DRAFT OF HYPOTHETICAL LETTER

Dear Arthur:

I would like to begin talks with you on a matter of the utmost seriousness. The problem may be summed up in the following propositions.

1. It is important to get the economy back to full employment by the middle of 1972. A longer delay would cause excessive economic loss and injury and would be inconsistent with the mandate of the Employment Act. The contribution that a longer delay might make to reducing the rate of inflation would not be worth the cost.

2. To get the economy back to full employment by the middle of 1972 would require an increase of 12 to 13 percent in real GNP between mid-1970 and mid-1972. Even with expectable success in reducing the rate of inflation this probably means an increase of 17 to 19 percent in money GNP, or 8-1/2 to 9-1/2 percent a year on the average.
3. The spontaneous forces of the economy, plus a Federal budget of $225 billion for FY 1972 and growth of \( M_1 \) at 5 to 6 percent a year are probably not sufficient to generate the rapid increase of money GNP required.

4. We are therefore forced to consider some combination of measures which would accelerate the growth of money GNP. These measures can be of the following kinds:

   a) Budgetary action to increase FY 1972 expenditures beyond $225 billion or to cut taxes.

   b) Stimulation of expenditures outside the Federal budget by subsidizing assisted credit transactions for housing, environmental improvement, exports, etc.

   c) More rapid monetary expansion.
Certainly by the time final decisions are made on the FY 1972 budget we shall have to develop a program which gives reasonable promise of restoring full employment. This program will have to involve some expectation of what the Federal Reserve will do. Therefore, I would like to discuss this picture of the problem and its possible solutions with you as soon as possible.

Sincerely yours,

Paul W. McCracken