

## 26 Annual Message to the Congress: The Economic Report of the President. *January 27, 1972*

*To the Congress of the United States:*

The American economy is beginning to feel the effects of the new policies launched last August.

I undertook the New Economic Policy because it was becoming clear that not enough was being done to meet our ambitious goals for the American economy. The new measures are designed to bring the Nation to higher employment, greater price stability, and a stronger international position.

The essence of the New Economic Policy is not the specific list of measures we announced on August 15; it is the determination to do all that is necessary to achieve the Nation's goals.

Nineteen hundred and seventy-one was in many ways a good economic year. Total employment, total output, output per person, real hourly earnings, and real income after tax per person all reached new highs. The inflation which had plagued the country since 1965 began to subside. In the first 8 months of the year the rate of inflation was 30 percent less than in the same months of 1970.

But I did not believe this was enough to meet the Nation's needs. Although the rate of inflation had declined before August, it was still too high. Although unemployment stopped rising, it remained near 6 percent. In the first part of the year, our international balance-of-payments deficit—the excess of our payments

to the rest of the world over their payments to us—had risen far too high.

The conditions called for decisive actions. On August 15, I announced these actions.

First, I imposed a 90-day freeze on prices, wages, and rents.

Second, I suspended conversion of dollars into gold and other reserve assets.

Third, I imposed a temporary surcharge on imports generally at the rate of 10 percent.

Fourth, I proposed a number of tax changes intended to stimulate the economy, including repeal of the excise tax on automobiles, a tax credit for investment, and reduction of income taxes on individuals. At the same time I took steps to keep the budget under control.

The package of measures was unprecedented in scope and degree. My Administration had struggled for 2½ years in an effort to check the inflation we inherited by means more consistent with economic freedom than price-wage controls. But the inflationary momentum generated by the policy actions and inactions of 1965-68 was too stubborn to be eradicated by these means alone. Or at least it seemed that it could only be eradicated at the price of persistent high unemployment—and this was a price we would not ask the American people to pay.

Similarly, more than a decade of balance-of-payments deficits had built up an

latter part of the year. In the fourth quarter real output increased at the annual rate of 6 percent, compared with about 3 percent in the 2 previous quarters. Employment rose by about 1.1 million from July to December, and only an extraordinarily large rise of the civilian labor force—1.3 million—kept unemployment from falling.

Nineteen hundred and seventy-two begins on a note of much greater confidence than prevailed 6 or 12 months ago. Output is rising at a rate which will boost employment rapidly and eat into unemployment. There is every reason to expect this rate of increase to continue. The Federal Government has contributed impetus to this advance by tax reductions and expenditure increases. The Federal Reserve has taken steps to create the monetary conditions necessary for rapid economic expansion.

The operation of the new control system in an economy without inflationary pressure of demand holds out great promise of sharply reducing the inflation rate. We are converting the fear of perpetual inflation into a growing hope for price stability. We are lifting from the people the frustrating anxiety about what their savings and their income will be worth a year from now or 5 years from now.

For the first time in over a decade the United States is moving decisively to restore strength to its international economic position.

The outlook is bright, but much remains to be done. The great problem is to get the unemployment rate down from the 6-percent level where it was in 1971. It was reduced from that level in the sixties by a war buildup; it must be reduced from that level in the seventies by the creation of peacetime jobs.

It is obvious that the unemployment problem has been intensified by the reduction of over 2 million defense-related jobs and by the need to squeeze down inflation. But 6 percent unemployment is too much, and I am determined to reduce that number significantly in 1972.

To that end I proposed the tax reduction package of 1971. Federal expenditures will rise by \$25.2 billion between last fiscal year and fiscal 1972. Together these tax reductions and expenditure increases will leave a budget deficit of \$38.8 billion this year. If we were at full employment in the present fiscal year, expenditures would exceed receipts by \$8.1 billion. This is strong medicine, and I do not propose to continue its use, but we have taken it in order to give a powerful stimulus to employment.

We have imposed price and wage controls to assure that the expansion of demand does not run to waste in more inflation but generates real output and real employment.

We have suspended dollar convertibility and reduced the international cost of the dollar which will help restore the competitive position of U.S. workers and thereby generate jobs for them.

We have instituted a public service employment program to provide jobs directly for people who find it especially hard to get work.

We have expanded the number of people on federally assisted manpower programs to record levels.

We have established computerized Job Banks to help match up jobseekers and job vacancies.

We have proposed welfare reform to increase incentives to employment.

We have proposed special revenue sharing for manpower programs, to make them

overhang of obligations and distrust which no longer left time for the gradual methods of correction which had been tried earlier.

The measures begun on August 15 will have effects continuing long into the future. They cannot be fully evaluated by what has happened in the little over 5 months since that date. Still the results up to this point have been extremely encouraging.

The freeze slowed down the rate of inflation dramatically. In the 3 months of its duration the index of consumer prices rose only 0.4 percent, compared to 1.0 percent in the previous 3 months. The freeze was a great testimonial to the public spirit of the American people, because that result could have been achieved with the small enforcement staff we had only if the people had been cooperating voluntarily.

The freeze was followed by a comprehensive, mandatory system of controls, with more flexible and equitable standards than were possible during the first 90 days. General principles and specific regulations have been formulated, staffs have been assembled and cases are being decided. This effort is under the direction of citizens on the Price Commission and Pay Board, with advice from other citizens on special panels concerned with health services, State and local government, and rent. These citizens are doing a difficult job, doing it well, and the Nation is in their debt.

While this inflation-control system was being put in place, vigorous action was going forward on the international front. The suspension of the convertibility of the dollar was a shock felt around the world. The surcharge emphasized the need to act swiftly and decisively to improve our position. Happily, the process of adjustment

began promptly, without disrupting the flow of international business. Other currencies rose in cost relative to the U.S. dollar. As a result, the cost of foreign goods increased relative to the cost of U.S. goods, improving the competitive position of American workers and industries. International negotiations were begun to stabilize exchange rates at levels that would help in correcting the worldwide disequilibrium, of which the U.S. balance-of-payments deficit was the most obvious symptom. These negotiations led to significant agreements on a number of points:

1. Realignment of exchange rates, with other currencies rising in cost relative to the dollar, as part of which we agreed to recommend to Congress that the price of gold in dollars be raised when progress had been made in trade liberalization.
2. Commitment to discussion of more general reform of the international monetary system.
3. Widening of the permitted range of variation of exchange rates, pending other measures of reform.
4. Commitment to begin discussions to reduce trade barriers, including some most harmful to the United States.
5. Assumption of a larger share of the costs of common defense by some of our allies.
6. Elimination of the temporary U.S. surcharge on imports.

The third part of the August 15 action was the stimulative tax program. Enactment of this package by Congress, although not entirely in the form I had proposed, put in place the final part of my New Economic Policy.

In part as a result of this program, economic activity rose more rapidly in the

more effective.

We have proposed revision of the minimum wage system to remove obstacles to the employment of young and inexperienced workers.

We expect that these measures, and others, will contribute to a substantial reduction of unemployment.

In addition to getting unemployment down, a second major economic task before us is to develop and apply the price-wage control system, which is still in its formative stage, to the point where its objective is achieved. The objective of the controls is a state of affairs in which reasonable price stability can be maintained without controls. That state of affairs can and will be reached. How long it will take, no one can say. We will persevere until the goal is reached, but we will not keep the controls one day longer than necessary.

The success of the stabilization program depends fundamentally upon the cooperation of the American people. This means not only compliance with the regulations. It means also mutual understanding of the difficulties that all of us—working people, businessmen, consumers, farmers, Government officials—encounter in this new and complicated program. Our experience in the past few months convinces me that we shall have this necessary ingredient for success.

We embarked last year on another great task—to create an international economic system in which we and others can reap the benefits of the exchange of goods and services without danger to our domestic economies. Despite all the troubles in this field in recent years both the American people and our trading partners are enjoying on a larger scale than ever before what is the object of the whole international economic exercise—consumption of

foreign goods that are better or cheaper or more interesting than domestic goods, as well as foreign travel and profitable investment abroad.

We don't want to reduce these benefits. We want to expand them. To do that, we in the United States must be able to pay in the way that is best—chiefly by selling abroad those things that we produce best or more cheaply, including the products of our agriculture and our other high-technology industries. This is our objective in the international discussions launched by our acts of last year and continuing this year.

These tasks, in which Government takes the lead, are superimposed on the fundamental task of the American economy, upon which the welfare of the people most depends and which is basically performed by the people and not by the Government. That fundamental task is the efficient and innovative production of the goods and services that the American people want. That is why I have emphasized the need for greater productivity and a resurgence of the competitive spirit.

The outstanding performance of the American economy in this respect provides a background of strength which permits the Government to face its economic problems with confidence and to bring about a new prosperity without inflation and without war.

RICHARD NIXON

January 27, 1972.

NOTE: The President's message, together with the Annual Report of the Council of Economic Advisors, is printed in the "Economic Report of the President, Transmitted to the Congress January 1972" (Government Printing Office, 1972, 304 pp.).

The President signed the Economic Report in a ceremony in the Cabinet Room at the White House.