



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

October 8, 1971

TO: Federal Open Market Committee

FROM: Mr. Broida

Enclosed for your information are copies of the text of the President's Address of October 7 and a background paper on the post-freeze economic stabilization program released by the White House.

A handwritten signature in cursive script that reads "Arthur L. Broida".

Arthur L. Broida,
Deputy Secretary,
Federal Open Market Committee.

Enclosure

Not to be disseminated in any way or used on any wire
until 7:30 p.m. EDT, Thursday, October 7, 1971.

BACKGROUND PAPER ON
POST-FREEZE ECONOMIC STABILIZATION PROGRAM

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THE POST-FREEZE ECONOMIC STABILIZATION PROGRAM

The objective of the post-freeze program is to hold down the rate of inflation and to bring about a condition in which reasonable price stability can be maintained without artificial and abnormal restraints. To achieve the second part of the objective requires that the rate of inflation be held down for a long enough period to suppress the inflationary momentum that had been built up. The expectation of inflation must be replaced by the expectation of price stability derived from experience with price stability. The legacy of contracts and customary practices which assume continuing inflation, and make inflation continue, must be left behind. This takes time, more time than a freeze can last, and it requires therefore that the program be durable.

If the program is to be durable, it must appeal to the American people as basically fair. Arbitrariness and inequity will be tolerated briefly for an important purpose, as it is being tolerated during the freeze. But this will not last for long. Therefore, more concern for fairness is required, even though perfect fairness is difficult to attain. Also, people will be more ready to accept the policy as fair if those whom they identify with their interests have a role in making the policy. This calls for a more participatory program than was needed, or even possible, during the freeze.

The durability of the program requires that it should not exact too great a toll from the economy. One implication of this is that the price, wage, and rent standards must be sufficiently flexible to avoid pressures that stop production or distortions in the price-wage structure that seriously impair efficiency.

These requirements in turn mean that the ambitions and standards for inflation restraint must not be too rigorous. Many of the adjustments required for the sake of equity and production will be upward, and since it is at least administratively difficult to get many prices down, these adjustments will be more feasible within an average price level that is initially rising somewhat, even though at a much reduced rate.

Finally, the system will not last if its administration is too burdensome, either in budgetary costs or in interference with the everyday lives of the citizens.

Therefore, the post-freeze program, to achieve its objectives, must give more attention to equity and economic efficiency, must be more participatory, must not initially demand zero inflation and, even though for some of these reasons it will be more complex, it must not involve a vast and intrusive bureaucratic machinery. On the other hand, the first requirement is to hold down the rate of inflation, and none of these other

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The basic problem, therefore, is to satisfy these requirements within a program that will effectively control inflation. In seeking a solution to this problem, the President consulted widely with representatives of all sectors of the economy. The President and other officials of the Administration with approximately 600 representatives of nearly 300 organizations including representatives of labor, business, the financial community, the housing industry and consumer groups. The decisions embodied in the post-freeze program are designed to do this.

1. The Cost of Living Council proposes an interim goal of a 2 to 3 percent inflation rate by the end of 1972, about half of the pre-freeze rate, which would be a great step towards price stability but not so rigid as to preclude adjustments needed for equity and efficiency.

2. Major decision-making responsibilities will be exercised through a tripartite pay board and a public-members price commission, but overall supervision of the program, on behalf of the President, is maintained by the Cabinet-level Cost of Living Council.

3. Reliance is basically placed on voluntary compliance, but legal penalties are available where necessary.

4. The program covers the economy comprehensively, but closest surveillance is confined to a limited, critical part of the economy.

5. Organization and staff are sufficient to maintain adequate control of the program and the staff is almost entirely drawn from other government agencies.

6. Effective restraint of interest rates, dividends and windfall profits is provided for the sake of equity, but with sufficient flexibility to avoid serious impairment of economic growth.

These underlying characteristics of the post-freeze program are described more specifically in the following pages.

THE GOAL OF THE PROGRAM

The primary goal of the post-freeze program is to continue reduction of the rate of inflation. The wide support of the American people for the freeze has shown that this is the goal of the American people. The post-freeze program is a system by which the American people can achieve their goal. The success of the program, as the President has emphasized, will depend upon the continued support of the people.

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More specifically, the Cost of Living Council proposes as the goal for the program to reduce the annual rate of increase of the cost of living to 2 to 3 percent by the end of 1972 and to continue reduction thereafter. This interim goal for the end of 1972 would be an inflation rate about half of the rate that prevailed in 1971 before the freeze. To reach this goal will require that a large proportion of all prices rise by less than 2 to 3 percent, that many not rise at all, and that some decline. The Council will exercise its functions in the program with a view to achieving this goal and urges all participants in the program to accept this common task. Its attainment will be a great cooperative victory over inflation.

It should be recognized that the freeze itself builds up the necessity for a number of adjustments in costs and prices which, occurring in a short period after the freeze, may create a temporary bulge in the rate of inflation. However, this need not be a significant deviation from the path to the longer-run goal.

THE LEGAL FOUNDATION

The legal basis of the post-freeze program is the Economic Stabilization Act of 1970, the legislation upon which the freeze also rests. This Act grants authority to the President to issue and enforce regulations over prices, wages and rents to control inflation. The present Act will expire on April 30, 1972. The President will ask the Congress to extend the Act for one year until April 30, 1973. He will also ask for the inclusion of stand-by authority to control interest rates and dividends, although it is not expected that the use of this authority will be necessary because of the continued success of the current program of voluntary restraint.

ORGANIZATION AND OPERATIONS

A comprehensive structure is required to assure that the administration of the economic stabilization program will be carried out equitably and effectively. This structure will be developed by drawing upon existing personnel and expertise in the Federal Government and applying the lessons learned during the wage-price freeze. It will include separate units to establish guidelines and to decide specific cases, including appeals and exemptions.

The organization structure is designed to go into effect quickly and to permit the exercise of discretion as the need for restraint varies. The system will continue to place heavy reliance upon voluntary compliance but will also involve reporting requirements, selective compliance reviews, and the use of sanctions where necessary. The organization will be

nation-wide, with units at both the regional and local levels to make the program responsive to the needs of the American people.

The overall structure is shown on the attached organization chart. Each of the organizational units is described below.

The Cost of Living Council

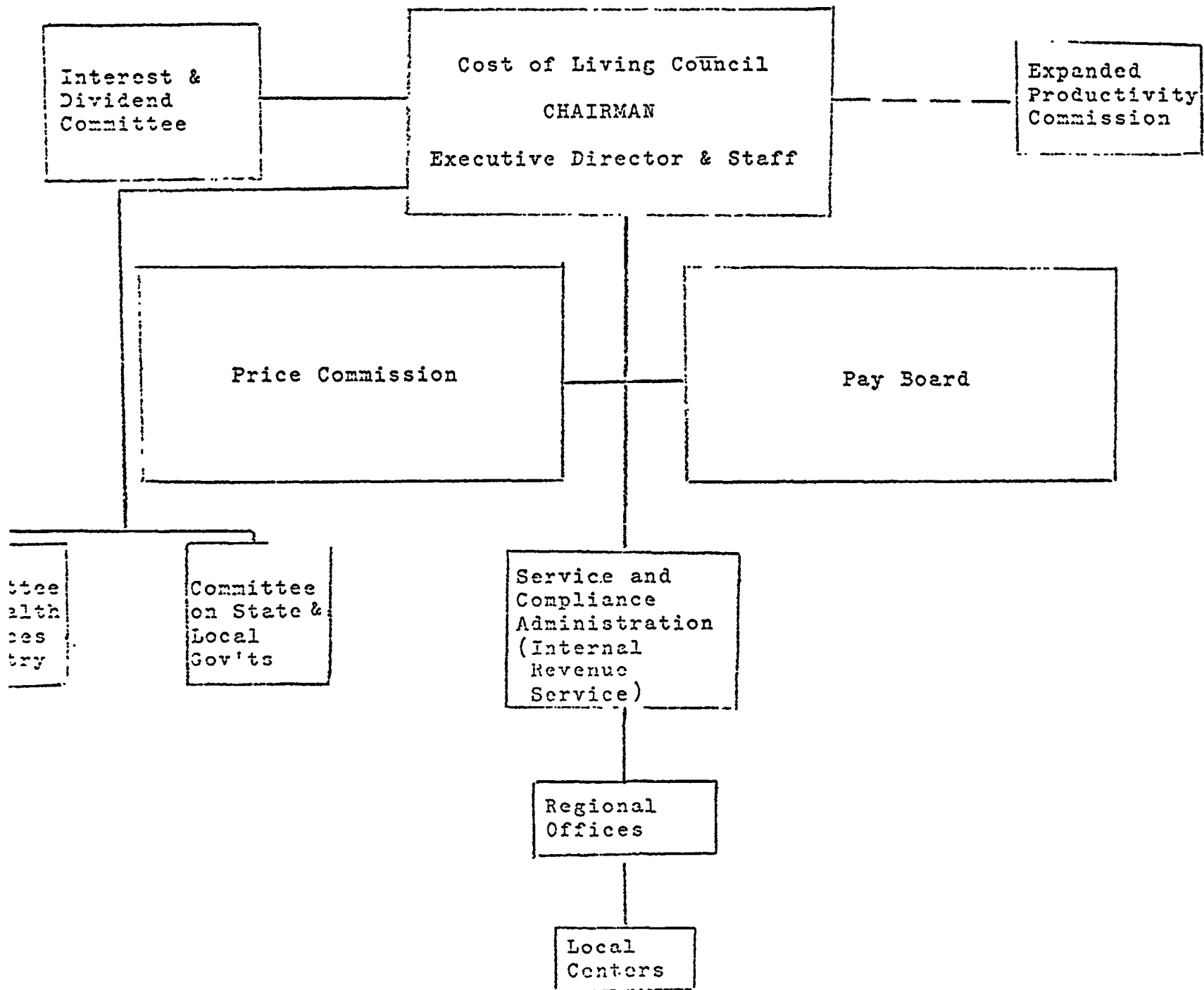
The Cost of Living Council will continue to function during the post-freeze period of the economic stabilization program. The President has delegated to the Council responsibility for establishing policies and goals. The Council has demonstrated its effectiveness and will continue to provide broad policy guidance. It will also insure the coordination of the different parts of the program, advise the President of the progress made toward the achievement of goals, and make recommendations to the President for any modifications that might be necessary to enhance the effectiveness of the program. The Council reports directly to the President.

As in the past, the Council will be chaired by the Secretary of Treasury. Also serving on the Council will be the Chairman of the Council of Economic Advisers, the Secretaries of Agriculture, Commerce, Labor, and Housing and Urban Development, the Director of the Office of Management and Budget, the Director of the Office of Emergency Preparedness, and the Special Assistant to the President for Consumer Affairs. The Executive Director of the Cost of Living Council will be an ex officio member of the Council.

The Cost of Living Council will not be involved in the day-to-day administration of the post-freeze program. It will develop anti-inflation goals and review the standards promulgated by the Pay Board and the Price Commission. However, the Council will not hear appeals on specific cases from the Pay Board and the Price Commission. The Council will initially prescribe the application of pre-notification and reporting requirements to specified economic units for both prices and wages, and will review any adjustments in coverage proposed by the Pay Board or the Price Commission. Although the primary responsibility for compliance carried out through the Pay Board and Price Commission, the Council may recommend the invocation of sanctions provided by the Economic Stabilization Act if this becomes necessary to obtain compliance with the program.

The Council will have a small professional staff which will be headed by an Executive Director who will also be a Special Assistant to the President. The Executive Director will help to insure the implementation of the policy decisions of the Cost of Living Council and will provide the secretariat for the Council. He will also analyze major issues, promote the effective coordination of different parts of the program, design a system that will assure the effectiveness of the program and inform the public.

POST-FREEZE ORGANIZATION



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Tripartite Pay Board

The attainment of equitable, noninflationary wage and salary adjustments is essential to the success of the economic stabilization program. To develop general standards and review specific requests for adjustments, the President will establish a tripartite Pay Board. The legal powers of the Board will be exercised by its Chairman. All elements of compensation including wages, salaries, and fringe benefits will be subject to regulation through the Pay Board. The Pay Board will develop overall standards for wage and salary increases and will selectively review major labor settlements which have a major impact on national wage developments.

The membership of the Pay Board will include five representatives of labor, five representatives of management, and five members representing the public. All members will be appointed by the President. A public member will be designated Chairman of the Pay Board. The Chairman will serve on a full-time basis.

The Board will formulate standards for wage adjustments to achieve the goals and objectives of the program. It may deal with disputes over wages, calling on the Federal Mediation and Conciliation Services as appropriate.

The Pay Board will give maximum latitude to the exercise of free collective bargaining. However, after agreement has been reached in a major bargaining unit the Board will analyze and review the economic provisions of the contract to see that they are consistent with the wage guidelines. Where the contract terms are inconsistent with the guidelines, the Board will consider other actions to secure compliance. The Board will have the authority to recommend the invocation of the sanctions provided by the Economic Stabilization Act if the voluntary compliance of labor and management cannot be attained.

A special body will be created within the Pay Board to deal with the special problems of executive compensation in a manner consistent with the treatment of other employer compensation and with the goals of the post-freeze program. The Construction Industry Stabilization Committee, established previously, will continue to operate within the standards issued by the Pay Board.

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The Board will have a small staff headed by an Executive Director to analyze proposed major contracts and reports concerning other significant bargaining developments. It will also consider requests for exemptions from the general wage guidelines.

Price Commission

A Commission of distinguished private citizens will be established to administer the price and rent aspects of the post-freeze program. The legal powers of the Commission will be exercised by its Chairman. The Commission will formulate and issue standards governing price and rent adjustments. It will also hear appeals and consider requests for exemptions or exceptions. It will identify windfall profits and bring about price reductions where the operation of the stabilization program results in such windfall profits.

The Commission will consist of seven public members appointed by the President. The President shall designate one of the members of the Commission to be Chairman, who shall serve on a full-time basis. General guidelines and procedures established by the Commission will be subject to review by the Cost of Living Council. However, the decision of the Commission on individual appeal cases will be final and not subject to appeal to the Cost of Living Council.

A Rent Board, within the Price Commission, representing landlords, tenants and other interested parties, will provide advice on standards and procedures of rent restraint and will assist in mobilizing voluntary compliance with the standards. Special attention will have to be given to avoiding interference with housing construction or the deterioration of service.

The Commission will have an Executive Director and a staff to assist it in the conduct of its duties. If voluntary adherence to the guidelines and standards issued by the Commission cannot be obtained, the Commission will have the authority to invoke the sanctions provided by the Economic Stabilization Act.

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Standards for Prices, Wages and Rents

The Tripartite Pay Board will formulate standards of permissible employees compensation (including wages, salaries and all fringe benefits) to carry out the purposes of the program. The Prices Commission will promulgate standards of permissible prices, including rents. The Cost of Living Council will review these standards for consistency with the anti-inflation goal. If either the Pay Board or the Price Commission is unable to develop the continuing standards in time to take effect at the end of the freeze, it may propose interim standards. In the event the Board or Commission do not develop interim standards by November 13 the Cost of Living Council will issue such interim standards.

The Prices Commission will be expected to take profits into account in the standards that it sets for prices. It is especially charged with developing standards and procedures for bringing about price reductions when the operation of the program would otherwise yield windfall profits.

Application

The standards for prices, wages and rents formulated by the Pay Board and the Price Commission (or if necessary by the Cost of Living Council as an interim measure) will apply to the entire economy, except, as sectors may hereafter be excluded by the Council. As during the freeze, raw agricultural products will be excluded.

Certain economic units (firms or collective bargaining units) that are of critical importance for the control of inflation will be required to notify the Board or the Commission in advance of proposed wage or price increases. The Board or the Commission will review the proposed increases for conformity to the standards that have been announced, including whatever provisions have been made for exceptions, and may disallow or defer a proposed increase.

Other economic units that may be individually of less critical importance, or for whom advance notice is not practicable, will be required to report promptly on their prices, costs, profits, employee compensation or such other matters as may be specified. On the basis of these reports, and other information that may be required on individual cases, the Board or Commission may order action to assure compliance with the standards.

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The behavior of prices and wages in the remainder of the economy, comprising the largest number of economic units, will be monitored by less frequent reporting, by spot-checks and by investigation of complaints.

Sanctions for enforcing price, rent and wage standards

The program will depend basically upon voluntary cooperation to assure compliance with the standards prescribed. However, the remedies and penalties provided in the Economic Stabilization Act will be available for use as necessary to prevent violations. These measures may be recommended by the Board, the Commission, the Council or, on delegation, by the field staff.

Service and Compliance Administration (Internal Revenue Service)

A national system of regional and local service and compliance centers will be established to support the administration of the post-freeze program. This system will draw primarily on the resources of the Internal Revenue system. The local and regional centers will provide information to the public, investigate complaints, conduct independent monitoring activities, and review requests for exemptions, exceptions, or other adjustments in accordance with guidelines and standards issued by the Price Commission and the Pay Board.

The Service and Compliance Administration will be headed by a senior official of the Internal Revenue Service. The Service and Compliance Administration will carry out its duties under the policy guidance and control of the Price Commission and the Pay Board. Operationally, the Administration will report to the Executive Director of the Cost of Living Council who will be responsible for the effective functioning and coordination of the system.

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The Service and Compliance Administration of the Internal Revenue Service will have approximately 360 local service and compliance centers in the Internal Revenue Service district and subdistrict offices. The centers will be principally responsible for enforcement in the nonreporting sectors. The field centers will provide initial review of reports from the post-reporting sectors and collect data for the analysis of cases arising in the prenotification sector. Investigations, complaints, and requests for exceptions and exemptions will be handled by the service and compliance centers. The heads of these centers will be delegated the necessary authority to make initial determinations which will be subject to appeal to the Board or Commission.

All enforcement cases will be handled by the Department of Justice after initial investigation by Service and Compliance Administration personnel. Referrals of enforcement cases for legal remedies would require the approval of the cognizant board or commission.

The staff of the centers will require an estimated 3,000 people, although adjustments may be made in the light of experience. Almost all of these personnel will be located in the field where they may be of service to the public. The field offices will have specialized personnel in the labor and housing areas. Some of these personnel may be supplied by other agencies of the government which have special expertise in these fields.

INTEREST AND DIVIDENDS

The Committee on Interest and Dividends will formulate and execute a program for obtaining voluntary restraint on interest rates, subject to review by the Cost of Living Council. In the conduct of this program the exceptional fluidity of the money markets and the variety of credit risks will have to be recognized and care taken not to drive credit from housing or other critical areas.

The Committee will continue the voluntary program for the restraint of dividend payments, subject to possible changes of standards and coverage, subject to review by the Cost of Living Council. The voluntary program has been highly effective during the freeze period.

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The President will ask for amendments to the Economic Stabilization Act to provide stand-by authority to impose mandatory control of interest rates and dividend payments. However, the use of this authority is not expected to be necessary.

The Committee will be chaired by the Chairman of the Federal Reserve Board. It will include the Secretary of the Treasury, the Secretary of Housing and Urban Development, the Secretary of Commerce, the Chairman of the Federal Home Loan Bank Board, and the Chairman of the Federal Deposit Insurance Corporation. The Committee's activities will be supported by a limited staff.

Medical Costs

Costs of medical care have been a dramatically rising part of the family budget. The application of the restraint program to them presents special difficulties because of the lack of standardization of the product and for other reasons. Therefore a Committee on the Health Services Industry will be established to advise the Cost of Living Council on ways to apply the standards of the program in this area and to enlist the full voluntary cooperation of the industry in restraining cost and price increases. The Committee may also advise the Pay Board and the Price Commission. The Committee will include representatives of the medical professions and related occupations, hospitals, the insurance industry, other supporting industries, consumer interests and the public. The establishment of this Committee does not limit the applicability of the standards of the program to this industry.

State and Local Government Cooperation

State and local government employment and payrolls are a particularly fast-growing part of the modern economy. The taxes and user charges levied by these governments are an important element in costs and prices. Some of the agencies of State and local government may have a role in carrying out the program. And the leaders of State and local government command attention and respect in their areas which enable them to help mobilize the citizen cooperation which is needed for the program's success.

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For all of these reasons a Committee on State and Local Government Cooperation will be established to advise the Council, assist the Board and the Commission and to stimulate voluntary cooperation, by both the State and local governments and by individual citizens. The Committee will consist of representatives of these governments and of their employee organizations, appointed by the President.

Expanded Productivity Commission

The Productivity Commission was established to make recommendations to the President concerning the means for stimulating economic growth and improving the productivity of American industry and labor. This group consists of representation from labor, industry, the public and the Federal Government. To assist the Cost of Living Council and the other agencies that will be administering the post-freeze program, the Productivity Commission will be expanded by the addition of representatives of agriculture, and State and local governments. The Commission will consult with the Cost of Living Council on the contributions of productivity to the economic stabilization program. Specific analyses and recommendations of the Productivity Commission will be designed to assist the Cost of Living Council in its efforts to assure economic growth and stability.

Interrelationships of the Agencies Involved in Post-Freeze Stabilization Program

The principal responsibility for the development of standards and the consideration of individual cases will be vested in the Pay Board and the Price Commission. These boards will develop equitable standards consistent with the overall goals set by the Cost of Living Council, and will review cases with the aim of reducing inflation and promoting equity among the various sectors of the economy. The Cost of Living Council will be responsible for the effectiveness of the overall program and adherence to the goals established by the Council for the President. The Council staff will monitor and support the activities of the Service and Compliance Administration. The Committee on Interest and Dividends will carry out a program of voluntary restraint with respect to these payments. Advice on the special problems of the health services industry and state and local governments will be supplied by special committees.

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Duration and Termination of the Post-Freeze Program

No time limit is being set for the post-freeze program. The objective is to end it as soon as possible, but it will be kept in operation until its removal is consistent with continued price stability. Controls of particular sectors may be removed or relaxed when that action is consistent with the general objectives of the program and will assist the transition to price stability without extraordinary restraints. A Task Force of the Cost of Living Council will be established with a continuing responsibility to recommend steps to assure that the program is not unnecessarily prolonged.

Status of the Freeze

The freeze continues to be in effect until November 14. Adjustments during this period are permitted only to the extent that they are in conformity with the rulings of the Cost of Living Council. Administration of the freeze will continue until November 14 in the same manner as prior to the President's announcement of post-freeze plans. Rulings with regard to base period prices and the like will be taken as the basis for working out adjustment procedures by the Board and the Commission that will be applicable during the post-freeze program.

FOR IMMEDIATE RELEASE

OCTOBER 7, 1971

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

REMARKS OF THE PRESIDENT
ON NATIONWIDE RADIO AND TELEVISION
THE CONTINUING FIGHT AGAINST INFLATION
THE OVAL OFFICE

7:30 P.M. EDT

Good evening.

Seven weeks ago I announced a new economic policy to stop the rise in prices, to create new jobs, and to protect the American dollar.

Tonight I want to report to you about how that new policy has been working and to describe how that policy will be continued.

On the international front, I am glad to report substantial progress in our campaign to create a new monetary stability and to bring a new fairness to world trade. This Nation welcomes foreign competition, but we have a right to expect that our trading partners abroad will welcome American competition.

It is a healthy development that the world has come to understand that America believes in free trade as long as it is fair trade. This will mean more sales of American goods abroad, and more jobs for American workers at home.

Further on the job front, the House of Representatives just yesterday passed a tax program based on my recommendations that will create an additional half-million jobs in the coming year. I call upon the United States Senate, which has begun hearings on this bill today, to act as promptly as the House so that we can move forward to our goal of full employment in peacetime.

Secretary Connally and I will be meeting tomorrow morning at breakfast with Chairman Long of Louisiana, of the Senate Finance Committee, to work toward this goal.

On the inflation front, I can report to you tonight that the wage-price freeze has been remarkably successful. As you heard on your evening news, the figures bear out that statement. Wholesale prices in September posted the biggest decline in five years. And the price of industrial commodities has gone down for the first time in seven years.

The primary credit for the success of this first step in the fight against rising prices belongs to you; it belongs to the American people. It is you who have shown a willingness to cooperate in the campaign against inflation. It is you who have answered the call to put the public interest ahead of the special interest.

Thousands of letters have come to this desk since I made the announcement of the wage-price freeze seven weeks ago. Listen to what people all across America, from all walks of life, have written to me, the President, about this program.

MORE

Here is a letter from a school teacher in New Jersey:

"I am a widow raising two sons on my teacher's salary. I will lose about \$300 because of that freeze, yet I sincerely feel that we must all support your efforts to bring the economy into balance."

Here is a letter from a wage earner in Wantagh, New York:

"As one who was expecting an increase in income in December, let me say that I will gladly go without it if that will curtail inflation."

The wife of a Government employce in Pampa, Texas, writes:

"We are willing, as a family, to forego our pay raises in order to see stability in prices. Let us all hope that Americans will once again realize that we must be willing to sacrifice for a long-term goal, and once again have pride in our country."

Then from a man in Klamath Falls, Oregon:

"Your Administration's recent freeze on wages and prices means that I will not receive the four percent raise that was written into my contract this year. Nevertheless, I support your efforts to halt inflation, including the wage freeze. The fight against inflation is everybody's fight."

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I want to express my appreciation to the thousands of others who have written me letters like that. I want you to know how much it has meant to me to hear that most Americans will put their country's interests above their personal interest in fighting this battle.

Now, let's look at the future. Because of our strong beginning, because of the determination Americans have shown to pull together during the freeze, I am confident that our further action in stopping inflation will succeed as well.

Over the past seven weeks, I have consulted with scores of representatives of labor, business, farmers, consumers, of the Congress and State and local government. They have been virtually unanimous in their belief that the battle against inflation must be fought here and now. They are together in their determination to win that battle.

And consequently, I am announcing tonight that when the 90-day freeze is over on November 13, we shall continue our program of wage and price restraint.

We began this battle against inflation for the purpose of winning and we are going to stay in it until we do win it.

I am appointing a Price Commission to hold down prices. It will be made up of persons outside of government -- all public members, not beholden to any special interest group. The Price Commission will develop yardsticks and be empowered to restrain price and rent increases to the necessary minimum and to prevent windfall profits. Its goals will be to continue to drive down the rate of inflation.

This goal, however, can only be achieved with the active cooperation of workingmen and businessmen, farmers and consumers, members of the Congress, of our State and local governments. That means all of us.

I am also appointing a Pay Board to stop inflationary wage and salary increases -- the kind of increases that do not really benefit the workingman. For example, in the past six years workers have received big wage increases, but every wife of a worker who has to do the family shopping will tell you that those increases have practically all been eaten up by rises in the cost of living.

The Pay Board will be made up of representatives of labor, management and the public. Both the Price Commission and the Pay Board will seek voluntary cooperation from business and labor, but they will be backed by the authority of law to make their decisions stick. Their staffs will be small. Stabilization must be made to work not by an army of bureaucrats, but by an all-voluntary army of patriotic citizens in every walk of life.

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The Cost of Living Council, which is headed by the Secretary of the Treasury, will have the power to back up the Pay Board and the Price Commission with government sanctions where necessary.

I have today named Donald Rumsfeld as a member of that Council and he will spend full time as the Director of Operations for the Council.

Secretary Connally, the Chairman of the Council, will be on television tomorrow at one o'clock to answer technical questions with regard to the continuing program. Our experience over the past seven weeks proves conclusively that the vast majority of Americans will cooperate wholeheartedly with the system of voluntary restraint, but if there are some who try to take advantage of the patriotic cooperation of their fellow Americans, I can assure you that the Government must be and will be prepared to act against them. For that reason, in a meeting with the Bipartisan Legislative Leaders today in the Cabinet Room, I have asked the Congress to extend for one year the Economic Stabilization Act which gives the President the power he needs to stop inflation.

MORE

Holding the line against inflation means holding all of that line. Consequently, I am appointing a Government Committee on Interest and Dividends to apply a yardstick to both of those areas. That committee will be headed by Dr. Arthur Burns, Chairman of the Board of Governors of the Federal Reserve System.

The Nation needs interest rates as low as they can be to meet the credit requirements of the American families on equitable terms and to stimulate non-inflationary economic expansion. I am confident that this can be accomplished on a voluntary basis. As a safeguard, however, as I informed the bipartisan leaders today, I will ask the Congress for standby controls over interest rates and dividends.

Let me turn now to the subject of profits. Many of my good friends in the field of politics have advised me that the only politically popular position to take is to be against profits. But let us recognize an unassailable fact of economic life: All Americans will benefit from more profits. More profits fuel the expansion that generates more jobs. More profits mean more investments, which will make our goods more competitive in America and in the world. And more profits mean there will be more tax revenues to pay for the programs that help people in need.

That is why higher profits in the American economy would be good for every person in America.

"Windfall" profits, however, as I will describe them, are quite another thing. When wages and other costs are held down by the Government, even though prices are also held down, circumstances could arise in some cases that might generate exorbitant profits; in other words, where someone will profit from the wage-price stabilization program.

In the few cases where this happens, rather than tax such excess profits, the Price Commission's policy will be that business should pass along a fair share of its cost savings to the consumer by cutting prices.

We have lived too long in this country with an inflation psychology. Everybody just assumes that the only direction of prices is to go up. The time has come for some price reduction psychology. Let's see some prices go down. This is not only in the public interest; it makes good, competitive business sense.

Summing up these actions to stop the rise in the cost of living, here is what we will do and what we will not do:

We will permit some adjustments of prices and wages, adjustments that fairness and equity demand; but we will not permit inflation to flare up again.

We will concentrate on those major portions of the economy that are the primary causes of inflation; but we will not hesitate to take action against any part of the economy that fails to comply.

MORE

We will continue wage and price restraints until inflationary pressures are brought under control, but we are not going to make controls a permanent feature of American life. When controls are no longer needed we will get rid of them. We will rely primarily on the good faith and voluntary cooperation of the American people to make this program work, but we will not let any selfish interest escape the fair enforcement of the law.

I call upon all of you tonight to look at this program, not as Democrats, Republicans, workers or businessmen, farmers or consumers, but as Americans. Let us recognize this profound truth: What is best for all of us is best for each one of us. We cannot afford a business-as-usual attitude anywhere, because fighting inflation is everybody's business.

Let us look for a moment to the future. Some of you have heard me say that 1972 will be a very good year for the American economy. I will broaden that estimate tonight. The coming year can be more than a very good year for the American economy. It can be a great year for America and the world.

It can be a year, for the first time in 15 years, in which we can achieve our goal of prosperity in a time of peace. It can be a year in which great progress can be made toward our goal of full employment without the inflation that robs working people of the full value of the dollars they earn. It can be a year in which the American competitive spirit is reborn as we open up new markets for our goods abroad and new careers and job opportunities for our workingmen at home. It can be a year in which we, and our international trading partners build upon the most significant initiative in monetary affairs in 25 years; a year in which we replace the crisis-prone system of the past with a new system attuned to the future.

It can be a year in which historic events will take place on the international scene, events that could affect the peace of the world in the next generation or even in the next century.

We often hear people say, "These are troubled times." I say these are great and exciting times. We are at the threshold of a great new era -- an age of movement and challenge and change. We have an unparalleled opportunity to create a better world for ourselves and for our children.

Let us dedicate ourselves tonight to make the most of that opportunity -- to join in a great common effort to stop inflation -- and to create a new prosperity in a world of peace.

Thank you and good night.

END

(AT 7:45 P.M. EDT)