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Notes for Discussion with AFB

1. The main point is to convey an understanding of the Administration's goals and determination. In 1959-60 the Administration made what Samuelson later called an "investment in sadism." It squeezed down the recovery and tolerated a recession in order to slow down the inflation. It also handed over to J. F. Kennedy an economy with the inflation expectation removed, and nowhere to go but up. (See attached quotation from AFB). We do not propose to do that again. We intend to get a strong recovery of the economy and believe that a strong recovery can be achieved while continuing to make progress on the inflation front. We recognize and accept the risk that the progress may be small, but think it unlikely that there would not be some progress during a two-and-a-half year period of economic slack. We do not think that the risks include an inflation rate above our recent experience.

The risks of an expansive policy depend in part on public expectations. The risk is increased if respected figures in the economic world frighten the public, without firm evidence, about the inflationary consequences of an expansive policy.

2. We should not confuse a discussion of monetary policy with a discussion of "incomes policy." Neither AFB nor anyone else has an

"incomes policy" short of mandatory controls that would make a significant difference in the rate of inflation in the next two years. Whether any particular measure of incomes policy should be adopted is a discussable question. However, the monetary expansion that is needed or safe does not depend on what is done in the incomes policy field.

3. Of the eleven items in AFB's "income policy," ten would have appeared in almost any economist's list of good things to do, inflation or no inflation, and would not until recently been called part of an incomes policy. Four of these ten points could scarely have any effect in the next two years: more vigorous enforcement of antitrust laws, increased job training, establishment of local productivity councils and liberalization of depreciation allowances. Many of the others would encounter fierce resistance, which is to say not that they should not be tried but that they cannot be counted on: liberalization of import quotas, Davis-Bacon suspension, modification of the minimum wage laws, establishment of national building codes, compulsory arbitration. We are not opposed to all this. It is simply irrelevant to our relations with the Federal Reserve.

4. The suggestion in AFB's speech that has received most attention is all contained in one sentence:

> "We might bring under an incomes policy, also, the establishment of a high-level price and wage review board which, while lacking enforcement power, would have broad authority to investigate, advise, and recommend on price and wage changes."

This proposal bypasses all the hard questions. Some idea of its possible value may be obtained by trying to think of five people of sufficiently high level that their advice would have kept the railroad workers from getting a 13-1/2 percent wage increase.

5. We should ask AFB to stop contributing to the common idea that there is a simple way out of our economic difficulties which the Administration for some mysterious reason refuses to take. This idea is one reason for the impatience which is the great enemy of the disinflation we all want.

6. On the proper subject of monetary policy we should emphasize the importance of every day that is now passing. The combined effects of the ending of the auto strike and the expectation of a steel strike may stimulate the economy strongly in the first half of 1971. Whether there is a let-down afterwards will depend in part on how much monetary expansion we get beginning right now. We consider it important not to have a decline in the second half of 1971 from which we then have to make another strenuous effort to climb back.