



FOR RELEASE--7:00 p.m., October 6, 1971

CHICAGO--Mr. Robert P. Mayo, president of the Federal Reserve Bank of Chicago, stressed the continued basic importance of the price mechanism to the economy while speaking before the Illinois Society of Certified Public Accountants tonight. He made it clear that the President's dramatic actions of August 15 were needed by both the nation and the free world to accelerate changes which were coming too slowly under previous U. S. economic policy. Mayo said that the acceptance and operation of Phase I had been excellent, but that there are now serious challenges facing the President's program in the sensitive negotiations leading to international monetary and trade reform, as well as in the achievement of both price stability and adequate business growth at home.

Referring to President Nixon's statement that there will be a Phase II with teeth in it, Mayo said that the President faces the most difficult task imaginable in developing a program to steer a strong course between the present freeze and a relapse into the previous drifting situation. He expressed confidence in the President's leadership and in his ability to come up with a successful formula.

Mayo made it clear that we can only discern in a general way the form the Phase II policy will take from Administration statements thus far, although some aspects are becoming evident. While Phase II will be less restrictive of wages and price movements than the across-the-board freeze, it will have to last much longer to achieve its goals. Presumably, congressional action will, therefore, be needed since the President's current wage-price control authority expires next April.

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Congress appears ready to be fairly willing to follow through with much of what the President already has requested. In fact, he said, it is beginning to look as if the differences will be in the direction of more rather than less economic stimulation, and somewhat more consumer-oriented. More tax relief surely will be granted to individuals in the form of increases in the standard deduction, advancing the effective date for increased personal exemptions, and increasing low income allowances. And it has been suggested that the effective date of the investment tax credit includes equipment ordered after April 1, 1971 instead of that installed after August 15.

While the Senate may act to postpone the increase in social security taxes now scheduled for next January, Mayo thinks it unlikely that overall congressional fiscal action will be firm enough to fully implement the President's desire for a reduction in expenditures equal to the tax cut. Mayo takes that to indicate greater budget deficits than the President has estimated, unless revenue picks up faster than the Administration's present estimates assume.

Mayo said he is hopeful that we may be headed toward some re-examination of our approaches to the collective bargaining process as a result of our recent inflation history. The Congress has shown itself ready to intervene directly in the case of the railroads, although thus far only with temporary measures. Public pressure is building for the development of more effective machinery to prevent shutdowns in major segments of the economy, particularly those which have immediate impact on the general public, such as transportation, mail service, public safety, and other critical services. The President's role in the dock strike is direct evidence of the importance of this area.

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The restructuring of the international monetary system will be a slow, painstaking procedure, in Mayo's opinion. Until it is well underway, it seems unlikely that the surcharge can be lifted. Despite the steps already taken--freeing the dollar and imposing the surcharge--our international payments balance seems very unlikely to move into surplus during the next year or so, even if net export figures improve significantly.

Mayo said he is personally optimistic that the new policies will succeed in speeding up the growth of the economy--and with a lower rate of inflation than would have been possible without them--because he thinks it was necessary to shake up the inflationary expectations so prevalent throughout the U. S. economy, and to do it on a scale designed to prove to our friends throughout the free world that we mean business.

But the post-freeze period will show positive results, he said, only if accompanied by appropriate monetary and fiscal policies. It must be made evident to everyone that the government is not "just restructuring the accounts to make the national P & L statement look better in the next annual report, but instead, is moving toward achieving the productivity gains and price stability which represent true prosperity." Continued strong public support is as essential to the success of the President's policies as anything the Administration can do, he added.

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