

Stein file

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

May 1, 1973

MEMORANDUM FOR THE PRESIDENT

→ in preparation for quadrial meetings

Subject: Background for May 2 Economic Meeting

We believe that we have now passed the most rapid part of the boom, in terms of rate of increase of GNP, real GNP and price increases. This opinion is shared by others who have made new forecasts since the first quarter GNP figures came out. The table shows forecasts made by the Troika staff, by Data Resources Incorporated, by Chase Econometrics and by Ray Fair, of Princeton.

Annual Rate of Increase

	<u>Actual</u>			<u>Forecasts</u>		
	73:1	73:2	73:3	73:4	74:1	74:2
GNP (money value)						
Troika staff	14.3	11.7	9.9	8.5	8.3	7.4
DRI	14.3	8.2	7.8	7.0	8.5	7.4
Chase	14.3	8.7	8.3	7.7	7.1	6.3
Fair	14.3	11.8	6.4	6.5	8.2	8.1
Inflation Rate						
Troika staff	6.0	5.5	4.0	3.6	4.3	3.5
DRI	6.0	3.7	4.3	3.8	3.6	3.4
Chase	6.0	5.2	3.8	4.3	4.5	3.6
Fair	6.0	2.5	2.7	2.6	3.3	2.5
Real GNP						
Troika staff	7.9	5.9	5.7	4.7	3.8	3.7
DRI	7.9	4.3	3.3	3.0	4.8	3.9
Chase	7.9	3.3	4.4	3.3	2.4	2.6
Fair	7.9	9.0	3.7	3.7	4.7	5.5

note: actual rate of increase in implicit price deflator (from the FRED):
73.1 → 73.2 → 73.3

Our forecast has unemployment declining to 4.5 percent at the end of this year and staying there in the first half of next year. All of the other forecasts have unemployment in the range of 4.6 to 5.0 percent throughout.

	<u>73.1</u>	<u>73.2</u>	<u>73.3</u>	<u>73.4</u>	<u>74.1</u>	<u>74.2</u>
Actual inflation rate:	6.7	7.5	8.8	7.4	9.6	12.3

They were quite wrong about inflation

WHCF: SMOF: Herbert Stein:

Meeting: Fiks: Meeting (General)

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The critical point in all these forecasts is the decline of the inflation rate. This prospect depends on three main elements:

- a) That increasing supplies will flatten out the increase of food prices,
- b) That a new higher round of wage increases is not kicked off by recent CPI increases,
- c) That we do in fact get some slowdown of GNP increases.

These all seem in fact to be good probabilities. In spite of continued bad weather, there is little doubt that the rate of increase of farm prices will slow substantially although probably not so much as we previously thought. The recent rubber settlement is encouraging news on the wage side. With fiscal and monetary policy having turned much more restrictive it is extremely unlikely that the GNP increases would not slow down.

Of course, one cannot be so confident about the quantities and dates implied in these forecasts, as can be seen from the differences among them. However, precision in these respects is not terribly important.

I assume that we have now made certain policy decisions:

- a) That we will not change the controls program radically but will tighten it moderately,
- b) That we will not now tighten fiscal-monetary conditions, beyond the implications of present policies,
- c) Implicit in the above, that we will give highest priority to maintaining prosperity through 1974, even at the cost of some slippage from our inflation goals. | *

If this is our present policy posture, the main questions relate to contingencies -- the possibility that despite our present forecast the boom may still be accelerating and the possibility that the deceleration, when it comes, may be too sharp. There probably is not much to say about this except to urge everyone to remain open-minded.

We have prepared a statement to be issued by you today (May 2) attempting to lay the base for a concerted, orderly, national anti-inflation program, now that Congress has provided a necessary ingredient. While the statement emphasizes that there is more to the program than Phase III, it announces certain steps to apply Phase III more effectively:

1. CLC reporting form for largest businesses will be issued soon (few days) and businesses will be required to report within 30 days on price increases made under Phase III, and the justification for them. These returns will be quickly examined by the Cost of Living Council, which may order reductions if the Phase III standards have been exceeded.

2. After this date (May 2) largest businesses will be required to prenotify CLC if they propose price increases which would bring their average weighted price more than 1.5 percent above the level authorized on January 10, 1973. This notification must be accompanied by information to justify the price increases. The proposed price increases must not be put into effect until 30 days after notification to CLC. During this time CLC may forbid or defer the increase, in whole or in part. Failure of the CLC to act during the 30 days will not bar it from acting later.

3. Staff resources available for administering Phase III will be increased.

The purpose of these measures is to insure compliance with the standards and to introduce a moderate delay in the price-raising process but not to change the standards or to freeze prices or otherwise to change the basic character of the system.



Herbert Stein