May 19, 1978

The President
The White House
Washington, D.C.

Dear Mr. President:

Shortly after you nominated G. William Miller to be Chairman of the Federal Reserve Board of Governors, an article by him on methods of combatting inflation was brought to my attention. In that article, published in the October 5, 1974 issue of Business Week, he wisely observed that:

"Working our way out of inflation requires an allocation of the available but limited resources to areas of priority, thus reestablishing a proper balance between supply and demand. Allocation solely by controlling the aggregates -- the supply of money and net federal spending -- will bring about levels of unemployment and general economic hardship that are likely to be unacceptable. Allocation by direct controls involves even more difficulties."

Not only did he correctly foresee the effects of incorrect policies, but he also sensed the need for a new approach:

"Discussion and debate have begun to reveal a preponderance of opinion favoring a selective approach. Last week's summit meeting gave scant attention to the theology of monetary-fiscal and incomes policies. Instead, it produced a cornucopia of ideas, suggesting a restraint here, an incentive there, a protection of family income yonder, or a direct control in certain cases. There now seems to be implicit recognition that the economy should be managed by dealing with its parts and not just the whole."

The AFL-CIO shares the concern that you and Chairman Miller have expressed on the need to curb inflation. We are equally concerned about the pursuit of policies which have repeatedly led the country down the path of recession and unemployment. That was the result of the adoption of tight general monetary policy and high interest rates which led to a collapse of residential construction, followed by an economic slowdown or general recession. Such a sequence of events was generated in 1955-57, 1959-60, 1965-66, 1969-70 and 1973-75. The latter period also saw the highest interest rates in a century and the deepest recession since World War II.

In order not to repeat that sequence, we urge you to give serious consideration to authorizing the Federal Reserve to implement the Credit Control Act of 1969, Public Law 91-151. Under that Act, you may authorize the Federal Reserve Board to regulate and control any or all extensions of credit, for the purpose of preventing or controlling inflation generated by extension of credit in an excessive volume. If you authorized the use of that authority, the Federal Reserve Board could exercise selective credit regulation measures. Such policies would not entail ever-higher interest rates, with a concentrated impact upon housing which is in short supply, that would bring serious unemployment, along with continued inflation in housing prices and rents.

I believe that selective credit regulation offers a potentially useful alternative to the extremes of either tight money/high interest rates, or wage and price controls, which you have wisely rejected because of their record of failure. It is my hope that you will seriously consider the above issue, and if you agree that selective credit regulation could be a useful alternative tool to combat inflation, authorize the Federal Reserve Board to implement the Credit Control Act.

I am also writing Chairman Miller, conveying to him the same thoughts and recommendations.

Sincerely yours,

George Meany

President