

B. N. I.
Nixon, Richard - outgoing.
7/72 - 6/73

Burns expresses his concerns about inflation, comments that direct wage-price controls cannot be extended for more than one year, and lays out his plan for monetary policy's role in ending inflation. December 28, 1972

Dear Mr. President:

I am enclosing a copy of a paper on "The Problem of Inflation" which I will present at a meeting of the American Economic Association in Toronto this Friday.

This paper expresses my deep concern that inflationary pressures may spread and intensify in the coming year. If that happens, as it easily may, we could have a very difficult situation in 1974 -- perhaps, rapid inflation early in the year, followed by recessive tendencies toward the end of that year.

I feel, moreover, that direct controls on prices and wages cannot practically be extended for more than one year. If we succeed in bringing down the rate of inflation next year below 2 per cent, we could gladly announce success and drop the whole apparatus. If we don't do that well, we probably will still have to give up the controls (except for standby authority), because of the distortions, inequities, and grievances that will have accumulated by then. In short, as I see it, we will either leave the controls in another year, or they will leave us.

Inflation is the most critical economic problem that we now face. And the problem is of such gravity that a broad governmental effort is required to cope with the threat of a new inflationary spiral. The attached paper states the issue squarely and supports your basic policy completely. It says a few things which this or that special interest group may not like -- but they still need saying. In view of its fairly comprehensive scope, you may find it helpful to read this paper.

As far as my shop is concerned, I can assure you that monetary policy will be a cautious -- but also a willing -- partner in any program designed to break the inflation spiral. As you well

know, monetary policy cannot do the job alone, since any such attempt would threaten another credit crunch with disastrous implications for the housing industry and other important elements of our economy. But, as part of a strong overall program of combatting inflation, I believe that the Federal Reserve System can and will make an important contribution. At the same time, I will be prepared to engineer substantial shifts in the rate of monetary expansion, depending on the needs of the economy and the results obtained from the entire anti-inflationary program. This very flexibility of monetary policy provides some assurance that such a program need not slow economic expansion unduly or risk another period of recession.

With kind regards and every good wish for the year ahead,

Sincerely yours,

Arthur F. Burns

The Honorable Richard Nixon
The President of the United States
The White House
Washington, D. C.

Enclosure

Copy to: Secretary Shultz