

MEMORANDUM

THE WHITE HOUSE

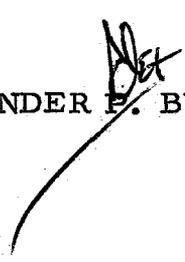
WASHINGTON

July 10, 1969

MEMORANDUM FOR: MR. HARLOW

There was some recent NBC/TV film footage of Senator Gore charging that the Administration has a "do-nothing" policy toward inflation.

The President wants you to see to it that Gore is "blistered for this" ... and he would like a report from you afterward. (He added, "It is Congress that has the do-nothing policy on inflation.")


ALEXANDER P. BUTTERFIELD

cc: Mr. BeLieu
Mr Grubb

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

JUL 15 1969

July 15, 1969

MEMORANDUM FOR BRYCE HARLOW

This is in response to your memorandum of July 14 in regard to some "blistering" material. With all that we have before the Senate there is, of course, a tactical question about whether we want to collide head-on with Senator Gore. That, however, is an issue for you to decide.

As for basic talking points, we would suggest something like the following:

1. It was Senator Gore's own party who presided over the policies that led to this long-sustained inflation which got underway in 1966 and became increasingly serious after about mid-1967. By the second half of 1967 the previous Administration was a year late in proposing taxes consistent with the path that Federal expenditures were embarking on in 1966. After the tax surcharge was finally proposed in 1967, the Congress lost another year before it was finally passed in 1968. It was during this period that Government lost control of its management of economic policy.
2. The price inflation that we have had in 1969 reflects policies that were pursued in 1968.
3. The Administration has been accused of exposing the country to greater inflation by abandoning wage-price guidelines. This is, of course, nonsense. Those who make this charge must explain, if guidelines are so powerful, how the virulent inflation got underway in 1967 and 1968. Our own and international experience amply demonstrates that once a generalized inflation is allowed to get underway it is simply fanning the breeze to talk about controlling it with guidelines. The inflation which became virulent in 1967-68 is a case illustration. The fact is that the guidelines were impotent and for all practical purposes dead when the new Administration arrived. Even the prior Administration's Economic Reports ceased proposing specific figures as guidelines for wage increases, confining themselves largely to admonitory statements.

4. What has been done to come to grips with the source of the inflation?
- a. The budget has been strengthened. The new Administration pared \$4 billion off the expenditure side of the budget. It also put forward a plan for the orderly phasing out of the surcharge in a manner consistent with maintaining a strong budget through fiscal year 1970. It is to be hoped that Senator Gore will demonstrate his concern about inflation by exercising vigorous leadership in securing Senate approval of this program.
 - b. While policies of monetary restraint are a short-run practical liability, this Administration has supported the independent Federal Reserve System in its present policy. Failure of the prior Administration to perceive the important role of monetary policy played its part in permitting the present inflation to become long-sustained and severe.
5. The Administration has taken obvious actions in key areas where the Federal Government itself was found to be a significant source of rising and high prices. The most obvious case here is that of actions to augment the supply of lumber from public lands, which actions have had a significant effect on lumber prices. (Indeed, these policies are so effective that they produced some political sensitivity in the West -- e.g., Senator Hatfield.)



Paul W. McCracken