

22 Annual Message to the Congress: The Economic Report of the President. *January 30, 1973*

To the Congress of the United States:

As predicted, 1972 was a very good year for the American economy.

From the end of 1971 to the end of 1972, total output rose by about 7½ percent. This is one of the largest 1-year increases in the past 25 years. This growth took place in a largely peacetime economy; it was not achieved by a war-fed, inflationary boom. In fact, real defense spending declined 5 percent during the year. More important is the fact that the big increase of production in the year just ended was accompanied by a reduced rate of inflation. Consumer prices increased a little more than 3 percent from 1971 to 1972—a far cry from the runaway inflation rate of 6 percent that confronted us in 1969.

A year ago, looking ahead to 1972, I said that the great problem was to get the unemployment rate down from the 6-percent level where it was in 1971. During 1972 the rate was reduced to a little over 5 percent. We should get this down further, and expect to do so, but what was accomplished was gratifying. It is especially significant that the total number of people at work rose by 2.3 million from 1971 to 1972, the largest 1-year increase in 25 years.

Everything was not ideal in 1972—in the economy any more than in other aspects of our national life. Rising food prices were a major concern. The U.S. balance of trade with other countries did not improve as we had hoped. But all-in-all it was a very good year.

The economic performance of 1972 owed much to sound and forceful Gov-

ernment policy. The history of this policy goes back before 1972, and back before the dramatic moves taken on August 15, 1971. It goes back to the decision made in 1969 to bring to an end the dangerous inflation that had started in the mid-sixties. The decision was carried out by slowing down the rise of Federal spending and continuing the temporary tax increase that had been enacted in 1968 and by tightening monetary conditions. As a result, much of the cause of the inflation was removed and the rise in the cost of living was moderated. Without these steps, the subsequent success of price and wage controls would have been impossible.

Curbing inflation and cutting back on defense production necessarily involved a downturn in the economy and a rise of unemployment. To keep this from going too far, fiscal and monetary policy shifted in an expansive direction in 1970. And to speed up both the decline of inflation and the recovery of the economy, I announced the New Economic Policy on August 15, 1971. Temporary controls were imposed on prices, rents, and wages. Taxes were reduced. A little later we moved to stimulate the economy further by boosting Government expenditures in the first half of 1972, mainly by bringing forward expenditures that would have been made later.

The policies that began in 1969 contributed to the economic progress so visible in 1972. But Government policies alone did not do the job. Credit goes largely to a strong private economy and to the private citizens who cooperated in rais-

ing productivity, maintaining industrial peace, and conforming to the standards of the control system. The Government helped to create conditions in which private people could adapt to a growing economy that was far less defense-oriented and much less inflationary. But it was the individual American who made the adaptations.

The immediate economic goals for the domestic economy in 1973 are clear. Output and incomes should expand. Both the unemployment rate and the rate of inflation should be reduced further, and realistic confidence must be created that neither need rise again.

The prospects for achieving these goals in 1973 are bright—if we behave with reasonable prudence and foresight. By all signs a vigorous economic expansion is underway and will continue during the year. This will raise output and employment and reduce unemployment. The problem, as far as can now be foreseen, will be to prevent this expansion from becoming an inflationary boom.

That is why I put restraining Federal expenditures at the top of the list of economic policies for 1973. Nothing is easier or more pleasant, at least for a bureaucracy, than to spend money. But beyond some point, which our budget plans already reach, everything that the Government gives out with one hand it must take back with the other, in higher taxes or more inflation or both. Spending proposals must be looked at in this way, by asking whether they are worth either of these costs. Much Government spending fails this test.

I am proposing a budget with expenditures of \$250 billion in the current fiscal year—an increase of \$18 billion from last year. I am proposing a \$19 billion increase

for next year, to \$269 billion. Although these are large totals and large increases, they reflect a sense of responsibility and discipline. I urgently seek the cooperation of the country and the Congress in staying within my budget proposals.

Only by holding the line on Federal spending will we be able to reduce the inflation rate further in 1973. Productivity should still be rising strongly. Inflationary expectations have been subdued. Workers have been experiencing large gains in their real incomes and so the pressure to catch up will be less than it was earlier. Anti-inflationary forces are at work, but it will be necessary to keep our healthy expansion from becoming an overheated boom.

The system of wage and price controls in effect during 1972 helped bring about a combination of less inflation and more production. But it is not the best system for 1973. After intensive consultation with all parts of the American society we have concluded that controls should be substantially modified. There are several problem areas—food, construction, and medical care costs—where special efforts at restraint are needed, in some cases more intense than last year.

In the economy at large there is need to establish more firmly a pattern of behavior consistent with reasonable price stability. At the same time our own experience and the experience of other countries demonstrate that as controls continue, unless they are suitably modified, red tape multiplies, inequities increase, interferences with production and productivity become more severe, and the possibility is enhanced that prices will explode when controls are lifted. Therefore, we are modifying the control system in several ways.

We are setting forth standards of rea-

sonable price and wage behavior to which we ask business and labor to conform. Private economic units will be able to determine by themselves whether price or wage increases are within the standards or not. They will not require advance approval from the Government. However, the Government will maintain the legal authority, the practical capacity, and the will to intervene where necessary to stop action that is unreasonably inconsistent with the standards. I am asking Congress to extend the Economic Stabilization Act for 1 year, to April 30, 1974, to continue the authority. There should be no doubt about the fact that the authority will be used where needed.

An essential part of our anti-inflation program must be an increase of food supplies to restrain increases of food prices and bring about reductions where possible. The combination of natural occurrences holding down food production in the United States and abroad with rising consumers' incomes at home caused a sharp increase in food prices last year. These same forces will be at work in the early part of this year. But we have taken steps to increase food supplies. Quotas which previously limited the import of meat have been suspended. Restrictions on the acreage planted to major field crops have been relaxed. An increased amount of dried milk is being allowed into the country. Subsidies on agricultural exports have been eliminated. Grazing of cattle is being permitted on acreage diverted from crop production. We have established new machinery in the Federal Government to assure that high priority is given to holding down food prices.

Restraint in budget policy, the new system of cooperative price and wage controls and special efforts to increase food

supplies, coupled with the productivity and vigor of the private economy, should make 1973 another year in which inflation and unemployment decline and output rises. But what is at stake in the policies of 1973 is more than economic performance in 1973. What is at stake is whether we can make 1973 the prelude to a sustained period of growth and stability in a free economy. Since 1968 the Government and the economy have been largely absorbed in the negative task of correcting the destabilizing consequences of the financing of the Vietnam war. That period is almost over. Now we can stop putting out fires and turn to building a better economic order.

We must develop more reliable and responsible attitudes and methods for dealing with the Federal budget, so that it is not perpetually on the margin of an inflationary explosion. We must prepare for the end of wage and price controls, and be willing to show the same courage in taking them off as was shown in imposing them. We must weed out the restrictive effects of the large number of other economic controls exercised by the Federal Government, most of them having their origins decades ago, and many of them interfering with productivity and production. And we must strengthen the forces of competition in a vigorous free-enterprise economy.

Nowhere is the need to make 1973 a year of economic reform more apparent than in our international relations. Our actions of August 15, 1971, put the world on the path of negotiation for improvement of the international economy. Last year we made proposals for the reform of the international financial system, and these proposals are now the subject of discussion by high-level officials of the mem-

ber countries of the International Monetary Fund. This year we expect to enter negotiations on the subject of trade.

We want the American people to be able to buy those foreign goods and services that are better, cheaper, or more interesting than our own. That raises the American standard of living. We want our people to be able to invest abroad when that is the most profitable thing to do. But we also want the American people to be able to pay for these purchases and investments in the way that is best for us. That means, first, that we must be able to pay by selling abroad the things that we produce best, and selling them on the best terms that we can freely obtain. Second, it means that we must be able to pay in a way that is sustainable so that we are not confronted with the need for sudden and possibly painful adjustments.

Existing arrangements are not favorable to us in either respect. We have been buying from abroad in rapidly increasing amounts, and that has helped the American people. But our exports, with which we seek to pay for these imports, have been subject to high barriers, particularly in the case of our agricultural products. We have not been able to sell enough to pay for our overseas expenditures, and so we have had to pay by incurring more and more short-term debts abroad. This is not a situation that can go on indefinitely; its sudden ending could be disruptive. Therefore we want to bring about those reforms that will permit us to earn our way.

Our proposals have been, and will be, put forth in the U.S. national interest. But this is not contrary to the interest of other countries. International competition is shifting from the military and

political arenas to the economic. This is a great advantage, because in economic competition every participant can win—there need be no losers. The effort of each nation to produce and sell what it can do most efficiently will benefit others. This is the fundamental belief underlying our proposals for reform and the fundamental reason for thinking that a satisfactory agreement will be reached.

The general prediction is that 1973 will be another very good year for the American economy. I believe that it can be a great year. It can be a year in which we reduce unemployment and inflation further and enter into a sustained period of strong growth, full employment, and price stability. But 1973 will be a great year only if we manage our fiscal affairs prudently and do not exceed the increases in Federal expenditures that I have proposed. This is the practical lesson of the experience from 1965 to 1968, when loose fiscal policy turned a healthy expansion into a feverish boom followed by a recession. I am determined to live by this lesson. And I urgently appeal to the Congress to join me in doing so.

RICHARD NIXON

January 31, 1973.

NOTE: The message, dated January 31, 1973, was released January 30 and is printed, together with the Annual Report of the Council of Economic Advisers, in "Economic Report of the President, Transmitted to the Congress January 1973" (Government Printing Office, 301 pp.).

On January 30, the White House also released the transcript of a news briefing on the Economic Report by Herbert Stein, Chairman, and Marina von N. Whitman and Ezra Solomon, members, Council of Economic Advisers.