

OFFICE OF THE WHITE HOUSE PRESS SECRETARY

THE WHITE HOUSE

PRESS CONFERENCE

OF

HON. JOHN M. CONNALLY,
SECRETARY OF THE TREASURY
HON. GEORGE P. SHULTZ
DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET
AND HON. PAUL W. MCCrackEN
CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS

THE EAST ROOM

AT 8:15 P.M. EDT

MR. ZIEGLER: As was mentioned to the wires, and also in the phone calls, we are going to ask those of you who are here to remain here in this room until the President finishes his address tonight. We will give you a text immediately after the address is over. We will also have television sets here for you to watch the President's address.

The Secretary of the Treasury is here to take your questions, along with Dr. McCracken and Dr. Shultz.

Q For the record, what is the reason we have to remain here?

MR. ZIEGLER: Let's not use up our time here with that. I will talk to you about it later.

Q How long will the President speak?

MR. ZIEGLER: About 20 minutes.

Q Is the briefing on or off the record?

MR. ZIEGLER: You can directly quote the Secretary and Dr. Shultz and Dr. McCracken.

SECRETARY CONNALLY: May I first express our thanks to you for being here? Secondly, I would like to personally thank Chairman McCracken and Director Shultz for sharing this platform with me, if indeed it is a platform, to hopefully respond in depth to the extent we can to all of your questions.

May I start off by saying that the speech which will reflect the President's decisions tonight has been long in the making. From the fact sheet that you have, it should be apparent that he is acting in a very wide range of areas, recognizing that we are confronted with a number of problems, an unacceptable level of unemployment, an unacceptable rate of inflation, and the need for a continuing and expanding economy, a deteriorating balance of trade, a very unsatisfactory balance of payments situation, plus a continuing uncertainty and instability in the international monetary markets.

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Recognizing that it was almost impossible to take action that would indeed look toward the solution of any one problem without at the same time having that action reflect unfavorably in some other area, the President has for a long time been considering what comprehensive, integrated course of actions he might take, looking toward the solution to all of the problems that beset this country domestically and foreign.

That basically is what the President is announcing tonight.

With that statement, I will attempt to answer your questions, and, if I may, in all sincerity, without attempting to dodge your questions necessarily, but simply because I think Dr. McCracken and Dr. Shultz can give you better answer to some than I can, I will also ask them to help respond to them.

Q. What happened in the last seven weeks? You were quoted in the White House about seven weeks ago as saying the Administration was confident of its game plan and had no intention of changing it.

SECRETARY CONNALLY: I did express a high degree of confidence. I am not prepared to say today that we have not been making progress. I think we have made progress. Beyond any question, a number of things have happened, however, since that period seven weeks ago, none of them in themselves drastic or dramatic, but the rate of expansion of the economy has not proceeded at the extent we had hoped for and the extent we had anticipated.

Beyond any question, we have gotten some basically unfavorable news, and I regret to say that there was not a great deal of hope in the next few months we could turn it around with respect to the balance of trade.

Beyond that, I think we would have to say that one of the principal things that has occurred is the increasing instability in the foreign monetary markets. We frankly felt that given these circumstances, the fact that more and more people were talking about the instability of the dollar with relation to other currencies in the world that caused the writings, the columns and the talk in recent weeks about what might occur and what needed to occur, and frankly, on the domestic front, with the obvious increase in acceptance of fairly dramatic and drastic action on the home front, it was felt that the accumulation of all of these things reached a point where it was felt desirable to act, to act in a concerted, integrated fashion to try to solve these difficulties.

Q. On the fact sheet it said on Page 1 that changes in other countries may be anticipated. Does that mean you expect other currencies to be revalued?

SECRETARY CONNALLY: We don't necessarily anticipate what any country in the world is going to do. Obviously, we are not going to move very far. As you well know, the other nations peg their currencies to the dollar. We cannot unilaterally float or do anything else except in relation to what some other nation might do.

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We would hope that there would be some changes. If indeed we do need some changes to right the disequilibrium that exists between nations and to increase our competitive position and our trade position, then we certainly hope we can anticipate some new agreements.

Q Anticipate some changes that in effect will devalue the dollar?

SECRETARY CONNALLY: No, I would not use the word "devalue," simply because I don't know what is going to happen. I suspect that there will be changes in the rates with different countries. For all I know the dollar may rise with respect to certain countries throughout the world, and I would not be surprised if it doesn't. It may go down in relation to other currencies.

When you say "devalue" the dollar, I don't want to use that term. I think what action we took basically is designed to stabilize the dollar. What it does do and what we hope it will do is create an environment in the international arena that will permit us to negotiate new rates of exchange and a new system whereby we are not caught at a time when we are trying to provide economic and humanitarian and military assistance as well as military cover for the free world, that we are not caught at the same time with a continuing deterioration of our trade balance, because that is something we cannot afford.

So, we are looking for some adjustments.

Q What does this do to the price of gold?

SECRETARY CONNALLY: Not a thing. The President does not talk about the price of gold. We continue to anticipate that this will not change one iota.

Q After this 90-day period of this wage-price freeze, what happens then? There is some rather vague wording in here that there is a second stage, but what do you have in mind?

SECRETARY CONNALLY: Let me ask Dr. McCracken to respond to that.

DR. MCCRACKEN: The basic point, of course, of the relatively short duration of the freeze is that any wage-price freeze can last only for a relatively short period. The problem of the procedures and the structure, the program that will be devised in order to go from there on through ultimately to a free pricing system again, at the same time maintaining price stability, these are matters to be worked out by the Council.

Q Is it contemplated that you will have a wage-price board to follow this wage-price freeze?

DR. MCCRACKEN: It is the function of this Council within this period to work this out.

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Q What effect does this have on the rail and steel settlements over the last weeks? Are those prices frozen?

DR. McCracken: Any increase in prices or wages that did not occur during this base period would not take place during the freeze.

Q What effect, Dr. McCracken, would it have on the contract negotiations with the coal miners coming up in the next week or so?

DR. McCracken: Insofar as any wages or prices during the freeze, there can be no change during that period. These negotiations will pertain largely to the period beyond that.

Q Mr. Secretary, if you are hoping for some step in relation to the dollar that will avoid further deterioration of our trade balances, aren't you saying you are anticipating a generally lower rate for the dollar?

SECRETARY CONNALLY: Yes, you can make that statement, but let me qualify it by simply saying that because we are not certain what the reaction is going to be, the President is recommending the imposition of a ten percent import surcharge.

Now, if we were certain that there was going to be a depreciation of the dollar we obviously would not do that, but we are not certain of what it is going to do. We have not done this before. I will be perfectly frank with you, none of us know for certain what is going to occur. I don't think it is going to be as drastic as a great many people anticipate.

You all know that governments around the world know what our situation is as well as we do. They know what our liabilities are. They know what our assets are. They know what the conditions are. We may be surprised. I just don't know and I am not going to try to guess.

All I know is that the President felt this move was a move that was designed to provide an atmosphere in which we could enter into negotiations, new negotiations for a basically new international monetary system that will permit us to continue to assume the burdens and the duties and the obligations that we have assumed over the years and yet not go broke doing it from a trade balance.

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Q Mr. Secretary, haven't we based the value of the dollar on full convertibility of dollars for gold treasures? Isn't that one of the bases we have used in saying that a dollar is a dollar, and isn't that going to be devalued?

SECRETARY CONNALLY: The dollar is going to be interchangeable with other currencies. We are saying that we are no longer going to be selling gold on the open market.

Q Aren't we, in fact, devaluating the dollar?

SECRETARY CONNALLY: Not necessarily, no.

Q Can we suspend this?

SECRETARY CONNALLY: We are going to suspend the convertibility, but I don't know that that is going to devalue it at all. I think it is going to stabilize it. I think we will get rid of the speculation as to whether it is over value or under.

With respect to some currencies it may go down, and with respect to others it might go up. I think it is going to change, but to say it is going to be devalued, I am not prepared to say that.

Q In this program, three or four points have to do with legislation. I wonder if the President has cleared this with leaders of the Congress,

SECRETARY CONNALLY: It was not cleared with the leaders of the Congress per se, If you will read that, you will see that many of those provisions have been articulated by various Members of the House and Senate.

We anticipate that when the Congress comes back, that all of these measures will originate in the Ways and Means Committee that now has general revenue sharing as the first order of business, and I would anticipate we will ask the chairman to leave revenue sharing and take up these measures. You will notice that we slipped the effective date of general revenue sharing three months because of their inaction.

Q Can you tell me what decisions you made this weekend and doesn't the President have an antipathy toward controls that he is now invoking?

SECRETARY CONNALLY: Your first question was what decisions were made this weekend. I think all of the decisions he is announcing tonight were made this weekend. All these problems have been under consideration and study for many weeks and months, almost from the day I got here. We have been studying a great many of these problems.

Specifically, we went into a number of them at the time the mark started floating in May, prior to my trip to Munich. We discussed this on innumerable occasions; Dr. McCracken, Dr. Shultz, Dr. Burns have. We have individually and in Quadriad meetings.

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I don't know of anything, and I am sure that the President has done nothing in the last two or three months that has so preoccupied his time as his consideration of these economic measures.

Q Mr. Secretary, do you have (1) an outside time limit on how long the dollar will float through international markets; and (2) will the Federal Reserve Board step in to stabilize the dollar in cases where downward movements are excessive in certain currencies?

SECRETARY CONNALLY: I don't know how long the dollar will float. It is not going to float at all unless other governments move, and what those governments do, I don't know. Assuming it floats, I don't know how long it will float.

I know we are going to move with great dispatch to say to the principal countries in the world, and all the countries in the world, that we are prepared to enter into negotiations immediately. As a matter of fact, Mr. Volcker, Under Secretary of the Treasury for Monetary Affairs, will leave very shortly to begin these meetings.

Q Where?

SECRETARY CONNALLY: He is going to London, and probably will go tonight, but in any event, he will go tonight or tomorrow, and we will start consulting with our trading partners around the world, looking toward beginning negotiations that we think will arise from our actions.

We want to make it abundantly clear to all of these countries that all of our actions are not designed to build any protective walls around the United States, but on the contrary, we want to live in a free and expanding world of trade, and we are going to devote all our efforts toward that end.

Q This notification to the IMF that you no longer bind yourselves to the settlement of international transactions, is that indefinite?

SECRETARY CONNALLY: Yes.

Q You said before if you were sure what would happen, you would not put this 10 percent surcharge on. Does that mean you want to insure a change in the rate of the dollar against other currencies by at least 10 percent?

SECRETARY CONNALLY: I would not specify any such rate. This is a matter of very delicate negotiations. We don't know what is going to happen. I would not specify that.

Q Could I ask Mr. Shultz a question?

SECRETARY CONNALLY: Yes, sir. I am delighted.

Q Dr. Shultz, you have been involved in the game plan from the very first. At the risk of some over-distilling, doesn't this represent an abandonment of the President's philosophy?

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DR. SHULTZ: This relates to an effort on the part of the President to bring about wage and price stability as quickly as possible. I think that represents a change from the path that we have pursued, or an extension of this effort.

I think the important thing to stress here is the set of things that is put forward and their interrelationship. It is not so much any one thing, but the whole set of things, and the fact that you have a program here that is designed to stimulate employment, to do something about inflation quickly, to help in our problems of world trade, and to create a setting where we can do something about the international monetary arrangements that we now have.

So I think you have a set of things here that are designed to pursue the objectives that we have been pursuing, and they need to be seen as a set and not as any individual item.

Q Mr. Shultz, less than two weeks ago the President, in responding to Congressional Republicans, indicated he thought it would be difficult, if not impossible, to find some kind of wage-price board arrangement that could be adopted to fight inflation and not stifle the economy. You have been against this all along. Do you think some new approach now can be found?

DR. SHULTZ: In the first place, a wage-price freeze for 90 days is something in itself. We expect to get something out of that and have a new situation emerge in the 90 days from the one that started in. What can be brought out through a wide process of discussion and consultation during the 90 days as to what might be done at the end of that period, we will see. Any number of possibilities, including continuing the freeze, that is not ruled out.

So we can discuss these things. It is very difficult for the people in the Administration to talk publicly about something like a wage-price freeze or something of that kind because immediately people raise their prices. In fact, I would say -- and I don't have any really strong evidence to this effect -- but I would say that the very large increase in the industrial component of the Wholesale Price Index in July that was reported a week or so ago probably reflects a reaction to all of the talk, with people putting their list prices up. That suggests the difficulty of having the kind of discussion we would like to have without some kind of a freeze.

Q Will you try to enforce the freeze on list prices only, or discounted only?

DR. SHULTZ: It is a freeze on prices at which transactions take place. The reference point is to the month preceding August 14th, and it refers to the highest prices at which a significant number of transactions took place in a given good.

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Q Can you tell us some of the other possibilities that might be considered after the 90 days? What might some of those be?

DR. SHULTZ: Well, I don't want to try to enumerate particularly, but you have questions of what sort of mechanism, and how comprehensive it might be, what the composition of it might be in terms of who participates.

I think it is fair to look at the situation at the end of 90 days and see whether you have to have any particular thing. That is also a possibility. I think there are a wide range of things, and if we have a good, strong discussion, I am sure others will surface.

Q Do you think it might be extended beyond 90 days?

DR. SHULTZ: It is conceivable, but it is set for 90 days.

Q When does the President's authority to impose wage and price controls expire?

DR. SHULTZ: April 27th.

Q Do you expect the Congress to play a large role in whatever comes out?

DR. SHULTZ: We expect that, as usual, there will be a lot of discussion in the Congress about this matter, but we expect to promote some and to develop some on our own.

Q May I ask Governor Connally two questions, please?

One, what about a freeze on interest?

SECRETARY CONNALLY: Sarah, we didn't include the freeze on interest for the simple reason that it was the combined judgment of everyone that it might work at cross-purposes. I don't think there is any question in the minds of those who might control the interest rates in this country as to where the President's interests are.

I have made it abundantly clear that we think the maintenance of interest rates is absolutely essential to the well being of this economy. We did not do it because we didn't know how to effectively do it. It is almost impossible to make it apply to interest rates.

Q On the second question, can he grant temporary suspension of full convertibility of dollars into gold without asking Congress' permission?

SECRETARY CONNALLY: Yes.

Q He cannot do it on a permanent basis, can he?

SECRETARY CONNALLY: Let me make it clear. He is not changing the price of gold. He is talking about the convertibility of the dollar. He is not changing the price of gold. He has unquestioned authority, and I am delegated by the President to do what has been done.

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Q This is not reneging on an agreement, is it?

SECRETARY CONNALLY: No.

Q In that connection the other countries have been allowed by the IMF to maintain their par value because of our commitment to convert at \$35 an ounce. Does this action by the United States tonight relieve them of their obligation to exchange their currencies into dollars within the usual 1 percent rules?

SECRETARY CONNALLY: I think not. I think the other rules will apply and it will still be the convertibility of currency into currency. We are saying that we will no longer during this period convert the dollars they hold into gold or other assets.

Q Mr. Secretary, you and the President have said repeatedly in the past months that one of the reasons that you have not favored a wage-price freeze has been the difficulty of enforcing it. The President has frequently referred to his own experience on the Wage-Price Board back in World War II. How are you going to enforce these wage-price freezes in the next 90 days?

SECRETARY CONNALLY: One, I don't think either he or I have ever said that we were not for a wage-price freeze. He and I both have said that we were not for wage and price controls. As I interpret those two phrases, they mean entirely different things. His experience in the OPA during World War II was under a system of mandatory wage and price controls.

He has repeatedly said he does not think they would work. That is not what you have now. That is not the action he took. He put on a wage-price freeze for a limited period of time, 90 days, with the idea that this would be voluntarily adhered to by the American people.

We think the attitude of the American people is such that they are concerned enough about unemployment and the rising inflation in this country that they will be delighted. They will be pleased to respond as they should respond to this type of action on a voluntary basis.

Anticipating that, he has created the Cost-of-Living Council composed of government officials to whom he has delegated the authority that he has under the Economic Stabilization Act of 1970 to supervise this action. We, in turn, will delegate to the Office of Emergency Planning that only has about 300 people total in their employment, so we don't anticipate that there is going to be any building up of any huge bureaucracy throughout the country to administer this wage-price freeze.

It is a different animal entirely from wage-price controls as we normally speak in those terms.

Q Have you projected any net effect on retail sales of all these moves? You obviously hope they will go up.

SECRETARY CONNALLY: I think they will. Retail

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sales have been operating at a very satisfactory level. It has been one of the strong things in the economy all year which has been running at a very, very high rate. I anticipate very frankly that these combined and interrelated actions that are designed to solve our problems of unemployment, inflation, strength of the American economy, the competitive position of the American industry and labor vis-a-vis other trading partners in the world and our international monetary situation is going to have an extremely salutary effect on the American people.

I think it is going to reestablish a high degree of confidence, it is going to give them new hope that this Administration and this country has the ability to perceive of its problems, domestic and foreign, and has the courage to act to solve those problems not on a piece-meal basis, but a concerted and total manner that is calculated to get at the basis of our problems.

I will be very frankly surprised and disappointed if it does not.

Q When you went to Texas last week to begin your vacation, did you know this announcement was going to be made tonight?

SECRETARY CONNALLY: No.

Q How about the developing countries with all these actions, what will be the effect generally on the developing countries?

SECRETARY CONNALLY: I don't think it will do any damage at all to the developing countries. Many of the commodities that we bring into the United States from the less developed countries or the developing countries not on the duty list. They come in duty free anyway and the 10 percent import surcharge is not levied on the nondutiable items, so that is going to exempt a great many exports from the developing countries.

Q Can countries raise their prices to reflect the surcharge?

SECRETARY CONNALLY: No, sir.

Q Do you expect retaliation from other countries?

SECRETARY CONNALLY: No. Article XII of the GATT agreement sets forth that we have this power and right any time we have a disequilibrium in our balance of payments of a significant nature, that we even have under GATT the right to impose quotas.

We have not gone that far. We have merely imposed a temporary surcharge of approximately 10 percent. Under GATT we could go much farther and impose quotas.

MR. ZIEGLER: I know a lot of you would like to get back to your bureaus before this begins. It is about 10 until nine now. I want to emphasize, however, that we will watch this very carefully, that there should be no movement of any

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information out of this briefing until the President completes his address.

I particularly want to emphasize that to all of the wires that are represented here, foreign and domestic wire services. We will be watching foreign and domestic wire services and everyone who is here very carefully and will look with great displeasure if anyone moves anything on this before the President's address ends.

We will have these TV sets for you if you want to stay.

SECRETARY CONNALLY: I might have misunderstood a question or given a wrong impression. George wants to respond.

MR. SHULTZ: On the question of an imported article the intent is to freeze the price at the port of import, so the duty is added to that and that price might go up. But that price is up to the importer.

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(AT 8:50 P.M. EDT)