



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

B_B89

President Nixon meeting
w.H., April 18, 1973

April 13, 1973

MEMORANDUM FOR JOHN EHRLICHMAN

FROM: Arthur F. Burns

A handwritten signature in dark ink, appearing to be "A.F. Burns", written in a cursive style.

I'm enclosing the memorandum to the President which
you requested.



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MEMORANDUM FOR THE PRESIDENT

FROM: Arthur F. Burns

A handwritten signature in dark ink, appearing to be "A. Burns", written over the printed name.

An extension of the Economic Stabilization Act on anything like the basis proposed by the House Banking Committee is totally unacceptable. Its rollback of prices and interest rates, its failure to cover wage agreements in any parallel manner, its onerous requirements for public accountability by the Executive, could work havoc with the economy. Rather than accept such terms, you should permit the legislation to lapse and go to a voluntary system of restraints. As the experience of the Committee on Interest and Dividends has recently demonstrated, a voluntary effort -- if energetically pursued -- can produce reasonably good results in moderating private behavior.

With the Economic Stabilization Act as it now stands, my preferred solution in the present situation would be to impose an immediate 45 day freeze over a broad range of prices, with the understanding that a new program would be announced before the

end of the 45 day period. The program I have in mind would consist of a package of reforms, both legislative and administrative, designed to reduce substantially the existing abuses of economic power by the labor unions and corporate giants. It would also include structural reforms in other areas -- agricultural policy, import policy, and in the operations of the Federal regulatory agencies. The formation of a Wage and Price Review Board, operating on a voluntary basis to achieve moderation in wage and price behavior, would be a part of the reform package, to take effect at the end of the 45 day period.

A program of structural reform of the sort I envisage would, however, encounter great resistance, particularly by the trade unions. I fully appreciate that you may not find it politically feasible to travel that route. In that event, and assuming again that the Economic Stabilization Act continues as it stands, you might well consider an early return to a mandatory program of prenotification for large firms and employee groups. The Cost of Living Council could then be empowered to hold up specific increases in both wages and prices until it is satisfied that appropriate rules of behavior are being met. The reporting companies would need to be warned that

they will be exposed and fined whenever they appear to be exceeding their profit margin ceilings. Such a program would have teeth and yet differ in significant respects from Phase II. Thus coverage would be restricted to large companies and major wage bargaining situations. Further, prenotification will not carry with it the need for prior approval; increases could be put into effect after, say, 30 days, unless the Cost of Living Council objects. Such a program might be preceded by a very brief freeze (say 30 days) on prices; but I see no advantage in doing this beyond giving people a chance to cool off.