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STATEMENT BY SECRETARY KREPS ON THE ECONOMY IN THE FIRST QUARTER APRIL 19, 1978

As you know, bad weather and the coal strike brought economic growth to a temporary halt in January and February, and this is reflected in the GNP statistics released this morning.

With spring weather and the settlement of the strike, production came back strongly in March. This can be seen in the March figures for employment, industrial production, personal income, and housing starts. Retail sales also came back strongly in February and March after their January slump. Thus, although the GNP numbers indicate that on balance there was no growth of real gross national product in the first quarter, vigorous growth did resume in March.

We expect this strong growth to continue during the spring months. Even so, the GNP growth rate for the year as a whole probably will be slightly less than we had earlier forecast. In other words, we are proceeding in the right direction at the right speed, but because of an unavoidable delay we are a little behind schedule.

At the beginning of this year, the President recommended a major personal and corporate income tax cut beginning in October. This tax cut was intended to overcome the drag on the economy exerted by higher social security taxes and rising average income tax rates due to inflation. Because of these factors, the tax cut remains very important.

The unemployment rate is still above 6 percent, and will be difficult to reduce substantially. Most sectors still have idle capacity. Our inflation, therefore, does not seem to stem from excess demand or shortages. In this situation, reducing or delaying

the tax cut would not be helpful in containing inflation; indeed, if economic growth is allowed to slow down late this year, productivity gains will be reduced and unit labor costs will rise. Workers will see their wage increases being eaten up by tax increases and will respond by demanding larger wage increases. In this situation, a tax cut of appropriate size and timing, coupled with appropriate spending restraint, can help us in fighting inflation by increasing growth and productivity in the private sector. We should go forward with the President's proposals.

At the same time, we must move quickly to implement the Administration's anti-inflation program. The president indicated last week a number of steps to hold down spending and to avoid government actions that tend to raise prices. We recognize that government must set the example in fighting inflation, but it is essential for labor and business to join in this fight. Later this week, the President and his economic advisers will be meeting with key business leaders to stress the importance of their active cooperation in slowing price increases.

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