The original documents are located in Box 21, folder "Transcripts, 1971-1975 (1)" of the Stanley Scott Papers at the Gerald R. Ford Presidential Library.

TRANSCRIPT OF REV. LEON H. SULLIVAN
INTERVIEW BY WOLF V. LOJEWSKI,
GERMAN TV NETWORK
Washington, D.C.

Lojewski: Rev. Sullivan in your opinion what is the situation now, what chances has the Black man to get a useful job in this society?

Sullivan: Well, I think it is improving all the time. I think that there is more of a sensitivity and real bona fide concern on the part of Americans to do what we can to rid our country of unemployment and poverty -- I don't really expect that we will ever rid the country of unemployment, but to get rid of as much as possible. And I think the Federal Government now is moving more forward in that direction than it has in the past.

Lojewski: What should be done and what can be done to move forward?

Sullivan: You will need more resources, both from public and private sources, on specific projects and programs geared toward the elimination of the unskilled group within America -- Black and white and brown and yellow. Within the next twenty years we know that there is going to be a need for skilled workers -- one-half of all jobs done now in America won't even exist in the next twenty-nine years. The need for training and skill preparation is essential. The other need is that the Federal Government will have to put more money into the economy to provide jobs for men and women while they're getting on their feet. Not in terms of a long term kind of thing -- because the more a government supports a man the more a government can control a man -- but to the extent that the government can, through our tax dollars, help a man to stand on his feet, to put emphasis also on helping a man. I say, if we can get a man on the moon in outerspace we can get a man on his feet in Mississippi. So it is the utilization of our resources in the direction of helping people to stand on their feet. And I think our government is beginning to realize this more and more.

Lojewski: Your activity as one of the Directors of General Motors has become well known. Do you believe this is a success in working together with a company like General Motors?

Sullivan: We're trying. I've been on the Board about seven months and I've seen some significant breakthroughs. I'm quite an articulate man and I make my opinions known on the Board whenever we meet. There are some changes being made and there are some significant things being done -- not only in terms of dealerships (everybody thinks of dealerships when they think of the automobile industry), but in terms of upgrading job opportunities; management and professional job opportunities for Blacks, Orientals, American Indians, Mexican-Americans and Puerto Ricans -- and also in getting Blacks contracts with plants and entrepreneur development because a man must not only have a job, a man must be able to create work and to have enterprises.

Lojewski: Could you tell us something about the atmosphere, working together, Black man and white man?

Sullivan: Well, we still have a great polarization. There's no question about it. And there is still a great deal of mistrust on the part of many Blacks toward whites and a great deal also of prejudice of whites against Blacks. So, a program like OIC, the Opportunities Industrialization Centers, that has just received such significant help from the Department of Labor of this country, is a program geared towards not only providing skills to people but getting people in the country to work together so that we might, through OIC, help do something about the polarization in the country . The Opportunities Industrialization Centers is a program that is combining the whole American process together. The central focus is job training and getting job skills, but the broader function is to pull America together -- to help us to know that there is not a Black road and a white road in America, but there is only one road and that is the American road.

And having been in your country -- I visited Bonn and I visited Hanover and I visited Frankfort and I was in West Berlin, I was in East Berlin, I walked along Stalin Alley and they let me through -- and people there are fine, incidentally, they are fine in East Germany, too -- you're brothers, too. Just as you in Germany are going to, in the future, have to find yourselves getting together because the problem is a world problem with people, divisions and polarizations, we know that we in America are going to have to solve our problems of polarization and through programs like OIC, the Opportunities Industrialization Centers, that I founded and head. I'm a Black man, I'm proud that a Black man did something to help America. When the record books are written, a Black man helped America -- put that down in your book in Germany. I hope OIC and my colleagues and my friends in industry and in government that in the end will be able to say this was a program that pulled us together, to work together to help build America, not burn it down -- not "burn, baby, burn", but "build, brother, build"!

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TRANSCRIPT OF BRIEFING TO CABINET AND SUBCABINET OFFICIALS ON THE PRESIDENT'S ECONOMIC PROGRAM, MONDAY, AUGUST 16, 1971, 3:30 PM EDT, WEST AUDITORIUM, DEPARTMENT OF STATE

VICE PRESIDENT AGNEW: Members of the Cabinet, ladies and gentlemen, I am sure that each of you feels as I do at this moment the tremendous sense of pride in our President, in what he has been able to accomplish and his obvious sincerity about the future of our country, both in foreign and domestic affairs, and, above all, a sense of reassurance in the enthusiasm he has so adequately expressed in his very informal remarks to you today.

I think he is completely correct about the prognosis for the future of the United States. There isn't any question that there has been an immediate reaction to these far-reaching and imaginative proposals, some of which have been implemented by Executive Order, others which will require acquiescence by the Congress.

I had a friend of mine who is more than summarily interested in the securities market call me in great excitement and indicate that as of two o'clock today the Stock Exchange was up over 31 points, and that the trading volume was some 23,600,000 shares, which I believe represents a new all-time high. Now, some may say --

"Well, what do we care about the stock market? This is only one segment of our economy. It represents, of course, predictions for the future, but it really doesn't express the nuts and bolts of the American people's interest." That is actually far from the truth, because the stock market is exactly what it pretends to be -- a market place for free trade. And when the stock market does well, it means that public confidence is very high.

I think these steps that have been so carefully devised by the President in conjunction with the members of his Cabinet show beyond any doubt that confidence in the United States and its future is at an all-time high today. This comes about not by accident; it comes about because we are fortunate enough to have a leader at the helm of the ship of staet who works well and efficiently and quietly -- thank heaven -- with his Cabinet officers, who develop an integrated series of steps which are not necessarily responsive to his critics on the outside of the administration, many of whom have political ambitions of their own, but which reflect his sincere conclusion, based on years of experience of what is really good for the country.

In this regard, I want to particularly commend

Secretary Connally, who just finished handling a news conference, one of the most lengthy and difficult news conferences I have ever witnessed, in which he, for a period, I think, of over one hour took questions about this highly complicated series of steps that have been indicated in this present economic program.

Mr. Secretary, you handled that absolutely brilliantly, in my judgment, and were able not only to turn aside the probings and the details which no one can know the answers to in specificity immediately, bit you were able to at the same time make the positive affirmative points that this Administration has inherited not exactly the best situation in the Viet-Nam war and in a raging inflation, and under the leadership of President Nixon we have been able to accomplish much -- the winding down of the war, but of course with the attendant economic dislocations which will be reached and cured through this imaginative program. Most of your questions, Mr. Secretary, were germane to the issue, principally about unemployment and inflation. Even one or two you received which were not exactly germane related to inflation and unemployment. I refer, of course, to the inflation of the egos of the prognosticators who were interested in the unemployment of the incumbent Vice-President. (Laughter)

But that is a subject for another season.

(Laughter)

And today we have much to accomplish. With the help of the leaders in the Administration who are gathered here, I am certain that we will be able to translate the President's proposals into the greatest uplifting of American morale and productivity seen in our history.

Thank you very much.

(Applause)

MR. EHRLICHMAN: Ladies and gentlemen, my name is John Erlichman, and this is the seminar on economic policy for a generation of peace. It is a course for credit. There will be an examination in the months to come, and we expect to provide you with an opportunity to ask some questions of the panelists after the seminar is completed. So will you store them up as you go along. We will not have a great deal of time for questions, obviously, because we have had an added starter this afternoon. But at the same time, we want to move along as expeditiously as we can so that you can have a chance for questions to the extent that we have time.

The agenda will be first of all to give you an over-view. First, George Schultz. Then Paul McCracken, talking about the international monetary and trade aspects of the President's program. Deputy Assistant Secretary John Nolan from Treasury on tax policy. Arnold Weber of OMD to talk about the wage-price freeze. Dr. Arthur Burns to make general observations from his standpoint in the Federal Reserve. And then closing remarks from Secretary Connally.

So without further ado, I will introduce my colleague, George Schultz, to talk with you about the overall proposal and then the budgetary aspects of it.

MR. SCHULTZ: Thank you, John.

It is a great matter of pride for me to be here and be a part -- and I know as you must feel, too -- of this major and decisive effort on the part of the President and the Administration, because I think we have, indeed, a new economic policy. Each piece of that policy is of major importance all by itself. Yet each is dwarfed by the significance of the policy when you consider it and take it as a whole, as a set of policies for prosperity without inflation in a time of peace.

I believe that this new policy draws strength from what has been accomplished over the past two years.

It draws strength from the fact that the rapidly escalating rate of inflation has been stopped and the rate has started to turn downward. It draws strength from the fact that we have managed to absorb in various ways over two million people, from the military and military-related occupations, into the civilian work force in the transition from war to peace. And it draws strength from the fact that we now have an expanding economy, led by rapidly expanding retail sales, as we have discussed in this room a week or so ago.

This situation has put the President in a position where he had an opportunity for decisive action to reduce unemployment further, faster, to get at inflation more decisively, to work with the problems of world trade, and to get our house in order insofar as that is concerned, and to deal effectively with the situation in the monetary field so that we may have a chance to reconstruct the monetary system in a way that will not lend itself to the periodic crises we have been experiencing for the past decade at least.

This is an interrelated program. In a sense it can be described in terms of the measures that are proposed. It is interesting, however, to describe it in terms of the objectives sought, and to see that the measures group themselves in one way or another under more than one objective. I think that suggests the sense in which it is an interrelated program.

It is a program to expand employment by getting a stabilization in the price level so that people can feel some confidence in the prices that are going to be charged for the goods they are buying. It will also expand employment by such things as the reduction or elimination of the tax on automobiles. And when you consider that some eight million people are likely to buy automobiles this year, you can see how widespread that is. It will expand employment by the import surcharge affecting the competitiveness of American products in this country vis-a-vis products from other countries.

I should emphasize, as the President has emphasized, that this is to be thought of as a temporary measure, not a long-term measure -- but a temporary measure to provide an immediate increase in employment, and also related, of course, to the world trade and monetary problems. It is a program to stimulate employment by expanded purchasing power for the individual -- and beyond that, and I think especially with long-term implications, the competitiveness of the U.S. economy, a program to expand employment by the job development tax credit. And especially with the device of making that tax credit larger -- that is, ten percent for the first year, when we especially want to get that wallop, and then going to five percent for subsequent years.

Turning to the price side, you see through the wage-price freeze a sort of shock treatment to the inter-related escalation of wages and prices. Here, again, is something temporary but designed to give a shock and to gradually bring us out, as we come out of this wage-price freeze, in a stance of greater overall wage and price stability as the economy expands.

I might just note that the tax credit for job development which will stimulate investment seems to me to be a measure that can also be described in long-term manner as consistent with the idea of dealing effectively with inflation. This is a program through which we may be able, finally, to realign in a sensible manner exchange rates, in the interests of the long-term benefit we will all get from trade, and the situation will enable us to seek effectively a basic cure for the periodic monetary crises with which we have been plagued. And this could not be done without suspending convertibility to gold.

And finally in this program the President has maintained the under-structure of a sound fiscal policy, without which something like the wage-price freeze, temporary as it is, really could not have any long-term benefit. And he has done that by accompanying the stimulation of the revenue reductions that are designed in particular ways to be job developing with a set of budget reductions that are not so job oriented and which maintain the fiscal structure that we need to deal in a long-term way with the inflationary problem.

I might say beyond that that this is by way of emphasizing again the President's commitment to get the government under control, to get the size of the establishment under control, to deal in some manner with the relentless and ever-expanding budget that we have. And it represents his determination to deal with that problem effectively.

Well, this is by way of just a brief over-view of the program as a whole. And let me emphasize again that while each piece is of major importance by itself, even such major pieces as are composed here are dwarfed by the overall implications of an interrelated program as developed by the President.

Now let me turn to what I know you are all vitally interested in, and that is the budget picture, because it affects everybody and will continue to affect you as we move into the fiscal '73 picture.

We have a total in terms of budget saving in this package of $4.7 billion. I won't try to list all of the items, but let me just suggest a few of them, and you will be hearing about the others.

The federal pay raise which is scheduled to become effective January 1, 1972, will be postponed. The President will recommend that that be postponed by six months.

We will, by direction of the President, reduce the overall numbers on the civilian payroll by five percent. We hope to get that accomplished by the end of the year. Now, that probably seems like a tall order. But let me remind you that attrition amounts to about 12,000 a month as we have analyzed it. So it is not so impossible, if you just get to work, if you don't hire people, and you figure out how to get the job done with fewer people. And just by way of insurance on that, probably what we will do is just withhold five percent from your S and E budgets come the first of the year, and then you can struggle with that as best you can. (Laughter)

Now, this program recognizes the fact -- and unfortunate fact, but nevertheless it is a fact -- that the Congress has not moved very fast on some of the President's important initiatives. Welfare reform has been around a couple of years and still has not gotten very far in the Senate committee. So the President is proposing the effective date of welfare reform be moved by twelve months. Now, given the lateness of the time and the time when one can reasonably expect welfare reform to pass, that is only realistic, because it takes so long to gear up and administer something like that.

General revenue sharing has yet to be reported out of a committee. The President has proposed that it be effective October 1. It is obviously unrealistic to expect that it will be passed by October 1. So the President has moved the effective date to January 1, three months' movement.

The same can be said for some of the special revenue sharing proposals that will have to be moved back in time, not because we want to, or the President wants to, or it is any less pressing to have these programs enacted, but simply as a realistic appraisal of -- I was going to say the congressional action -- I should say the congressional inaction, to date.

There are many other aspects of the budgetary cuts. I suppose it is appropriate to say in this building that we expect economic aid to be reduced by about ten percent.

But at any rate, with these reductions, with the temporary import surcharge, we should more than balance the revenues lost by the tax measures that I mentioned and that will be described in more detail.

Now, I should note, as I am sure you have, that some of the things in the way of outlay reductions will represent a permanent reduction -- that is, a reduction that we can expect confidently to carry through into fiscal '73. But others, such as the postponement of the effective date of general revenue sharing, won't.

So that means that there is quite an extra bundle to find in the fiscal '73 budget beyond what we recognize as the tough fiscal guidance you have already gotten in the Department and Agencies. And I just say the President is determined to maintain a solid fiscal stance under whatever anti-inflation measures may be taken. That is the only thing that will work. So you can expect to be hearing from the good old OMB about that. And as he put it this morning in the Cabinet meeting, Cap Weinberger sitting over there -- stand up, will you, Cap (Applause) -- Cap Weinberger has been on leave, and you will hear from him.

Well, I would just say in summary that we have a new economic policy designed to give us prosperity without inflation in peacetime, and it demands from all of us a new and renewed effort to support the President's decision with our words and with our actions, as his appointees in this government.

(Applause)

MR. EHRLICHMAN: George said that they were going to withhold five percent of the S and E budgets, and to my great surprise I heard some laughter out there. And then in identifying where that laughter came from, it is obvious that there is a pocket of OMB people all sitting together there in the middle. That was a laughter of glee in anticipation, I think.

MR. SCHULTZ: It hurts us more than it does them.

MR. EHRLICHMAN: The next subject we are going to hear about is the international monetary and trade aspects of this new economic policy. The Chairman of the Council of Economic Advisors, Dr. Paul McCracken, will talk to you on that subject. (Applause)

DR. McCRACKEN: I would like to begin by emphasizing something which George Schultz said just a minute ago, and that has to do with the magnitude of the total program which the President outlined in his address last night.

As a professor who has spent a fair amount of his lifetime lecturing on economic stabilization and the history of this subject -- though I realize, of course, those in my profession do not necessarily need to know a great deal about the subject in order to hold forth at some length on it in the classroom -- but as one who has studied this rather carefully, I think I can fairly say that nothing in the area of economic policy of this magnitude has been unveiled by a President in at least several decades, and probabl one would have to go back thirty-five to forty years to find anything in the history books that would be comparable to it.

Now, the subject which has been assigned to me this afternoon has to do with the elements in this program which pertain to international trade and also to international monetary matters.

The key elements in this program are those with which you are already by now I am sure fairly familiar. One of these is the imposition of a temporary surcharge on imports into the United States -- generally at a rate of ten percent. And the other has to do with the temporary suspension of full convertibility, convertibility of dollars into gold, for foreign treasuries and central banks.

One or two details here first.

The imposition of this temporary surcharge on imports comes out of authority in the Trade Expansion Act of 1962. It of course pertains to dutiable imports. And you will note the term "generally at the rate of ten percent," because this authority limits the increase to the difference between the rates that are now prevailing and the upper limit which is set in that statute. And so if in most cases ten percent or ten percentage points would be feasible -- but of course in some cases there is not that much difference between the rate that currently prevails and the one set in the statute, in which case it would be raised as much as possible.

Automobiles would, of course, be one illustration where the maximum rate is ten percent, the current rate is three-and-a-half percent; the surcharge, therefore, cannot be ten percent there; it can only be six-and-a-half percent, because that is the only leeway.

The other item -- and I would like to just read a paragraph here -- has to do with the temporary suspension of full converbitility of dollars into gold for foreign treasuries and central banks and the start of international consultations and negotiations to achieve needed and lasting reforms in the international monetary arrangements.

Well, those are the items.

In a sense, they are self-contained, perhaps to some extent self-evident. Certainly the matter of imposing a surcharge commends itself in many ways. It is favorable to our own domestic industry servicing the domestic market. And somehow or other this seems reasonable enough, logical enough. But I think it is very important for us to see these elements in the larger context of what is being achieved.

You will hear repeatedly here the theme of seeing this program as an integrated program. And it means a great deal more than just a list of actions, because in a very real sense it is an interlocked program and the elements of it are important.

Now, if one looks at the aspects of the economic scene that are pertinent for these international items, I think there are three characteristics of our experience in recent years that are important. One of these is that it was increasingly clear that our own balance of payments problem was hobbling our domestic expansion.

You know, if you look at the rate of economic expansion from the first to the second quarter, the real domestic demand for output rose at the rate of 4.8 percent per year, which is a pretty good gain. But this was to a substantial extent serviced through a large increase in imports and consequently the increase in real domestic output was held to the rate of about 3.7 percent per year. And that difference is quite significant. And if we were to have tried to deal with the balance of payments problem by severe measures of restriction, as Secretary Connally has pointed out in his press conference, by sharp escalation of interest rates, this would have weakened a domestic economy that we were already wanting to have moved ahead more rapidly.

Another characteristic of recent experience is that we have seen in the United States, but not in the United States alone, some tendency towards growing protectionism, and with the implications of this for a world economy that would not over the long run be good.

There is a third characteristic here of recent experience, the last several years, that is very important. That is that we have seen an international monetary and financial system which, with all of its admirable features -- and they on the whole have served our international economy rather well in the post-war period -- but with all of that, there is a good deal of evidence that it was becoming increasingly crisis-prone. We have had a series of periodic crises here which were becoming very upsetting. Now, it is in that context that the elements of the program, in the President's program, which pertained to international trade and monetary matters must be seen.

It was important to achieve as a first requirement a basic strengthening of the American competitive position in the international economy, because it was that weakness which in turn was disturbing to the international monetary system and at the same time was making it difficult to pursue the kind of domestic economic policies which we wanted. And it is for that reason that in the paper which was distributed, the explanatory paper, you will find the sentence that, "In the process of the actions that have been taken, changes in the exchange rate for the dollar and other currencies, though not in terms of the dollar price of gold, may be anticipated which will end excessive speculation and uncertainty about the future value of the dollar and strengthen our international trading and financial position."

Now, if ultimately we can achieve a new stability with a more equilibrated set of exchange rates, then we are in a position to pursue and have the kind of policies which will bring the domestic economy back to reasonable full employment and at the same time have a dollar whose strength in the world economy, given these exchange rate relationships, will be strong -- the dollar will be strong, enabling the United States, the American economy, to play its role on the scene.

Now, I would just like to make one other comment. This goes beyond my own jurisdiction, obviously. I think as one looks back over history, it is also clear that a chronically weak and unsatisfactory international economic position is a great weakness in terms of international political leadership, and I think we have seen this in the last decade or so in the American segment.

Now, just one comment here at the end.

These adjustments, these actions which the President has taken, have, as their objective, not just to keep imports out or to achieve some very near-term action in the international monetary area -- they are to achieve the objectives of an ultimately stronger and more balanced and more open and more stable international economy and international monetary and financial system.

It is very important for us to see this.

And that explains the emphasis which the President has placed on the importance of seeing as a part of all of this the consultation and negotiation with our financial and trading partners around the world, in order that we can move from this situation of fluidity which we now have into a world where domestic and external economic policies can be more nearly in equilibrium.

(Applause)

(Page B-1 follows)

MR. EHRLICHMAN: Now that you are expert foreign monitorists, you will become tax experts. We are going to hear now from Deputy Assistant Secretary John Nolan, Department of the Treasury, Deputy Assistant Secretary for Tax Policy; and he will talk to us about the tax aspects of this policy. [Applause.]

DEPUTY ASSISTANT SECRETARY NOLAN: Thank you, John.

The tax aspects of this program consist of what we regard as a balanced and integrated series of changes which are designed to provide stimulation and stability in the economy by creating additional jobs, improving productivity, increasing consumer spending, and through those means strengthening United STates industry so that it can compete more effectively, both in the domestic and foreign markets.

There are four essential elements to this program:

First of all, acceleration of the tax cuts presently scheduled for January 1, 1973. At the present time the personal exceptions for '71 is at the level of $650.00 -- and it will go to $700.00 effective January 1, 1972 -- and it is then scheduled to go to

$750.00 on January 1, 1973.

The standard deduction also increases as of January 1, '72 and further increases as of January 1, '73.

We propose to move those '73 changes forward so that they also occur on January 1, '72 -- with the result that the combined effect of the already scheduled tax cuts and these accelerations will be an increase in purchasing power on an annual basis, beginning January 1, in 1972 of about $4.8 billion per year -- of which $2.3 billion will be attributable to the acceleration aspect itself.

This increase in consumer purchasing power should provide a very powerful stimulus to business activity and we expect that employers will begin hiring workers now, and in anticipation of the increased demand that that will create beginning in '72.

The second part of the package is a repeal of the 7 percent automobile excise tax effective for all sales to consumers beginning today.

Now of course the tax must continue to be collected until such time as Congress adopts this repeal -- but we will provide in the repeal, that refunds will be granted for sales beginning today in the interim period, if those refunds are passed on to the automobile purchasers.

This repeal will have the effect of an average price reduction per automobile of about $200.00 and accordingly, we think it will strongly benefit all automobile buyers, stimulate a major increase in demand for automobiles and thereby create substantial numbers of new jobs in all industries which support automobile production.

Actually, for each 100,000 new cars that are purchased, 25,000 new jobs are created, so this is a very important measure in the program.

The third element is a job development tax credit; at the rate of 10 percent of the cost of new machinery and equipment produced in the United STates and placed in service in the United States, on or after today, August 16th, and for oneyear, until August 15 of 1972, at which time the 10 percent credit will drop to 5 percent for new machinery and equipment placed in service thereafter.

We will have a provision, but first of all you will note that this is applicable to equipment placed in service beginning today, without regard to when it may have been contracted for. So that all new equipment that goes on the street, from today on, will be entitled to 10 percent credit during the first one year period. At the end of the one year period, we will have a provision for retaining the 10 percent credit for assets which have been contracted for within the one year so long as they are placed in service within six months thereafter. But after that period, the credit will drop to 5 percent.

It's important to note that there will be no credit available for so long as the import surcharge remains in effect, for facilities which are produced predominantly in foreign countries, and we will define that as being situations in which 50 percent of the value of the equipment is attributable to manufacture, construction, production or extraction in foreign countries.

Again, it seems clear to us that the 10 percent credit in the first year will create a powerful and very immediate stimulus for new capital equipment. It will be particularly effective, because we are focusing the credit in the immediate 12 months period.

There will be a much greater demand within the twelve months period in view of the fact that the credit will then fall to 5 percent.

The long term objective of this credit is, of course, the increased productivity of the United States workers, by giving them new or modern equipment and tools so they can compete better -- and thereby maintain a higher standard of living.

The fourth element of the program is that we will resubmit the [dis] proposal, which is a tax incentive for export sales -- providing tax deferral for income from export sales so long as that income is plowed back into export related activity.

This provision will become effective on January 1, of 1972 and it is estimated that when fully effective, it would increase export sales at least $1.5 billion dollars a year.

Now the combined effect of these tax changes in fiscal year ending June 30, 1972, would be tax reductions of some 6.3 billion dollars -- a very powerful measure of tax reduction -- of course offset by the expected receipts from the import charge surcharge of 2.1 billion -- for a net revenue reduction of

4.2 billion, which will be more than offset by the reduction of government expenditures of $4.7 billion which Director Schultz has described.

Thank you, very much.

[Applause.]

MR. EHRLICHMAN: That was very lucid.

When the President decided that he would form a Council On The Cost Of Living, Bill Saphire, who is prone to acronyms, immediately came up with the proposition that it would be the "CO COLA."

And after he had pondered that a moment he looked at the ceiling and said, "Ah, CO-COLA -- the freeze that refreshes." [Laughter.]

Now the next speaker is going to talk to you about that freeze. Arnold Weber, the Associate Director of the Office of Management and Budget, on the Wage Prize Freeze. [Applause.]

MR. WEBER: Thank you very much, John.

After that comeon, I expect I have to stand up here and fizz for a few seconds. [Laughter.]

Well, unlike some of the material that has been presented up to this point, the wage-price freeze I think is best characterized as "simple" in concept but which will be complex in implementation inherently.

As you know, the President issued an Executive Order last night under authority which exists in the Economic Stabilization Act of 1970 -- which essentially does three things:

" It freezes all wages, prices, rents and salaries" in accordance with the language of the statute.

Secondly, it established a 90 days duration for that freeze, which is scheduled to expire on November 12th under the terms of the Executive Order.

And thirdly, it established this new acronymic organization: The Council on the Cost of Living -- which is comprised of eight government officials chaired by the Secretary of the Treasury, Secretary of Labor, Secretary of Commerce, Secretary of Agriculture, the Director of OMB, the Director of OEP -- and graced by Virginia Knauer as Special Advisor to the President on Consumer Affairs.

Well that, essentially, is what it does and it's very comprehensive in scope and unambiguous in the rhetoric that is used -- even for an Executive Order.

But I think it's important at the outset to indicate certain characteristics of this -- how it came about and what it purports to do.

First, the President did not intend, through the invocation of the authority of the Economic Stabilization Act to institute a system of comprehensive, mandatory wage and price controls. This is not a system of controls whereby we are going to try and even up the prices and the wages in very discreet components -- and dynamically over time.

It's a "lid" and it was viewed as a lid to put on the pot which was viewed as boiling at too great a rate. And that lid is to stay on for ninety days.

And indeed, the President in his earlier comments on wage-price guidelines, freeze, and related matters, indicated that he was opposed to a system of -- a complex system of controls which would carry with it a very large bureaucracy -- and keep people out pouring over books and accounts.

Secondly, one of the primary functions of the Council which has the responsibility to administer the Executive Order, is to devote itself to the development of a "stage two" mechanism -- which at this point is not certain -- and that is that when the freeze expires, certain additional steps will have to be taken to maintain the stability which at this point is the function of the invocation of that law. And the Executive Order specifically charges the Cost of Living Council, with the development of additional policies, mechanisms and procedures whereby stability in prices and wages might be maintained.

And one last comment may be made about the timing -- and certainly the time -- timing was very discreet. I suppose you might say "very abrupt."

But it should be pointed out that that approach to the imposition of a wage price freeze is inherent in the effective application of that device in policy -- because to the extent that there are premature informations, or hints, that such a freeze will come -- it will stimulate behaviour which will lead to significant increases in prices and wages in anticipation of such a freeze.

And the record here is certainly clear in that respect, from the Korean War.

Now having established this freeze, we are now concerned with the development of policies -- and I used to teach economics too, and I must say that this is one of the few days I have been in Government that I was really proud to identify that occupational affiliation. [Laughter.]

And we always used to say in the textbooks that the American economy is very complex. And in the last eight hours, I have been finding out the truth of that allegation. [Laughter.]

There are literally thousands and thousands of products and wage and price bargains and decisions in which somebody has to determine with conscious intelligence.

We have at this point, established policies with respect to certain issues which we can predict and which we know have to be dealt with.

For example, the question of the deferred wage increases. They will not be permitted under the operation of the wage-price freeze.

That is, those wage increases which were negotiated earlier and are scheduled to take effect during the period of the freeze.

Similarly, announced price increases, if they have not been a substantial proportion of the transactions in the previous 30-days period, at the announced price increases, they will not be permitted.

We had a deal in a very provincial, but meaningful way, over the question of tuition -- given the fact that colleges getting ready to start in many parts of the country in a few weeks -- what about increases in tuition? Well, we provided the guidance that they would be acceptable, based on the fact that they were announced earlier, and a commitment was made and a deposit put down for enrollment under those terms in the new school year.

Similarly, what about the surcharges? And this is part of the impact of some of the other policies that were taken. Could you increase the price ceiling to take account for the increase in, or the imposition of the surcharge?

And the answer to that is: Yes.

And so on down the line -- and nobody presumed to have all the answers to the myriad of questions that will be raised.

And just before I came over here, I received a call from Secretary Hardin -- and if anybody can provide guidance on "pork belly" and soybean oil -- I would welcome him on the way out. [Laughter.]

Just a word with respect to operating details:

Since this is a system and it has to be in place and it has to have some administrative credibility -- well, the President indicated he does not want to see, as he stated, "a large massive bureaucracy" and as we sat down to see how this thing worked, and I read the other part of the economic package which calls for a 5 percent reduction in personnel, I felt that this was what economists call the "bliss point for a budget examiner."

It's a 5 percent cut on a zero base. [Laughter.]

So in view of that restraint, we had to utilize what we euphemistically called "available" resources -- and in that respect, we called upon the

Office of Emergency Preparedness under the leadership of Director Lincoln, and we are using his field structure to establish regional service and compliance centers -- and undoubtedly we will call on many of the agencies for the detail of personnel for the duration of the freeze.

So the administration will be carried out with the structure and system that is in place, but it will require the utilization of other resources.

So we're sanguine that the freeze will have a sense of administrative credibility, which buttresses its economic potencies. And

And it is a lid.

And it will be a prelude to other, we hope more sophisticated and selective options.

And as you know, each freeze is succeeded by a thaw, and we hope that this thaw will be enriching rather than engulfing.

Thank you, very much. [Applause.]

CHAIRMAN ERLICHMAN: We are now privileged to hear from the distinguished Chairman of the Board of Governors of the Federal Reserve System, Dr. Arthur Burns, who surely must be recognized as one of the senior economic statesmen of this, and other administrations for the country as a whole.

Dr. Burns. [Applause.]

DR. BURNS: The hour is late and I think I can serve all of you best by being extremely brief.

Let me say first of all, that we in the Federal Reserve System who have worked on this new economic policy, are very much encouraged by what the President has done. We feel that he has ushered in a new era of confidence in our country -- and that all of us in the world of business, and in our households, and in our factories, can go about our tasks in a mood of hope, confidence in a better future.

Now this is the sentiment of the American people today and it's very clear from the behavior of our financial markets.

Let me say just one or two words that fall a little narrowly into my own realm:

The President's Executive Order says nothing about interest rates. Now the statute under which the President acted, covers wages, prices, rents and salaries. It does not cover dividents. It does not cover interest rates.

Now the President addressed himself to the country's business men, in suggesting to them that they keep dividend rates unchanged.

What about interest rates?

The President said nothing about that, in his address last night.

We considered that very carefully at our sessions in Camp David, and it seemed coear to us that money is such a fugitive thing that if we tried to impose a ceiling on interest rates, it could easily turn out to be counterproductive.

After all, you can set a ceiling in prescribing a limit on what interest you can charge, but you cannot force nor compel the lenders to make their money available at that rate. And if the rate is below that in other countries, or below that which can be raised in the black market (which would thrive under these conditions) money would simply dry up and not be available for housing, for state and local government, or for private investment or enterprise.

And so far, at least, one day proves nothing (or certainly, proves very little) but interest rates today, in today's market, went down and went down very significantly -- and for a very good reason (and which we also anticipated) namely:

In our interest rate structure of late, because of the inflation that has been raging -- a premium has been built into that interest rate, on account of inflation and the expectation that inflation would continue.

Now the genius of the President's economic policy as announced today, is that these inflationary expectations are now modified -- promptly -- and it's a new future for people to look forward to, and the premium on inflation, built into the interest rate -- came down promptly in the marketplace.

And now I want to say one thing more about the confidence factor: The President's program is a "confidence-building" program at home. What about foreign countries?

There, I think we must be very cautious.

I spoke to, last night, to a dozen of the world's leading central bankers. I wanted to inform them what the Prssident was doing, and to interpret the action.

And I was pleased. They took the news

quietly. They asked a question or two along technical lines. They did not show alarm -- but they did show concern, as they well might.

They wanted to know whether the import surcharge would be permanent or temporary.

I was able to reassure them, and this is something that all of us must ckeep in mind:-- The intent here is to make this surcharge temporary and this is not a weasel word, this is basic policy of this Government.

Now next: What about the convertibility of gold? ANd the links between gold and our dollar?

Again, a temporary change has been made and we, even last night the Government dispatched two high officials to Europe -- not only to explain what this Government has done, but to start the re-building of international monetary order, to start that process promptly.

And the fact that I was able to communicate this to the central bankers, was most encouraging to them.

Now one thing more:

I was asked by two central bankers, this question:

Were these moves by the United States Government with regard to the import surcharge, with regard to convertibility -- were they directed against "my" country". "Please tell me."

These were friends of mine in the central banking world and they wanted (a) an answer from me and they felt they could trust that answer.

And it was so important that I tell them what is the absolute truth. These are general measures.

Now we could have acted against "country A" with an import surcharge -- or against "country B." And there are some obvious candidates for such action. We did not do that. This is a general surcharge. It applies equally to all countries in the world. It is not directed against this country or that.

Now this is very important to get across to other nations -- and likewise, of course, with regard to convertibility.

NOw this country, under President Nixon, is fully aware of its importance and of its role as a leader for international harmony and international peace. And what has happened now, must not be allowed by what we say or by what we do, to generate new international suspicions, or degenerate new international frictions.

Now this is something that the Treasury and the State Department, and we of the Federal Reserve System are fully dedicated to, and I hope that all of you will bear that in mind in connection with your conversations -- both official and unofficial.

Thank you, very much.

[Applause.]

MR. EHRLICHMAN: Those of you who are fond of watching college football, I know that each of you looks forward every year to the Texas-Arkansas game, and particularly to the tour de force that is always presented by those University of Texas quarterbacks. It is my pleasure now to present the nominal quarterback of this team and the de facto captain, the Secretary of the Treasury, John Connally. [Applause]

SECRETARY CONNALLY: Far from feeling like a de facto captain or a quarterback, I feel like a bedraggled sub.

Operating on three basic premises -- first, that the mind cannot absorb what the posterior cannot endure, my remarks will be brief indeed; secondly, on the premise that the President has chosen to follow Hamlet's alternative not to bear the ills that he had but to take up arms against a sea of troubles by opposing, I think that is what happened. And, thirdly, reflecting back about two weeks ago to a similar meeting in this same hall when I had the audicity and the great wisdom to predict to you that August was going to be a very quiet month, that Congress was recessed, out of town, around the country, around the world, and that we could all go out and sally forth and explain the economic policies of this Administration with complete assurance, that we knew what it was.

I only can remind you thirdly that there is nothing constant except change. The President -- in all seriousness now -- the President has indeed announced a new economic policy. In my judgment, it is sweeping in scope; it is profound in its conception; and it is going to be terrific in its impact, both in the short range and the long range.

When you analyze each element of it, you will find that there really is nothing new about it in one sense, and yet the combination of the factors create an atmosphere, create a condition, that, in my judgment, is going to have a profound effect upon this nation, upon what happens to it, upon the people, upon their ability to maintain their standard of living, upon their ability to compete with other trading nations around the world. And it is going to provide a basis for this President and his followers to exercise the degree of leadership that has been expected of the United States since the end of World War II.

Dr. McCracken alluded to the fact that no nation's power in the international field exceeds the economic strength at home -- or words to that effect. President Nixon knows this full well, and if, indeed, he did engage in and create a stroke of genious in his announced visit to China, I think he has done equally as much on the home front. I would not be reluctant to say that the policies which he has announced in his speech last night probably are the most sweeping, the most pervasive announced by any President since the early days of the New Deal under Franklin Roosevelt. And I think they will have as much impact on this nation, the course that it follows, and the well being of the people, as did those moves in the early 1930's.

So I think that we need each to analyze all of these moves, not separately, but the sum of the total, to see what really we have to work with toward fashioning a decade of peace. When you realize that a few short months and few short years ago, before this Administration came to power, there were forces at work who were constantly eroding the economic strength of the United States, and those forces have continued up until this very hour, beyond any question the strength of other nations were increasing at a rate far outstripping our own, yet we had such a tremendous surplus of economic strength, surplus of economic power and financial resources, that we could afford, frankly, to live off the fat of the land, so to speak, for a number of years.

But beginning about 1960 it became apparent to those of us who were students of international affairs, international trade, international monetary affairs, that we were indeed being faced with complications of a real and lasting sort, and it has created real problems for us at home and abroad.

Now, the President's policy did more than enunciate tax cuts, import charges, budget restrictions and reductions. It reflected an awareness of a very deep seated problem in this nation and in this world. It reflected a courage and a daring that is rarely reflected by any President in any time. It exhibited and manifested an inner strength, a basic faith in the American people to respond to a challenge. And that was the challenge of prosperity in peacetime, something this nation has not enjoyed, except for very short periods of duration, since World War II. And it is indeed a challenge, and these are not just words. [illegible].

If you will take the transcript of his speech last night, if you will read the conclusion of that speech, if you will study the words, if you will study them in the context of a man sitting alone midst magnificent surroundings of beauty and serenity writing by himself in the wee hours of the night what was to him a profound speech on his hopes, his aspirations for the revival of the American spirit, then you can, and only then can you, begin to get the flavor, the sincerity, the depth, and the dedication that went into this speech, and the hope that he spoke for all Americans for prosperity in peacetime in this decade.

Thank you very much. [Applause]

MR. EHRLICHMAN: Ladies and gentlemen, we are going to take a few minutes for questions. I am going to excuse Dr. Burns and Secretary Connally, who both have a heavy day, but ask the remainder of the panel to stay and field your questions for a few minutes.

As you know, we are running over, and I know some of you have appointments, and if you go your departure will be understandable. But we do want to touch any pressing questions that you may have at this time.

Q Helen Bentley. A question for Mr. Weber on import surcharge to go into effect tonight. These do happen to be on imported goods coming in. Now, they were filed with us some ninety days ago. They go into effect tonight as required under law. Will they be permitted to go into effect?

MR. WEBER: Well, you obviously have to take this up in a more formal discussion than we have here. But off the bit of information you presented, the answer is no, because you haven't had a substantial number of transactions at that price in the previous thirty-day period.

Q You know, this is going to create a very critical situation in our imports and exports because we have another major freight rate on imports from Japan which is supposed to go into effect on October first. That is a very major one. They now have about twenty percent

MR. WEBER: Well, the wage-price freeze as it is initially administered is comprehensive. In order to be effective, it has to be held along the widest possible front. On the other hand, we recognize and have established the procedure whereby exceptions can be considered and made. And the point you raised, of course, has to be presented in greater detail and staffed out and determined in terms of the considerations of the impact on that industry vs. what the President wanted to do when he invoked that authority and brought down the lid. And I think everybody recognizes that there is going to be some rough edges on this as it exists for ninety days, and that it is going to be impossible to establish complete equity across the board. Some people are going to get hurt. But in terms of the impact on the tone of the economy, it is one of those sacrifices that is contemplated by the scope of this measure.

Q I have a question for Mr. Nolan. The tax credit as presently envisioned, sir, will the provision in previously existing law concerning transportation equipment used in transport between U.S. and foreign countries, where that was included under the previous tax credit, will that be carried forward?

MR. NOLAN: Yes it will, credit will be allowed on the same basis.

Q A question for Director Schultz. You mentioned the five percent reduction in employment. Did that specifically concern only civilians, or was that both civilian and military?

MR. SCHULTZ: That concerns civilian employment. Military numbers in the military are taken care of in another way. [Laughter]

Q What is the base?

MR. SCHULTZ: Well, your present employment. We will have to work on that and work with you on that. But, more or less, where you are now vs. where we expect you to go.

Q By the end of fiscal '72?

MR. SCHULTZ: No. By the end of calendar 1971.

Q On the salary controls, this would also apply to within-grade increases?

MR. SCHULTZ: The within-grade increase program that we are now working on with you goes forward, and is a contributor and, among the miscellaneous others, we expect to sweep up a hundred million dollars that way. So that we are still working on.

Q Gold remains tagged at $35?

MR. SCHULTZ: There is no change in the official price of gold. The President has no authority to make any change. It is just that we won't make any transactions at that price. [Laughter]

MR. EHRLICHMAN: The tree that fell in the forest where there was no one to hear?

Q Question for John Nolan on the total stimulus, the impacts. The figures that you referred to, the 6.3 and the 2.1 and the 4.7, which came out about even, if I recall, those don't include the amount of revenue lost from the investment tax credit at DIS proposal. Was that correct, and, if so, how much?

MR. NOLAN: Does not include the revenue lost in the disc proposal because that is already reflected in the budget. But it does include the investment credit figure.

MR. EHRLICHMAN: We have kept you overtime. We will take one more question. There being no further questions, the meeting is adjourned.

[The meeting adjourned at 4:35 P.M.]