Agenda for
Meeting of the Quadriad
August 28, 1969

The economy continues to roll along at an inflationary pace. Aggregate purchases of goods and services in the second quarter were rising at a 7.3 percent annual rate. Personal incomes in July rose at a 10.4 percent per year pace, and the average rate in 1969 has been 8.8 percent. Both are in excess of the roughly 6 to 6-1/2 percent pace that would be consistent with minimal inflation.

The price level has continued to move upward rapidly. The consumer price index has risen at the rate of 6.3 percent per year thus far in 1969, and this has shown little deceleration.

If, on the other hand, lags between policy actions and their visible effects on the economy are no more than moderately on the long side of average, we may not be far from the time when economic policies should be relaxed. (The effects on the economy of a change now would theoretically begin to show up about mid-1970.) We are obviously moving into a critical phase for economic policy.

It would be desirable for the Quadriad, therefore, to look broadly at our "game plan" for economic policy to consider possible adjustments that might be in order. We should also ask ourselves what we should see before policies are relaxed.

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We might also discuss what the Administration's "case" should be in public discussions. My own comments have been structured around five points. (I sent two papers to you earlier this week.)

1. We are dealing with a hardened lack of confidence in the price level, baked into decision making by four years of inflation. It is not the momentary problem from a few months of casual ebullience.

2. This inflation will not be cooled unless we deal firmly with the fundamentals that have caused the demand for output to outrun our productive capacity. This requires a strong budget, and it also requires a reduced rate of monetary expansion. These did not finally come into step until around the turn of the year.

3. The visible effects on the economy from a change in economic policies take 6 to 12 months to show up. This time, because the inflation was allowed to run for so long, the lags may be on the long side of average.

4. We see no place in our strategy of economic policy for wage and price controls.

    a. They would be less effective than expected.

    b. A bureaucracy would be required to control prices and to ration.

    c. Controls would cause progressive economic arthritis by immobilizing the pricing system -- the constantly changing adjustment of prices to each other.

5. This Administration did not abandon guidelines. They were dead when we arrived, having expired about 1966. (We shall be pressed hard on this issue by, for example, Senator Proxmire and Congressman Reuss.)