THE CHAIRMAN OF THE COUNCIL OF ECONOMIC ADVISERS WASHINGTON

December 11, 1972

MEMORANDUM FOR THE PRESIDENT'S FILES

Subject: Quadriad Meeting with the President, Camp David, December 8, 1972, 12:00 noon

The President met with Secretary Shultz, Chairman Burns, Director Weinberger and Chairman Stein at the Aspen Lodge. The President had been supplied with a background memo on the economic situation and outlook by Chairman Stein.

The meeting started with a brief report by Chairman Burns on the excellent cooperation of banks in holding down interest rates.

Chairman Stein reviewed the economic situation. He reported that we had been having the best of both worlds — on the one hand rising employment and output and declining unemployment and on the other hand a reduced inflation rate. A strong expansion is expected to continue at least until the middle of 1973. Thereafter the rate of increase of real output would decline to about the normal rate of growth, around 4%. This degree of slowdown would not be worrisome; at some point the rate of expansion would have to decline. But if the slowdown should continue too long it might cause unemployment to rise again. Moreover there is a common expectation that the inflation rate will not fall below 3% and might rise again above that.

This review led to a discussion of the inflation goal for 1973, mainly between Burns and Stein. Burns argued for an ambitious goal, between 1-1/2 and 2%, to mobilize public voluntary support and indicate our determination to reduce the inflation rate further. Stein argued that so low a goal would seem incredible, that it would require labor to accept a pay standard based on a price expectation there was no reason to accept and that it would require the Administration to be apologizing all year long for failure to achieve the goal.

In the end the President said that we should have a goal that would show progress but would not be so ambitious as to be unbelievable or realistically unachievable. He asked Stein to try to formulate a statement of the goal that would meet those requirements.

Director Weinberger then reviewed actions on the Budget, mainly for the benefit of Chairman Burns, since the others present had been over the subject on the preceding day. The main point was the determination to hold FY 1973 expenditures to \$250 billion and the expectation, after review of the budget, that the goal would be achieved.

The idea that the January budget would present expenditure estimates not only for FY 1974 but also, in as much detail as possible, for FY 1975 was discussed and approved. It was recognized that some qualifications on the finality of the estimates for FY 1975 would have to be made clear. Also, "actual" revenue estimates for FY 1975 would not be presented, because that would require an economic forecast for CY 1974 at least. High employment revenue estimates would be presented.

The Administration would favor the early enactment of an expenditure ceiling for FY 1974. The Administration should not at this time challenge the Congress on this but should welcome initiatives in this direction that have emanated from the Congress and should take a cooperative position.

We should announce that there will be some new ideas of procedure and presentation in the January Budget.

The President raised the question of the imminence of zero population growth, and asked the FRB to work on it, as he had previously asked CEA.

The President mentioned Peter Peterson's coming trip to Europe, Asia and Latin America and asked all present to give him full cooperation.

The meeting adjourned at 12:55 p.m.

Herbert Stein

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