authority to pay its bills. This means that the Federal Government will be unable to meet the Federal payroll, refund the maturing debt, issue revenue sharing checks, G.I. bill benefit checks, food stamps,etc.; the Government could not sell savings bonds, etc. Therefore, we are confident that the Congress will increase the ceiling on the national debt prior to the June 30th deadline.

Is the proposed ceiling of $599.99 billion acceptable to the Administration?

GUIDANCE: Secretary Simon has testified that we could live with the House proposal at one time of $613 billion. As I understand it, $599.99 billion would be acceptable.

(The current ceiling of $531 billion would expire at midnight on June 30. It is our expectation that the new debt limit will be somewhat less than the proposed $600 billion ceiling, but will be continued on through December 31, 1975, rather than June 30, 1976.

JGC

June 18, 1975

SUBJECT: BALANCE OF PAYMENTS REPORT

The Commerce Department today will release the Balance of Payments for the first quarter 1975. This report covers current account and long term capital payments.

The report shows a deficit balance of payments of one-half billion dollars. This compares with the last quarter 1974 deficit of $6.6 billion--for an improvement of $6.1 billion.

An earlier report was given on estimates, and this report is the actual seasonally-adjusted revision of that earlier report. This is the largest percentage of change since 1972-1973.

FYI: The Commerce Department is not issuing a release from the Secretary or Assistant Secretary's offices as they think it is best to wait until the next quarterly report is issued. They also are not quite sure what the reasons are for this big change and feel that a U.S. oil company may be deferring payments to Iran, etc. Therefore, the White House probably should not say anything on the report either. END FYI.

June 18, 1975

SUBJECT: TAX REFORM

The House Ways and Means Committee will attempt passage this year of a major tax bill which could include tax breaks to stimulate new capital investment funds for business. The agenda for the first bill includes capital investment formation, tax treatment of capital gains and losses, strengthening the minimum tax, tax shelters, changes in various individual tax deductions, and changes in foreign taxes.

Does the Administration favor a new tax treatment of capital gains and losses, strengthening the minimum tax, and removing tax shelters?

GUIDANCE: The Administration will be testifying before the House Ways and Means Committee on July 8 on the provisions discussed and adopted by the Ways and Means Committee last year. There are many provisions adopted by the House Ways and Means Committee last year that the Administration can support and will favor, but I think it would be premature at this time to go into specifics.

The Administration's position on various tax measures will be put forth in testimony before the Committee after the July 4th break.

JGC

STATEMENT ON MAY CONSUMER PRICE INDEX

June 20, 1975

The consumer price index rose in May by 0.4 percent seasonally adjusted. This is a slightly lesser increase than in April but the important thing to note is that the significant reduction in inflationary pressures which began to appear in retail prices late last year has continued. During the first five months of this year consumer prices have risen at a seasonally adjusted annual rate of 6 percent. Although this rate is still high, it is less than one-half the rate of 1974.

Food prices rose by a seasonally adjusted 0.5 percent last month. Rising meat prices, which reflect the run up in livestock prices over the past three months, were only partially offset by lower prices for cereals and bakery products, dairy products, fruits and vegetables, and other food items. Nonetheless, food prices have risen at an annual rate of only 2 percent so far this year.

It is especially encouraging to note that prices of the important non-food commodity and service categories of the CPI rose by 0.2 percent in May, much less rapidly than in the earlier months of the year. This reflects the continued working through to the retail level of the easing of wholesale price pressures earlier in the year.

June 20, 1975

SUBJECT: EFFECT OF THE ULLMAN ENERGY BILL ON IMPORTS

In thousands of barrels per day

	1975	1977	1985
Import Requirements If No Action	6,343	7,523	11,859
President's Program	5,636	5,494	4,629
HR 6860 (as passed)	6,211	7,153	10,412
Import Savings			
President's Program	707	2,029	7,230
HR 6860 (as passed)	132	370	1,447

JGC

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CONSUMER PRICE INDEX

(Change)

	1975	1974	1973
January	+0.6%	+1.0%	
February	+0.6%	+1.3%	
March	+0.3%	+1.1%	
April	+0.6%	+0.6%	
May	+0.4%	+1.1%	+0.6%
June		+1.0%	+0.6%
July		+0.8%	+0.2%
August		+1.3%	+1.9%
September		+1.2%	+0.3%
October		+0.9%	+0.8%
November		+0.9%	+0.8%
December		+0.7%	+0.5%

June 26, 1975

SUBJECT: ECONOMIC INDICATORS RISE FOR THIRD STRAIGHT MONTH

The Government's index of leading economic indicators released today rose in May 2.1%. This is the third consecutive month that there has been an increase, following April's 3% increase, and March's 1.1% increase. The last monthly increase compared to May's 2.1% increase was in December 1970, also 2.1%.

Any reaction to the economic indicators?

GUIDANCE: This is in line with our general expectations.

FYI ONLY: Alan Greenspan says we should not have any further comment. END FYI ONLY.

JGC

July 17, 1975

SUBJECT: INDUSTRIAL PRODUCTION AND PERSONAL INCOME UP, BUT GNP DOWN SLIGHTLY

Industrial production rose 0.4% in June, while personal income was a record high of 1.45 trillion, an increase over the previous month of $30.6 billion. (Two-thirds of the personal income, however, was due to the $50 one-time checks for Social Security recipients.) GNP, however, when projected over an entire year, declined .3%.

<u>What's your reaction to the decline in GNP and the increase of personal income and industrial production?</u>

GUIDANCE: Industrial production is one of the most important statistical indicators of the economy and the 0.4% increase in June is about in line with our expectations.

Personal income, though it did increase by over $30 billion from the previous month, we recognize that two-thirds of this increase was due to the $50 one-time check for Social Security recipients. However, without the Social Security payments, the increase was almost $11 billion in June. We feel this is further evidence that the recession is bottoming out and that we can expect an upturn in the economy in the latter part of the year.

As to the decline in GNP, in their press briefing on May 30 updating the Budget, Mr. Greenspan stated that second quarter GNP would be very close to 0, plus or minus by a small amount. Therefore, today's figures are right in line with the expectations of the Administration. This once again shows that the economy has stabilized and that we have reached the low point in the recession, and that we can expect an upturn in the economy during the latter part of the year.

JGC

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

file

July 18, 1975

MEMORANDUM FOR: RON NESSEN

FROM: JOHN G. CARLSON JGC

SUBJECT: ECONOMIC/ENERGY MEETING

After you left the Economic and Energy Meeting, Bill Simon discussed the need for some final decisions on capital formation tax reform.

Secretary Simon also mentioned that capital formation was a hot topic on the Hill and even liberals were now calling for some form of capital formation. He feels this would be a political issue in 1976. He also stressed that the President should read his five-page memo on this subject because he will probably get asked about this at some future press conference.

Secretary Simon said the House Ways and Means Committee wants some specifics from the Administration reference our plans for capital formation. He stated that he would be testifying before the Ways and Means Committee on Wednesday, July 30, so would need some final decisions before that time.

Bill Seidman remarked that they would be preparing an option paper for the President and have that to him next Tuesday or Wednesday, so he could review the options and make his final decisions prior to his departure to Europe. This will still allow plenty of time for Bill Simon to prepare for his testimony on the 30th.

July 22, 1975

SUBJECT: CONSUMER PRICE INDEX FOR JUNE

The Consumer Price Index increased .8% in June, double the May increase and the highest monthly increase since last September. Food prices increased 1.5% while gasoline prices increased 3%.

Were you surprised by the large increase in the June C.P.I?

GUIDANCE: Although we did expect an increase in the rate of inflation the June increase was higher than we expected.

While we don't expect inflation to continue at this rate, it nonetheless emphasizes the need to continue to focus our policies on both unemployment and inflation.

CONSUMER PRICE INDEX

(Change)

	1975	1974	1973
January	+0.6%	+1.0%	
February	+0.6%	+1.3%	
March	+0.3%	+1.1%	
April	+0.6%	+0.6%	
May	+0.4%	+1.1%	+0.6%
June	+0.8%	+1.0%	+0.6%
July		+0.8%	+0.2%
August		+1.3%	+1.9%
September		+1.2%	+0.3%
October		+0.9%	+0.8%
November		+0.9%	+0.8%
December		+0.7%	+0.5%

THE WHITE HOUSE

WASHINGTON

July 22, 1975

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN LWS

SUBJECT: ECONOMIC AND ENERGY MEETING (ADDITIONAL OPTION RE CAPITAL FORMATION)

As a result of the discussion at the EPB Executive Committee meeting this morning, there is general agreement that the first issue which should be discussed with respect to capital formation is:

Issue

Should we request a delay in presenting testimony on capital formation until September?

Pros

- Testifying now puts us in position of presenting, in isolation, proposals which could mainly benefit upper income investors. Once the energy package is settled and a decision is made regarding the extension of the tax cut, we shall probably also be able to offer tax relief to lower income groups.

- It is currently very difficult to decide intelligently how much of a revenue loss we can bear as a result of tax reform. A delay will give us a chance to project 1977 spending more carefully and to estimate the size of the deficit that the economy can take in 1977.

- A delay will give us time to coordinate corporate tax reform proposals with those corporate tax changes necessitated by the energy package.

- A delay will provide time to give specific information tracing capital formation to jobs.

Cons

- A delay will require the Secretary of the Treasury to change his commitment to produce specific information prior to this recess.

- A delay will annoy the Ways and Means Committee because of their specific request for testimony at this time.

- A delay will create some bad publicity since Treasury has addressed this issue in previous testimony and in numerous speeches for several months but specific proposals have still not been presented.

If you decide that testimony should be presented on July 31 it was generally agreed that the balance of our discussion should center around the corporate integration proposal and proposals for broadening capital ownership.

INFLATION

Q. An increase of 0.8 percent in the Consumer Price Index was reported for June. This is almost back to a double digit inflation rate. Does this signal a setback in your battle against inflation?

A. Retail prices, even after the sharp June increase, have risen at a 6.6 percent annual rate during the past 6 months. During the last half of 1974 prices rose at a 12.2 percent rate. I am encouraged by this progress.

In looking ahead, however, we should expect some temporary setbacks in the battle against inflation for several reasons.

(1) The recession is ending and the downward price pressures which it produced will be fading in the months ahead.

(2) The long overdue and urgently needed change in energy policy, which I proposed in January and which the Congress refused to enact, can no longer be postponed. This will lift energy prices but moderately not sharply as some observers have argued.

(3) Very adverse weather conditions in the USSR and Eastern Europe have sharply reduced the size of the prospective grain harvests in that part of the world. This is bound to have some moderate effect on domestic food prices.

These factors are not things which we can avoid altogether. Taken together, they are going to lift prices for a temporary period. Although this is a disappointment, we do not believe that this signals the beginning of another virulent round of inflation. We are very mindful of that danger, however, and that is why I have insisted that the Congress stick to the responsible fiscal policy which I suggested earlier in the year.

August 6, 1975

PROGRESS OF THE RECOVERY

Q. The rise in industrial production during June has been interpreted by some as indicating the end of the recession. Is that the view of your Administration?

A. The slight rise in industrial production in June tends to confirm that the decline in production and employment has ended. Several points need to be kept in mind.

(1) The massive liquidation of excess inventories reached its peak in the second quarter and production is now rising in response to improved sales.

(2) Retail sales have continued to post sharp gains. Real consumer expenditures in the second quarter rose at a 6.2 percent annual rate - and the good performance appears to have continued in July.

(3) Employment has risen by 1.2 million since March, although there are some difficulties in interpreting the increase.

(4) We believe that the economy has turned and that recovery has begun.

(5) Both the unemployment and inflation are too high and our policies must continue to be aimed at both of these problems.

(6) Unemployment will be reduced by the recovery, but we are bound to experience high levels of joblessness for some time yet.

August 6, 1975

MONETARY POLICY

Q. Chairman Burns has indicated that the Federal Reserve will strive to obtain a five to 7.5 percent rate of increase in the money supply over the next year. Many observers are concerned that this will not be enough to support the recovery in the months ahead and they view the recent rise in interest rates with alarm. What is your position on this? Have you discussed it with Chairman Burns?

A. The five to 7.5 percent range for M_1 growth suggested by Chairman Burns is a middle course. It should be adequate to support rapid growth in real output (perhaps as high as seven to eight percent annual rates) over the coming year and low enough to enable a further reduction next year in inflation -- which is still unacceptably high. I would also point out that most measures of the money supply rose at rates in excess of 10 percent during the several months prior to June. In July the rapid growth in the money has been slowed to a pace which is consistent with the overall 5-7.5 percent target range. Significantly more expansive Federal Reserve policies simply court the danger of renewed inflation and high interest rates.

August 6, 1975

August 7, 1975

SUBJECT: EVANS AND NOVAK CITE DANGEROUS ECONOMIC OMENS FOR THE PRESIDENT

Evans and Novak in yesterday's Washington Post related pessimistic predictions which supposedly were contained in a highly confidential Economic Policy Board Quarterly Review. They say the general tone of the EPB Quarterly meeting was overriding gloom. The consensus, they say, was: rise in interest rates and prices without substantial reduction in unemployment.

What's your reaction to the Evans and Novak article? Is it correct that your Economic Advisors are extremely pessimistic, that there is overriding gloom in regards to the economy, and that your Economic Advisors generally disagree on what to do next?

GUIDANCE: The Evans and Novak article was greatly distorted, and in fact, inaccurate. It's obvious that Evans and Novak were misled by their source because whomever gave them this information was not at the EPB meeting.

The discussions were not pessimistic and in fact, were more optimistic than the last review and more optimistic than we had expected.

The Economic Policy Board Review examined the problems, reviewed alternatives, and basically reaffirmed that with our present economic policies, we are about on or slightly ahead of the forecast recovery.

What factors lead you to believe that economic recovery may be better or faster than expected?

GUIDANCE: Production has turned up somewhat faster than expected, and inventory liquidations are even more rapid than we hoped. Personal credit has increased indicating increased consumer confidence, and most importantly perhaps is that the unemployment rate declined to 8.4 percent, much more rapidly than we had expected.

We had projected an 8.5 percent unemployment rate for the end of 1975, and 7.5 percent unemployment rate for the end of 1976. It is my understanding that Alan Greenspan stated yesterday that because of the upswing in the economy and because of the July unemployment figures, the projections will be revised downward.

What about the unemployment forecast?

GUIDANCE: The President has publicly stated that he is dissatisfied with the unemployment forecast. He knows that the country desperately needs to provide more productive jobs for people coming into the work force. He hopes the Congress will seriously consider measures to provide industry the capital needed for such expansion.

August 7, 1975

SUBJECT: WHOLESALE PRICE INDEX FOR JULY

The Wholesale Price Index for July increased 1.2%. This rise was the largest since April's 1.5% and only the third monthly increase of the year. Higher costs for food and fuel triggered the second sharpest jump of 1975.

What's your reaction to the 1.2% increase in the WPI and doesn't this indicate a resurgence of inflation?

GUIDANCE: The increase in the July WPI is slightly less than we expected. Mr. Greenspan in testimony before the Joint Economic Committee on July 26 indicated that we already could tell that there was a significant rise in farm product prices, so today's WPI was no surprise.

Of course, the rise in fuel prices was expected since Mr. Zarb and others have said that because of the heavy demand during the summer months you could expect prices to go up somewhat during this period.

Doesn't the July Index indicate a resurgence of inflation?

GUIDANCE: The details of the WPI do not indicate nor signal an acceleration of the industrial price increase. The industrial commodity change was only .4, the same as last month. This shows that there is no accelerating inflation building up.

Another indicator is that of crude materials, which actually went down .9. This shows that the data themselves are not signaling, at least yet, any significant accelerating in inflation among the industrial commodities.

WHOLESALE PRICE INDEX

(Change)

	1975	1974	1973
January	-0.3%	+3.1%	
February	-0.8%	+1.2%	
March	-0.6%	+1.3%	
April	+1.5%	+0.7%	
May	+0.4%	+1.3%	+2.0%
June	-0.1%	+0.5%	+2.3%
July	+1.2%	+3.7%	-1.4%
August		+3.9%	+6.2%
September		+0.1%	-1.5%
October		+2.3%	+0.3%
November		+1.2%	+1.8%
December		-0.5%	+2.2%

August 7, 1975

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The discussions were not pessimistic and in fact, were more optimistic than the last review and more optimistic than we had expected.

The Economic Policy Board Review examined the problems, reviewed alternatives, and basically reaffirmed that with our present economic policies, we are about on or slightly ahead of the forecast recovery.

What factors lead you to believe that economic recovery may be better or faster than expected?

GUIDANCE: Production has turned up somewhat faster than expected, and inventory liquidations are even more rapid than we hoped. Personal credit has increased indicating increased consumer confidence, and most importantly perhaps is that the unemployment rate declined to 8.4 percent, much more rapidly than we had expected.

We had projected an 8.5 percent unemployment rate for the end of 1975, and 7.5 percent unemployment rate for the end of 1976. It is my understanding that Alan Greenspan stated yesterday that because of the upswing in the economy and because of the July unemployment figures, the projections will be revised downward.

What about the unemployment forecast?

GUIDANCE: The President has publicly stated that he is dissatisfied with the unemployment forecast. He knows that the country desperately needs to provide more productive jobs for people coming into the work force. He hopes the Congress will seriously consider measures to provide industry the capital needed for such expansion.

August 8, 1975

SUBJECT: INFLATION TO SURGE?

With the 1.2% increase in the July WPI, aren't you concerned that there will be a resurgence of inflation?

GUIDANCE: Obviously, we are concerned about inflation over the longer run, and in fact, that has been the very substance of our policies in that we have shown equal concern for inflation and unemployment.

While we are concerned, the specific elements within the July Wholesale Price Index are not giving evidence at this stage of any short term acceleration in the rate of inflation.

The industrial commodity change in July was only .4%, the same as last month. This indicates that there is no accelerating inflation building up in the commodity sector.

Another indicator is that of crude materials, which actually went down .9%. This shows that the data themselves are not signaling, at least as yet, any significant accelerating in inflation among the industrial commodities.

Won't you concede that the Russian grain sale had some effect on this increase in the Wholesale Price Index?

GUIDANCE: Farm prices fluctuate very sharply from week to week and month to month, in both directions. Lots of things cause them to go up and down at any particular point in time.

I would certainly expect that the Russian-U.S. grain agreement had some effect on the WPI. However, we must keep in context that the lack of export sales just drives the prices down, while increased export sales will push prices up. We must look at the longer term trends in that we are well under the prices of a year or two ago.

(More)

Isn't this just further reason why we should have limited our sales to Russia?

GUIDANCE: There are two sides to this situation. If agriculture is not sufficiently profitable for farmers, the U.S. will not have its abundant agriculture surplus in production which has been very important for the American consumers and the American farmers.

However, I'll just reiterate that the Administration is watching the sales of farm products abroad and in fact, Agriculture will be coming forth with its revised crop report on August 11. They will be holding a briefing that day at 3:30 p.m. in Room 218-A of the USDA's Administration Building with the results of that report.

JGC

August 8, 1975

SUBJECT: PRESIDENT'S MEETING WITH HIS ECONOMIC AND ENERGY ADVISORS

The President met yesterday for slightly over two hours (2:15 p.m. to 4:25 p.m.) with his economic and energy advisors. The purpose of the meeting was to discuss the energy situation and the decontrol of old oil. In addition, there was a discussion on the natural gas shortage facing the country this winter.

On the subject of decontrol, the President reviewed the various options presented to him by his advisors. He listened, asked a great many questions, but no final decisions were made. The bill extending present price controls six months will probably arrive at the White House around August 27.

There was also a discussion on windfall profits and the Senate Finance proposal, along with a discussion on energy tax rebates.

The President was then presented with a summary of a report being prepared by an inter-agency task force headed by FEA on the natural gas shortage. In the summary, the ten states which will be most heavily impacted because of the natural gas shortage were outlined to the President. In addition, the President reviewed various administrative actions he could take to help minimize the natural gas shortage in these states and various legislative steps he may wish to propose to Congress. These options were presented to the President yesterday, but no final decisions were made at that meeting. It is expected that FEA will be putting out some information on the natural gas problem some time in the next few weeks.

Attending the meeting were: Frank Zarb, Secretary Morton, Jim Lynn, Bill Seidman, Alan Greenspan, Phil Buchen, Secretary Dunlop, Jim Connor, Bob Hartmann, Jack Marsh, Don Rumsfeld, Steve Gardner, Dick Dunham, Paul O'Neill, and the Vice President.

<u>What were the ten states mentioned as most severely impacted by the natural gas shortage?</u>

GUIDANCE:	Iowa	North Carolina
	Maryland	Ohio
	Missouri	Pennsylvania
	New Jersey	South Carolina
	New York	Virginia

JGC

August 21, 1975

SUBJECT: CONSUMER PRICE INDEX FOR JULY

The Consumer Price Index for July was up 1.2%, the largest increase since last Septemxber. This follows an .8% increase in June. During the previous five months, the aveeage increase was 0.5%.

What is your reaction to the 1.2% increase in the July C.P.I, which, if annualized, would be 14.4%?

GUIDANCE: Even though we expected a poor CPI for the month of July, today's figures are somewhat higher than expected.

The early evidence for the month of August suggests we will fall back under double digit inflation for Aug.

Nonetheless, we should not easily dismiss the figures for the last two months as having no signifigance. These figures should keep us alert to the ease with which inflation can become reignited, and therefore we must maintain our vigilence against inflationary pressures.

FYI: Later today the revised GNP figures will be out and will probably show an increase of about 1.6% This is a change from the last quarter of -.3% Our reaction should be: this is an insignificant change, but we expect the 3rd quarter to show a significant plus. END FYI.

CONSUMER PRICE INDEX

(Change)

	1975	1974	1973
January	+0.6%	+1.0%	
February	+0.6%	+1.3%	
March	+0.3%	+1.1%	
April	+0.6%	+0.6%	
May	+0.4%	+1.1%	+0.6%
June	+0.8%	+1.0%	+0.6%
July	+1.2%	+0.8%	+0.2%
August		+1.3%	+1.9%
September		+1.2%	+0.3%
October		+0.9%	+0.8%
November		+0.9%	+0.8%
December		+0.7%	+0.5%

August 27, 1975

SUBJECT: JULY ECONOMIC INDICATORS

The Index of Leading Economic Indicators increased 1.7% in July for the longest, continuous upward climb in 2-1/2 years. Many consider this index to foretell the direction the economy will take in the months ahead.

Any reaction to the rise in the Index of Leading Economic Indicators?

GUIDANCE: The increase is in line with our expectations and is further evidence that we are in the beginning of our economic recovery.

Would you expect this trend to continue?

GUIDANCE: I would just point out what Alan Greenspan said out in Vail when asked a similar question. He pointed out that he would not be surprised, for strictly statistical reasons, if the published unemployment rate were to rise slightly this month or next. Mr. Greenspan feels that the July unemployment rate of 8.4% appears out of line with all of the other evidence. If the unemployment rate should go up within the next month or two slightly, this would not signal a reversal, but would merely indicate a statistical aberration in the July rate.

The basic point is that the economy is fairly firm and is in the process of a solid recovery throughout this year and next, with the trend of the unemployment rate moving downward pretty much throughout the latter part of 1975 and throughout 1976.

JGC

August 30, 1975

SUBJECT: MISCELLANEOUS COMMENTS BY GREENSPAN ON THE ECONOMY

Our data, on a weekly basis, shows that the economy continues to recover. There was significant inventory liquidation in the third quarter.

The CPI for the month of August, which comes out on September 19, will show appreciable improvement. The food component shows a dramatic decline from the 1.7% level in July to .3%. Gasoline prices continue to rise in August, but much less than in July. The CPI Index for August should be under 1%, in the range of .6%.

The WPI will be released next Friday, and it looks as if it will be around 1%. Farm product prices were up 6.6% in July, but will be closer to 2.0% in August. Expect the WPI to be lower than the 1.4% last month.

The Soviet wheat deal will not significantly impact food prices over the next several months. However, other factors will increase the CPI, such as the increase in the New York subway from 35¢ to 50¢. This will add about .1% to the total CPI for September.

The short term outlook for the economy is on schedule. Price increases do concern us, but will have a more complete analysis in a week to ten days.

JGC

August 30, 1975

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The short term outlook for the economy is on schedule. Price increases do concern us, but will have a more complete analysis in a week to ten days.

JGC

September 17, 1975

SUBJECT: PERSONAL INCOME REPORT
BALANCE of PAYMENTS

The Commerce Department at 10 a.m. today will release the Personal Income and Balance of Payments reports. They show:

Personal Income increased $18 billion in August. This is now a seasonally adjusted annual rate of $1,256.9 billion, revised data shows. Personal Income declined in July by $5.2 billion. However, June had been greatly inflated by the one-time special $50 payments to Social Security recipients. Excluding this special $50 payment and an 8% increase in the cost of living, adjusted Personal Income in July advanced $9.5 billion. The $18 billion increase in August was the largest dollar increase since the monthly Personal Income series began in 1946. In percentages, it is the largest increase since December 1959. The main reason for this increase is manufacturers' payrolls, which rose primarily in fabricated materials, machinery, electronics equipment, transportation equipment and textile industries; in other words, manufacturers of basic industries are putting people back to work.

The U.S. Balance of Payments report released today, is one of five reports on Balance of Payments, which economists cannot decide which is the most accurate. Current account and long-term capital showed a surplus of $1.6 billion for the second quarter. That compares with a deficit of $.7 in the first quarter.

The Commerce Department will be releasing the Housing Starts report this afternoon.

JGC

September 19, 1975

SUBJECT: CONSUMER PRICE INDEX FOR AUGUST

Consumer Prices rose .2% in August, the smallest monthly rise in inflation in three years.

<u>Are you pleased with the August CPI and is this an indication of what may be forthcoming in the future?</u>

GUIDANCE: Obviously, the .2% is lower than we expected and we do not expect that rate to be sustained.

The underlying rate of inflation is a good deal higher than the .2% and just as we considered the June and July CPI to be an aberration on the high side (0.8% and 1.2%), we consider the August figures to be an aberration on the low side.

JGC

CONSUMER PRICE INDEX

(Change)

	1975	1974	1973
January	+0.6%	+1.0%	
February	+0.6%	+1.3%	
March	+0.3%	+1.1%	
April	+0.6%	+0.6%	
May	+0.4%	+1.1%	+0.6%
June	+0.8%	+1.0%	+0.6%
July	+1.2%	+0.8%	+0.2%
August	+0.2%	+1.3%	+1.9%
September		+1.2%	+0.3%
October		+0.9%	+0.8%
November		+0.9%	+0.8%
December		+0.7%	+0.5%

September 29, 1975

DISC REPEAL

The Ways and Means Committee is scheduled to vote in the next two days on the repeal or substantial limitation of the DISC export tax deferral incentive.

I. Prior Action.

The 1975 Tax Reduction Act significantly limited DISC exports by eliminating as qualified exports all unprocessed mineral exports and timber and all products subject to government export controls because they are in short supply.

II. Policy.

It is Treasury policy to resist further inroads on DISC for short-term revenue gains at the expense of export promotion, particularly where there would be a failure to shift the revenue gains to U.S. industry and capital requirements.

III. Reasons for Retaining DISC:

A. DISC remains a continued inducement for exports. While the U.S. export picture has improved, there is no evidence that we can be assured of a continuing favorable export position.

B. The fact that apparent revenue losses appear large is primarily due to the vast increase in exports since enactment; as DISC increases exports, it creates feedback for additional U.S. revenues and jobs.

C. Other developed countries with more favorable tax benefits for exports (e.g., tax haven selling subsidiaries) create competitive disadvantages. This is related to alignment of U.S. direct taxes with foreign border tax rebates, a subject for future multilateral GATT discussions. We have the possibility of negotiating uniform rules on taxation of exports, including the possible opportunity to gain revenues through our own border tax adjustments for direct taxes.

D. Repeal (which is equivalent to a 3.25 percent increase in the corporate tax rate) will have a substantial dislocation effect on companies that have relied since 1971 on DISC export structures. In particular, DISC is a major financing vehicle for exports and this source of capital will be eliminated.

IV. Fall Back Options:

(a) Phase-In of Income

DISC would not be eliminated, but previously deferred revenues would begin to be taken into income after five years in the amount of 1/10th for each ten succeeding years. This provides an incentive to continue exporting, a limited deferral period, and continued benefits to companies that are expanding exports. It does not raise significant revenue in the early years (raising $35 million in 1977 and $335 million by 1980.) (Helstoski proposal).

(b) Limiting Qualified Products

The Ways and Means Committee in 1974 voted to eliminate DISC for unprocessed agricultural products. This would raise approximately $25 - $50 million in revenue in 1976. This position could cost some DISC support.

(c) Incremental Sales

If a reasonable base period for exports were adopted (e.g., 1972), and DISC applied hereafter only to incremental exports, a number of companies would apparently live with an incremental rule. This would mean highly undesirable administrative complexity to deal with identifying base period exports in consolidated groups, the effect of mergers, etc., and would tend to take business away from independent exporters as manufacturers exported directly. A 1972 base period would raise about $640 million annually.

September 30, 1975

SUBJECT: COMPOSITE OF LEADING ECONOMIC INDICATORS

The Commerce Department today released the monthly Composite of Leading Economic Indicators report which showed no change from last month's report. The revised July figure rose 2.8%, and today's report showed the same for August.

What's your reaction to the "no change" status on this report?

GUIDANCE: This leveling off represents a mere hestitation in the upward trend of the leading economic indicators. It is not unusual or not uncommon for this particular series to hestitate, following a period of very rapid increase (five consecutive months).

We really must discount the significance of this information, and it does not signal any slowing of the economic recovery. We cannot infer the strength of this report from the mere advance in one month's economic indicators.

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October 2, 1975

SUBJECT: WHOLESALE PRICE INDEX FOR SEPTEMBER

The Wholesale Price Index for September rose .6%, down from the .8% in August and the 1.2% in July, but still the third highest this year.

What is your reaction to the .6% increase in the W.P.I.?

GUIDANCE: It is my understanding that our people are having difficulty in interpreting this data because of difficult seasonal adjustment factors. So, far be it from me to argue or question our economic advisors.

JGC

ENVIRONMENT vs ECONOMICS

Q. Strip mining, the use of heavy trucks to haul coal, and water pollution due to the mining have turned parts of Appalachia, once one of the most beautiful areas of the United States, into one of the most damaged. Your veto of the Strip Mining bill last spring seemed to indicate you put economic concerns over environmental concerns. How do you believe we can reconcile the two factors of ecological concerns and economic needs?

(A matter of concern to many groups scheduled to attend the conference.)

A. You will recall that the House sustained that veto.

I do not put one concern over the other. What we must try to accomplish is the establishment of the proper balance when considering all the relevant factors.

In my veto message, I stated my position in trying to seek this balance. "I favor action to protect the environment, to prevent abuses that have accompanied surface mining of coal, and to reclaim land disturbed by surface mining. I believe that we can achieve those goals without imposing unreasonable restraints on our ability to achieve energy independence, without adding unnecessary costs, without creating more unemployment and without precluding the use of vital domestic energy resources."

Recently proposed Department of the Interior regulations should, in my opinion, allow us to continue to approach our economic and energy goals while still maintaining the essential safeguards against environmental degradation.

Incidentally, I would have signed the Strip Mining Bill if it had reflected an awareness of the energy crisis. GWH 10-6-75 **It did not, and Congress was not willing to compromise to make it a realistic bill.**

October 6, 1975

ECONOMIC SUMMIT

BACKGROUND:

The New York Times reports Sunday that agreement in principle has been reached for an economic meeting in France of the heads of government of probably seven countries before the end of the year. While exploratory discussions are in progress in New York, it is important at this stage that we take a low-key approach to the talks and to the prospects for a summit itself.

Q. What are the President's views on an economic summit? Would he attend?

A. Since the President took office he has expressed the importance of consultations at the highest levels on international economic issues of mutual interest to the U.S., Western Europe, and Japan. The talks in New York are general and exploratory in nature. In principle, the President favors the idea of a summit and will therefore continue to watch the progress of these exploratory talks closely and with considerable interest.

Q. Who are the American participants at the New York meeting? What countries are participating?

A. I believe State is prepared to respond to those questions and I suggest you check with them.

FYI ONLY:

There is considerable sensitivity as to participants and countries. George Shultz and Helmut Sonnenfeldt are representing the U.S. Other nations participating at this time are Italy, France, West Germany, Great Britain, and Japan. Canada may join the talks.

The delegates will have no announcements to make nor will they discuss the substance of their talks until all respective chiefs of state have heard reports on the meetings.

October 20, 1975

SUBJECT: ~~GNP~~ and PERSONAL INCOME RELEASED BY THE COMMERCE DEPARTMENT TODAY

At 9:30 a.m. this morning for 10 a.m. release, the Department of Commerce will issue two reports--Gross National Product and Personal Income.

The GNP will show a total of $804.6 billion--an increase of 11.2% for the third quarter. This is the largest quarterly increase since the first quarter of 1955. It is the second quarterly increase after five quarters of decline.

Personal income increase $14.4 billion in September. The manufacturing industries' payrolls increase $3.4 billion, but increases occured in all categories.

A statement will be released by Secretary Morton on the GNP, and a press conference will be held in the Commerce Department by James Pate at 11 o'clock.

<u>What's your reaction to the 11.2% increase in the GNP?</u>

GUIDANCE: This indicates that we are in the early stages of a solid and healthy economic recovery. We recognize that earlier in the year, inventories were being liquidated at extremely rapid rates. We knew that this was unsustainable and that liquidations would have to slow in the third quarter. The third quarter GNP reflects this fact--that inventory liquidation has slowed.

We believe that a major part of the inventory correction is behind us. We also recognize that the significant third quarter improvement in GNP will probably not be repeated in the fourth quarter.

JGC

October 22, 1975

SUBJECT: CONSUMER PRICE INDEX FOR SEPTEMBER

Consumer prices increased .5% in September. Food prices declined for the first time since earlier this year. Increases were found in transportation, education, medical services, and utilities.

Any reaction to the September CPI?

GUIDANCE: The September Consumer Price Index is in line with our expectations.

I might just point out that without the New York Transit fare increase the overall CPI increase would have been .4%, rather than the .5%. The transit fare increase shows up in the Public Transportation category. Public transportation increased 9.3% in September, and almost all of this was New York City.

Food declined which is about what we had expected.

Are you optimistic, pleased, disheartened by these figures?

GUIDANCE: I believe these figures certainly speak for themselves. There are dozen of outside analysts who will be reviewing these numbers, and I'm sure you can get a variety of opinions from them. About all I can say is that this is in line with our expectations.

JGC

<u>CONSUMER PRICE INDEX</u>

(Change)

	1975	1974	1973
January	+0.6%	+1.0%	
February	+0.6%	+1.3%	
March	+0.3%	+1.1%	
April	+0.6%	+0.6%	
May	+0.4%	+1.1%	+0.6%
June	+0.8%	+1.0%	+0.6%
July	+1.2%	+0.8%	+0.2%
August	+0.2%	+1.3%	+1.9%
September	+0.5%	+1.2%	+0.3%
October		+0.9%	+0.8%
November		+0.9%	+0.8%
December		+0.7%	+0.5%

WHOLESALE PRICE INDEX

Q. Does the 1.8 percent increase in the October wholesale price index mean that the economy will experience a new round of double digit inflation?

A. No. I do not think that is likely. As always, one month's changes indicate very little about trends. Several special factors contributed to the October in- increase:

- Passenger car increases were chiefly due to higher prices for 1976 model year cars.
- A Canadian strike helped to drive up lumber prices.
- Seasonal adjustment procedures may be producing misleading results.

Nevertheless these increases, particularly industrial commodity prices, are disturbing. We are still in a situation where prices seem to go up at the slightest provocation. This is a legacy of the inflationary period of last year. It suggests that we must be careful to avoid putting too much pressure on the economy lest we rekindle significant sustained inflation.

Porter
November 8, 1975

November 6, 1975

SUBJECT: WHOLESALE PRICE INDEX FOR OCTOBER

Wholesale Prices increased 1.8% in October, the biggest monthly rise in a year.

<u>Doesn't the large increase in Wholesale Prices indicate that inflation is still a serious problem?</u>

GUIDANCE: Even though there are a number of technical and one shot factors which exaggerated the increase, none-the less, there are elements of concern in our evaluation of some of the specifics in the WPI.

However, this is a very volatile index and several more months of evidence are required to make judgments as to whether any trends are indicated by today's figures.

<u>What are some of the technical and one shot factors that exaggerate the increase?</u>

GUIDANCE: Here we mean there are seasonal adjustment problems and secondly, the increase in prices of motor vehicles for which no seasonal adjustment is made.

JGC

WHOLESALE PRICE INDEX

(Change)

	1975	1974	1973
January	-0.3%	+3.1%	
February	-0.8%	+1.2%	
March	-0.6%	+1.3%	
April	+1.5%	+0.7%	
May	+0.4%	+1.3%	+2.0%
June	-0.1%	+0.5%	+2.3%
July	+1.2%	+3.7%	-1.4%
August	+0.8%	+3.9%	+6.2%
September	+0.6%	+0.1%	-1.5%
October	+1.8%	+2.3%	+0.3%
November		+1.2%	+1.8%
December		-0.5%	+2.2%

November 20, 1975

SUBJECT: THIRD QUARTER REVISED GNP

The Third Quarter 1975 Revised Gross National Product report was released at the Commerce Department today. This report showed an increase in the GNP of 62.7B to a seasonally adjusted annual rate of 1.5T. The revised report is 5.8B higher than the preliminary report, which was released one month ago. The Inventory Investment was revised upward by 4B and Net Exports were up by 2.4B.

JGC

November 20, 1975

SUBJECT: CONSUMER PRICE INDEX FOR OCTOBER

The Consumer Price Index rose .7%, the third highest this year.

<u>What's your reaction to the .7% increase in the October CPI?</u>

GUIDANCE: Even though this is higher than we would have liked, it is actually a little better than we expected.

Fragmentary information suggests a significant improvement in the Consumer Price Index for the month of November. I might point out that the annual rate of the CPI during the last three months was only 5.6%.

We are obviously still concerned about inflation and should be, but it is important to distinguish between a real underlying developing trend and one which is erratic. We feel this is not a trend.

JGC

CONSUMER PRICE INDEX

(Change)

	1975	1974	1973
January	+0.6%	+1.0%	
February	+0.6%	+1.3%	
March	+0.3%	+1.1%	
April	+0.6%	+0.6%	
May	+0.4%	+1.1%	+0.6%
June	+0.8%	+1.0%	+0.6%
July	+1.2%	+0.8%	+0.2%
August	+0.2%	+1.3%	+1.9%
September	+0.5%	+1.2%	+0.3%
October	+0.7%	+0.9%	+0.8%
November		+0.9%	+0.8%
December		+0.7%	+0.5%

November 28, 1975

SUBJECT: OCTOBER LEADING ECONOMIC INDICATORS

The Index of Leading Economic Indicators declined .5% in October, the second monthly decline in a row. Prior to September, the Index had increased for six consecutive months.

What's your reaction to the secondly monthly decline in the index of leading economic indicators?

GUIDANCE: We see no reason to change the Administration's position that the economy will continue to recover over the next year.

JGC

December 19, 1975

SUBJECT: CONSUMER PRICE INDEX FOR NOVEMBER

The Consumer Price Index rose .7% in November; the same increase as in October. Food price increases moderated and gasoline prices declined last month, but these improvements were more than offset by the biggest rise in the price of services in more than one year. A large part of the November increase was in mortgage interest costs, auto insurance, property taxes, natural gas, clothing, new cars, dairy products, and vegetables. Meats, sugar, used cars and the cost of health insurance declined.

What's your reaction to the November CPI?

GUIDANCE: We consider the results mixed. The non-food commodity group continues to behave very well and is encouraging for the future. However, the sharp increase in 'services,' led largely by the rise in auto insurance, was disappointing.

In general, the rate was slightly higher than we anticipated.

Do the November C.P.I. figures signal an acceleration of inflation.?

GUIDANCE: No

JGC

CONSUMER PRICE INDEX

(Change)

	1975	1974	1973
January	+0.6%	+1.0%	
February	+0.6%	+1.3%	
March	+0.3%	+1.1%	
April	+0.6%	+0.6%	
May	+0.4%	+1.1%	+0.6%
June	+0.8%	+1.0%	+0.6%
July	+1.2%	+0.8%	+0.2%
August	+0.2%	+1.3%	+1.9%
September	+0.5%	+1.2%	+0.3%
October	+0.7%	+0.9%	+0.8%
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