



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

April 18, 1977

TO: Federal Open Market Committee

FROM: Arthur L. Broida *ALB*

Attached for your information is the statement by the President on inflation issued by the White House on Friday.

Attachment

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PRESIDENT CARTER'S PRESS CONFERENCE

APRIL 15, 1977

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT ON INFLATION

I. SUMMARY

Today, I am announcing a series of measures aimed at controlling and reducing inflation. This program embraces the following elements:

-- Fiscal discipline to assure a balanced budget by FY 1981 as the economy returns to normal.

-- An agreement with leaders of business and labor to establish a framework for consultation with government for reaching our objectives for job creation, inflation control and other economic priorities.

-- Efforts by the Council on Wage and Price Stability to analyze and provide information on inflationary conditions in individual markets and industries.

-- An early warning system through the Council on Wage and Price Stability to forecast and prevent shortages and bottlenecks.

-- Effective incentives for business to increase investment in new productive capacity as part of comprehensive tax reform.

-- A new program to restrain increases in hospital costs.

-- Employment policies that stress job skills training, improved job placement services, and improved services to match job openings with available workers.

-- Encouragement of increased productivity in business and agriculture.

-- Initiatives to moderate the sharp fluctuations in the supply of commodities, which have triggered inflation in recent years, through the following:

-- Farmer-held food reserves to help stabilize consumer prices and farmers' incomes;

-- Negotiations to reduce fluctuations in the world price of sugar and grains, and an open-minded look at price agreements for other commodities;

-- Working with Congress to assure that raw materials from the nation's strategic stockpiles are made available in the event of supply disruptions during peacetime.

-- Regular monthly meetings between the Chairman of the Federal Reserve, myself, and my chief economic advisers in an effort to achieve better coordination of monetary and fiscal policies.

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-- Full consideration of the economic cost of major government regulations, through a more effective analysis of their economic impact.

-- Greater emphasis on achieving compliance with regulations through incentive and performance standards rather than detailed specification of means, and efforts to improve effectiveness and reduce red tape and delay.

-- Reform of rate-setting regulation to encourage increased competition within regulated industries, including a major effort to deregulate the airline industry and other industries in which regulation unnecessarily stifles competition.

-- Cooperation with other nations to reduce worldwide inflationary trends, including support of the International Monetary Fund.

-- Using international trade policies to help assure competitive prices to consumers, while taking into account the legitimate needs of particular American industries and workers.

-- Development of procedures to eliminate costly and unnecessary delays in construction permit issuance by government agencies.

-- Strict enforcement of the anti-trust laws, including a crackdown on price fixing and monopolistic practices.

-- Reorganization of the Federal Government to streamline the operations of the government, improve its efficiency, and make it a more effective instrument to achieve our national objectives within budgetary constraints.

-- More efficient federal procurement policies, including increased competitive bidding and a stronger and more vigilant Renegotiation Board.

Over the past year, the rate of inflation has averaged six percent. Reducing that inflation is going to require a united national effort. The Federal Government will take the lead. I have already made budget decisions to reduce the Federal deficit and restrain the costs of popular programs, and have rejected excessive tariffs and quotas on imports of shoes and mushrooms. These decisions were difficult, but necessary to the overall goal of reducing inflation.

No one should look to government for easy answers, because there are none. And government cannot do the job alone. We face difficult choices ahead in energy and other areas of national importance. However, I believe that government, business and labor together can, as an interim goal, reasonably aim at reducing the rate of inflation by two percentage points by the end of 1979, while still vigorously pursuing our commitment to full employment.

All segments of the American economy must cooperate if we are to get inflation under control. In the long run, that is the only path to more jobs, stable prices, and greater real income for all our people.

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II. Sources of Today's Inflation

Difficult inflationary problems began more than a decade ago, as large budget deficits during the Vietnam War led to excess demand and an overheated economy. That war was financed, in part, through the hidden tax of inflation.

Excess demand became a problem again in late 1972 and 1973, when all the major industrial countries around the world experienced a simultaneous boom in economic activity.

We know, however, that economic overheating is not the only cause of rising prices. Since the end of 1973, the entire world economy has suffered from widespread unemployment and idle capacity -- yet prices have continued to rise almost everywhere.

Some of the sources of inflation have been beyond our control -- for example, the 1972 crop failures here and abroad. Those crop failures reduced supplies which, along with the grain deal with the Soviet Union, contributed to a 35 percent increase in U.S. consumer food prices during 1973 and 1974.

World petroleum prices have increased nearly five-fold since late 1973 because of the actions of the OPEC countries, resulting in a 50 percent rise in the price of fuel and electricity to American consumers.

Another part of our inflation problem arises from government's changing role. Over the past decade and a half, the American people have grown less tolerant of environmental pollution, dangers to health and safety at work, and inadequate pensions and health care for the elderly. They have properly demanded that their government take forceful steps to fight these ills. In certain cases the resulting measures, though necessary, add to costs and prices. Requiring industries to add new pollution control equipment or safety devices raises costs. So do increases in payroll taxes which finance medical care and social security benefits.

We will not go back on our commitments to a better quality of life. But we must insure that our methods of achieving this objective involve no unnecessary costs.

Government also affects prices and costs in other ways. Restrictions on international trade may raise prices. The result of rate and price regulation in many industries is to cut down competition and put a floor under prices. Decisions on farm price supports, minimum wages, and medical insurance affect prices, too. Difficult choices face us in these and other cases.

On top of these causes is the persistent spiral of costs and prices that takes hold once people begin to expect continued inflation. Individuals and businesses try to raise their incomes to protect themselves against rising prices and costs. The end result of this process is more inflation. This cycle is not the fault of labor, or of business, or of any one group. But we must find ways to break out of it.

Our economy has been depressed since 1974. Despite inadequate demand -- despite unemployment, unused plant capacity, increased poverty, inadequate growth rates -- inflation persists. High unemployment is a morally unacceptable -- and ineffective -- way of combatting inflation, and I totally reject that approach. Inflation must not be attacked by causing additional human misery.

III. Description of Anti-Inflation Program

The anti-inflation program I outlined at the beginning of this message -- and which I discuss in more detail below -- is tailored to the nature of the problems we face.

It has three basic parts:

Federal economic and budgetary policies that promote growth while avoiding overstimulation; specific governmental actions to fight inflation; and a voluntary effort by business, labor, and government to achieve our common objectives of providing jobs, promoting steady growth, and controlling inflation.

A. Economic and Budgetary Policies

By any objective measure, the economy has ample room to expand without running into excess demand. Yet many people fear that current budgetary policies will lead to renewed inflationary pressures. I want to address those fears directly.

Inadequate tax revenues from a stagnant economy -- not legitimate federal spending programs -- are the principal source of the deficits. We have large budget deficits today because recovery from the worst recession in 40 years is still incomplete. As the recovery proceeds, the deficits must shrink and eventually disappear. The combined total of private and public demands on the economy must not be allowed to exceed our productive capacity, or inflation will surely be rekindled. I have made a firm commitment to have a balanced budget in a normal economy by FY 1981, and I intend to do everything I can to honor that commitment.

Two steps are essential to balancing the budget. The first is a durable expansion in the private economy that will generate steady growth of jobs, incomes, and federal tax revenues. My proposals for direct job creation and permanent tax reduction for low and middle income taxpayers will get us moving in that direction, and I again urge the Congress to enact them.

The second step is to discipline the growth of federal spending in the years ahead. The budgets that I will submit will contain responsible expenditure ceilings, and I will work continuously within the Executive Branch and with the Congress to ensure that we stay within them.

The budgets that I approve will reflect zero based review of all Federal programs. The Congress, in carrying out the procedures established in the Budget Reform Act, has shown its concern for responsible budget policies. I believe that we can work together to meet our country's needs yet stay within responsible fiscal limits.

I made Government reorganization and managerial efficiency a keystone of my campaign for the Presidency. I intend to use the new reorganizational authority granted to me by the Congress to streamline the operations of the Federal Government.

In order to insure closer economic consultation within the government, we are initiating regular monthly meetings between myself, the Federal Reserve Board Chairman, and some of my economic advisers.

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The course of fiscal policy I have outlined should permit the Federal Reserve to provide an expansion of money and credit consistent with moderate interest rates and a steady and noninflationary growth of employment and output.

B. Specific Actions by Government

Besides well conceived monetary and fiscal policies, there are a number of specific steps the Government can take to reduce our vulnerability to new inflationary pressures and to slow the current rate of inflation. I am proposing actions in eleven areas:

(1) Council on Wage and Price Stability: Our anti-inflation strategy will emphasize efforts to identify specific inflation problems as they begin to occur and to develop effective countermeasures. To achieve this objective:

-- The Council on Wage and Price Stability will expand its activities in the area of providing detailed and timely analysis of economic conditions in those industries and markets which are important to price stabilization. In many cases the information required for the Council's analysis is available from existing government sources. In some instances the Council will ask individual business firms and labor groups to provide, on a confidential basis, data which would not otherwise be available.

-- The Council will continue its previous practice of publishing factual information on wage, price, capacity, and other developments in particular sectors or industries. It will also continue to hold occasional public hearings on major inflation developments, as a means of improving public understanding and providing the public with an opportunity to make its views known.

-- The Council will provide to the relevant agencies analyses of the inflation implications of specific government regulatory and legislative actions.

The statutory authority of the Council expires on September 30, 1977. I am asking the Congress to extend its life for two more years. I am also requesting a modest increase in appropriations for the Council so that it can fulfill its enlarged analytical role in the price stabilization effort.

(2) Early Warning System: I will instruct the Council on Wage and Price Stability to develop detailed industry studies to detect emerging bottlenecks, capacity shortages, and other problems that, if left unattended, would lead to significant price increases. The Council will pay special attention to the basic materials industries, to markets with potential future shortages, to markets of major economic importance, and to markets where government policy can have significant effects on domestic supply.

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(3) Commodity Reserves: When prices of raw materials and food fluctuate upward, the effects tend to spread throughout the economy, raising prices and wages generally. Downswings in raw material prices, however, do not have corresponding effects on prices and wages. Reducing fluctuations in commodity prices, therefore, helps to reduce inflation. To assure adequate commodity supplies, several actions will be taken:

-- The Secretary of Agriculture has developed within existing legislation a program that provides for an orderly buildup of farmer-held reserves of food grains during periods of high production and low prices. Under specified conditions, those reserves will be made available as a means of providing a more stable supply of farm commodities. This reserve will also help promote export sales of agricultural commodities by showing that we can meet supply commitments even when we have poor crop yields.

-- My Administration will enter into negotiations for international agreements for grains and sugar to reduce fluctuations in prices. We will also consider with an open mind other commodity agreements that concentrate on moderating price fluctuations.

-- We will work with Congress to assure that raw materials from our strategic stockpiles are made available to meet supply disruptions during peacetime. To aid industry in evaluating future market conditions, these efforts should exclude the use of the strategic stockpile for purposes of general price stabilization.

(4) Incentives for Increased Investment and Expanded Capacity: The rate of expansion of productive capacity must be stepped up to head off possible shortages:

-- Effective investment incentives will be a key element of this Administration's comprehensive tax reform.

-- I have asked the Secretary of Commerce to work with other government agencies to investigate the general problem of delays in construction permit issuance by government agencies, and to recommend new procedures which will simplify and speed up the permit issuance process.

(5) Government Rate Setting Regulations: In the past, federal regulations have often done more to protect regulated industries than to promote efficiency and cost reductions. There is much we can do to reverse this situation. The redirection or elimination of regulations that no longer serve national needs can lower prices for consumers.

This Administration has already indicated its strong support for reform of airline regulations. We will be looking at the potential for increased competition in other regulated sectors of the economy.

An Agency for Consumer Advocacy, which I have urged the Congress to establish, can play a useful role by intervening in regulatory procedures on behalf of the consumers who ultimately pay the bills.

(6) Other Regulation: Actions can be taken to improve the environment and to protect consumers and workers against health and safety hazards without excessive costs or red tape.

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-- I have initiated efforts to eliminate unnecessary government regulations and to simplify and promulgate regulations with less delay.

-- A review procedure will be established to encourage regulators to give proper weight to the economic impact of the regulations they write.

-- An interagency group now at work will suggest ways for regulatory agencies to emphasize incentives and performance standards, rather than detailed specifications of the means by which the goals should be achieved.

(7) Employment and Manpower Programs: We can reduce both unemployment and inflation by measures which improve job skills, increase the efficiency of the labor market, and target job opportunities to groups suffering from very high unemployment rates.

-- The public works and employment programs contained in my economic stimulus proposals are targeted on groups and areas with high unemployment.

-- We have proposed a major expansion of programs to provide job opportunities and skill training for youths.

-- We will work through the schools and other community organizations to strengthen job placement and employment counselling services to people seeking to enter or reenter the labor force.

-- We will intensify our efforts to eliminate job discrimination based on race, sex or age.

-- I have instructed the Secretary of Labor to develop improved job placement services and computerized job banks to help workers find and employers fill job vacancies.

(8) International Trade Policy: Cooperation with other industrialized governments is vital to the reduction of worldwide inflation.

This Administration will balance the benefits to consumers of international trade with the need to moderate disruptive influences on American workers and firms. Trade can play an important role in the fight against inflation. It is an effective means of improving efficiency and maintaining competition within American industry. We get the benefits of lower prices and greater productivity when we expand our production in those industries where we have a competitive advantage compared to other countries, while trading for those goods which we find more costly to produce. Tariff and quota protections may sometimes result in foreign retaliation against our own products. They cause our export industries to lose sales and employment, and consumers to pay higher prices.

We will emphasize the benefits of a freer trade system in international negotiations. In particular, the United States will push for a successful conclusion of the Tokyo round of trade negotiations.

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At the same time, it is important that we develop better means to prevent import competition from severely disrupting individual domestic industries and to improve the efficiency and competitive position of affected industries.

(9) Medical Care Costs: The cost of hospital care is increasing at more than twice the overall rate of inflation. We shall announce specific details of a hard-hitting hospital cost containment program later this month.

(10) Anti-Trust Laws: Resolute enforcement of the anti-trust laws helps insure that products will be available in the marketplace at competitive prices. The Justice Department will vigorously enforce the laws against those who fix their prices at artificial levels. The recent policy of intervening in regulatory agency actions will also continue in order to inject competition into regulated industries wherever that is feasible.

(11) Federal Procurement Policies: My Administration will implement many of the recommendations of the National Commission on Procurement Policies for streamlining and simplifying federal purchasing practices. We will also insist upon a strengthened Renegotiation Board which bears down hard on excessive profits in government contracts.

I intend to play an active role in assuring that the measures I have outlined receive the highest priority in government agencies. I am prepared to make the difficult choices that will inevitably arise in every one of these areas.

C. Voluntary Cooperation Among Business, Labor, and Government

The combination of prudent economic and fiscal actions that I have proposed will guard against the risk of a renewed upsurge in inflation and also insure that the government itself is not a major force in sustaining inflation. But to be successful in reducing the current rate of inflation and moving towards price stability, the private sector must also play an important role.

In part, we have inflation today because we had it yesterday. Each group in the economy tries to recoup prior increases in costs or prices, but in so doing helps keep inflation going. If everyone could exercise restraint, the momentum would slow down, and we could move towards real price stability. But who can afford to show such restraint individually without assurances that others will do the same? Our difficulties occur precisely because there exists no process for mutual cooperation on a voluntary basis.

Establishing a Framework for Cooperation

Making progress in dealing with this problem has to be a long-term task. It requires continuous, persistent, and patient effort. A set of anti-inflation policies must be developed which will create jobs, stabilize prices, and promote general economic development with fairness and equity for all.

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If this battle against inflation is to succeed, I am, above all, convinced that it requires a close collaboration between business, labor, and the Government. This collaborative effort should consist of working together to advise government on its objectives for our economy, for job creation, and inflation reduction, to help work out approaches to achieve these objectives and to monitor the results on a continuing basis. Most importantly, this joint effort must be voluntary and cooperative and not be based on coercive or self-defeating controls.

I have discussed this problem with representatives of labor and business and have received their assurances of complete cooperation in the development of a joint anti-inflation effort.

Accordingly, I have asked the President of the AFL-CIO, and the Chairman of the General Electric Company, to help to coordinate this new cooperation between labor, management, and the Government. Within the Government, I have asked the Chairman of the Economic Policy Group, in collaboration with my other economic advisers, to work with these gentlemen and other representatives of business and labor in developing the more detailed arrangements for implementing this part of my anti-inflation program.

I expect this work to begin immediately. While the collaborative effort ought to be a permanent one, I hope that some concrete approaches for private sector cooperation in reducing inflation can be developed within the next several months. I shall personally be kept informed and meet with labor and business representatives from time to time as the need arises.

There are no magic solutions in the battle against inflation. It can be won only by hard, day-to-day, unglamorous, and often politically unpopular efforts, and by the voluntary cooperation and restraint of the American people. I pledge myself to the most vigilant effort. The American people deserve no less.

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