

Excerpts From Connally News Conference

Special to The New York Times

Following are excerpts from a news conference by Secretary of the Treasury John B. Connally in Washington yesterday, as recorded by The New York Times:

Opening Statement

I personally believe the President's program contains the most sweeping, courageous and important economic proposals made in the last 40 years in this country. I say that for these reasons: first, the programs are designed to create more jobs and reduce unemployment in this nation; secondly, the job development tax credits will strongly stimulate the economy and the vitality of this country.

Repeal of the automobile excise tax should stimulate our car sales by reducing auto prices by approximately \$200 each. Next, the wage and price freeze will provide a period of stability to bring inflation under control and to provide additional consumer confidence.

Fourth, the programs will give the American worker a chance to increase his productivity because companies will be encouraged to upgrade and modernize their equipment and facilities. Both industry and labor will become more competitive with that of other countries and we'll be better able to maintain our standard of living both literally and relatively.

Next, the temporary import surcharge coupled with a job development credit will help return our balance of trade and balance of payments to a favorable position. The surcharge will help stem the flow of imports and stimulate the purchase of American goods made by American workmen.

The suspension of gold convertibility constitutes an opportunity for us and our principal trading partners around the world to begin negotiations, studies and explorations of methods of improving the international monetary exchange system upon which an expanding world trade depends.

And, finally, the combined actions will give the nation an opportunity to assess its position, weigh the alternatives, and make the decisions and gather the strength to maintain our vitality and the high sense of moral purpose which has always characterized this nation.

TUESDAY, AUGUST 17, 1971

on Nixon Administration

Economic Steps

Questions and Answers

Q. One or two related questions on the application of the wage freeze: Will it affect, for example, an individual raise, an individual merit raise.

A. Yes, it will affect all individual raises, affect all merit raises, affect all raises under contract.

Q. All raises without exception? Cost of living raises?

A. That's correct.

Q. What about the situation of a union which is now in negotiation for a new contract. Will it be required not to negotiate?

A. They won't be required not to negotiate, but they will be bound again by the wages that were in effect in the month preceding Aug. 14.

Q. Now that we have a price freeze, too, without, as you say, any large new bureaucracy to administer it or enforce it, what should a citizen do if he finds a price going up anyway. Who does he turn to?

A. Well, we would hope that the American people would understand that the success of this wage-price freeze on a large part is going to depend on their individual compliance. If an American citizen find that there is a flagrant violation on the part of someone, they can communicate with the Office of Emergency Preparedness that will be assigned the administrative task of monitoring and supervising this wage-price freeze. But I want to again call upon all Americans—business, labor, large and small, American businessmen of whatever kind of character—to live up to, to adhere and to comply with the spirit and the letter of this freeze.

Q. Isn't this program today an admission that the Administration's policies up to now have failed?

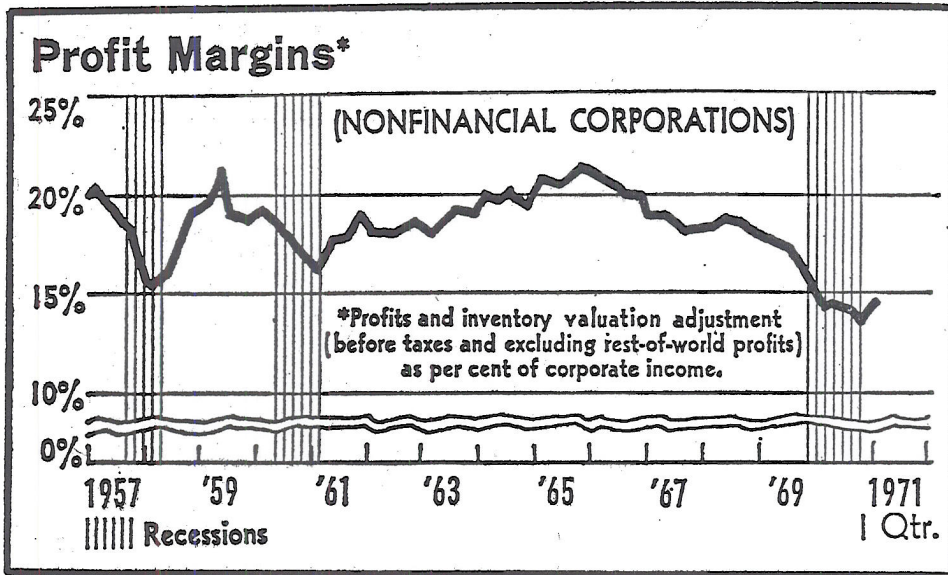
A. Oh, I don't think we did it in terms of an admission of anything. I would characterize it as a new policy, a new economic action, or series of actions, designed to solve the really hard-core basic problems that this nation faces here and abroad.

Black Market Prospects

Now we again can enumerate those in brief—we obviously had an unacceptable rate of unemployment. The rate of inflation the first six months of this year was less than last year—but it's still too high, still unacceptable.

We obviously had an unacceptable situation with respect to our balance of trade where it looked like for the first time since 1893 we might have a deficit in the balance of trade.

So a combination of events and circumstances culminated in the time that the President felt it was important for him to act, to lay down a whole



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SAGGING PROFITS—Drop in profits on percentage of sales reaches back several years

new series of actions encompassed in one broad economic policy directed toward the solution of these problems.

Q. The President said last night that while the wage-price freeze is voluntary, it will be backed by Government sanctions if necessary. How do you prevent a black market in goods and services from developing or, put another way, how do you control without controlling?

A. Well, in the first place, we don't assume that it's going to be the motive of the American businessman to immediately begin gouging. First, I think we attribute somewhat higher motives to the American people generally than that; secondly, there are sanctions in the act, the Economic Stabilization Act of 1970, which he used providing for \$5,000 penalties for willful violations.

The Justice Department will be immediately authorized to take action both in the form of injunctive relief or otherwise to impose and to prosecute those who willfully violate in a flagrant case of this type where it's obviously an attempt to engage in a black market operation.

Q. Isn't the \$5,000 fine something of a slap on the wrist to a big business like steel but a major factor to small business, so doesn't this hit more directly at the prices of small business than at big business?

A. No, I don't think so for the simple reason that it's inconceivable to me that a major American corporation would attempt to violate the

wage and price freeze. The public reaction would be so immediate and so intense that no reasonable American business enterprise would want to incur the wrath of the American people to that extent.

Q. Under what compulsion will lending institutions be to comply with anything under this program?

A. Well, I think they'll be under the compulsions that all Americans are under to adhere to it. Secondly, they know full well that the President under the Credit Control Act can ask the Federal Reserve System to impose controls on credit and interest rates.

Now the reason it wasn't done is because we felt that it might be counter-productive. We want to make it abundantly clear as we have in the past that we think lending institutions have to assume the responsibility for making available to this American economy and its needs money at reasonable rates so it will not stifle the expansion that's necessary.

Effects on Dollar

Q. What do you think the practical effect of devaluation of the dollar? How much do you expect it to slide?

A. I can't answer that and I wouldn't characterize the President's action as a devaluation. I know that many of you do. It's a question of what happens. We can't, the President's action as he took it, does not in itself, in my terms at least, mean a devaluation. It means that it pos-

sibly could result in some depreciation depending on what other nations do.

Now, in my own judgment, the dollar is going to rise vis-a-vis some currencies of the world. It may decline vis-a-vis other currencies in the world. But to say that it is a devaluation, I think, is a premature judgment.

A. Did you consider at all freezing profits, and if so, why not?

A. Well, there was no, again, there was no authority to freeze dividends, although as you heard the President say last night, he's calling on American businesses to observe the spirit and the letter of it.

Again, we felt that to try to analyze and to make it apply to profits over a 90-day period was not a practical matter of proceeding. We felt that in controlling prices the profits of American business have not been all that big.

As a matter of fact, profits generally in American businesses have declined over the last several years to unacceptable levels, where, frankly we felt that by controlling prices during this freeze period would take care of that problem.

Q. What about denying millions of Americans the lower prices of foreign imports. I think of automobiles, Japanese television, electronics industry, won't this result really...

A. Yes, the imposition of the 10 per cent import surcharge is going to increase the cost of imported items into the United States and

that is precisely the point: To try to provide a means and a time where American industry and American workmen can regain their competitive spirit and their competitive capabilities.

Q. That raises the fundamental question: Can American industry compete in the world market today without artificial protection?

A. Yes, yes. Again, we get into a very detailed discussion here about what other countries do. It is the President's position that he's not, by his speech last night nor by any future actions that he proposes to take — going to build a tariff wall or wall of barriers around this American market.

What he is going to try to do, as the result of the actions that he's taken, he is going to say to all of the nations of the world that we believe in fair trade as well as free trade. And we are going — we expect to be treated like we've been treating you.

Now the truth of the matter is that we basically feel that barriers, administrative and otherwise, have been raised against American products by many countries around the world.

And it's basically unfair and a part of the negotiations that will inevitably occur as a result of these actions, is going to be to try to eliminate those instances and to be sure that all the nations operate on the same basis. And on that basis we're willing to compete with any nation in the world on any commodity.

Reaction of Bankers

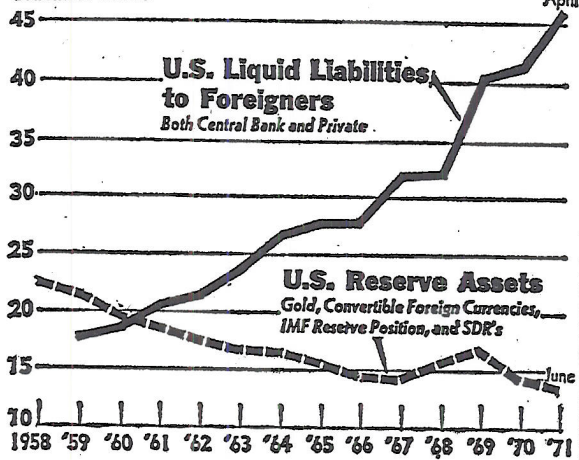
Q. After the initial response of optimism, what is your estimate will be the reaction of international bankers to the United States suspending — floating the dollar?

A. Well, I think the reaction is going to be good. They know as well as we know that over the past 20 years — or basically since World War II — our reserve assets have been declining, that our liabilities to foreigners — both officially and to individuals — has been increasing, and those lines on the chart crossed in 1960. And the situation has been deteriorating since then.

They know that we have problems when we're running a deficit in our balance of trade, when we're also doing all of these other things in terms of aid — economic,

FOREIGN CLAIMS TO U.S. RESERVES

Billions of dollars



Source: Federal Reserve Board

The New York Times

Aug. 17, 1971

DEBTOR—Like a hard-pressed householder, the U.S. has seen its assets dip as the claims of creditors grew.

humanitarian and military—to other countries around the world. They know all this.

And I think it's going to be world, when we're also providing the nuclear and the pleasing to them. I think they're going to be delighted that the United States has faced up to the facts, faced up to reality, and that we are setting about—the President is setting about—to do something about the basic disequilibrium that exists in our relations with our principal trading partners around the world. It can't do anything but breed confidence.

Q. How was the figure 5 per cent in cutting the Federal work force arrived at, and how much of this is going to have to be achieved by firing workers?

A. Oh, I don't think—well, it was felt that—the President felt that this was a very reasonable percentage of reduction. He felt that every department, through attrition, could lose this percentage of its employees and not do violence to the service and the quality of service which it provides.

And we don't now anticipate that there will be any substantial firings at all, that nearly all of this will come about by attrition.

Prolongs Range Prospect

Q. What do you foresee at the end of the 90 days?

A. I don't know. One of the principal charges that the President has given the Cost of Living Council is, during this 90-day period, to talk to

business, to talk to labor, to talk to every interested group—consumers, agriculture, members of Congress, everybody else throughout this country—to try to see what are the best plans for following this 90-day wage and price freeze. How can we—what actions do we need to take, if any.

Q. Will you please say what you mean when you refer to a wage increase being in effect during the base period if it had been agreed to if there were some retroactivity for part of that period but it has not gone to the paychecks yet. What is the effect?

A. Again, I don't want to try to answer fact situations here that I don't have time to analyze. Let me try to answer it this way. Let's assume that a contract was entered into and became effective last June, we'll say, and let's assume that in the month of September, on a specific date, Sept. 15, there was supposed to be a 15 per cent increase per hour. Under the terms of that contract that 15 per cent increase could not become effective.

Q. Is it your hope, Mr. Secretary, that interest rates will remain at their present level?

A. No, it is my hope that interest rates will come down.

Q. Will the auto companies charge 1971 prices for their 1972 model cars, and secondly, on the excise tax, will they...

A. Let me answer that one. Again we're getting into fact

situations on particular commodities. Now, I don't know what the facts are. We'll find out. I have seen in the press that some increases have been announced but unless those prices were in effect in a substantial, to a substantial degree affecting a substantial portion of the market prior to Aug. 14, then the increases will not be allowed under the wage and price...

Q. A little more than a month and a half ago at the White House you defended the President's actions in refusing to go along with a tax cut, in refusing to go along with a wage and price review board, and you very strongly defended that and said that was the thing to do with confidence, that everything was going along fine. Don't you fear that you're going to create some kind of a credibility gap with this kind of a change that will match the credibility gap on the Vietnam war?

A. No I certainly do not. In the first place, I said four things on June 27th or 29th in that press conference. I said we weren't going for a wage-price review board, and we haven't. I said we weren't going for wage and price controls, and we haven't.

I did say we weren't going to ask for any tax increases and I'll eat those words. But I'll say this. I'll have to eat fewer than a lot of other folks I know. But of the four items that I laid down that we weren't going to do, we're not doing three of them.

Now, he is asking for increases, the changes in the tax simply because it's part of a package. I don't think there's any credibility gap and I think we all do a disservice when people in high administration positions in this Government enunciate a new policy or change policy, for heaven's sake. There's nothing, as the wise saying goes, there's nothing constant except change.

The American people would think they have a dope for a President if they had one that they thought would take a position and never change it. I said to the American people on "Face the Nation" a couple of weeks ago that a President who was bold enough to pull off the China policy and the China move is going to be bold, equally bold and courageous in the administration of policies affecting the domestic economy.

What has the President done here? Could we two weeks ago, or three weeks ago or six weeks ago have talked about the imposition of a wage-price freeze on the American economy? No, certainly not. You couldn't have done it. Well, they didn't have to act. When you're out of office, when you have no responsibility for decisions, you can be a statesman and say lots of things.

If we had talked about the imposition of a wage-price freeze, what do you think would have happened? Everybody in this country would have rushed to raise their prices, increase their wages, you would have been destroyed, it would have been a counterproductive move of major proportions.

Now when we didn't announce to the world that we were going to at some future date suspend the convertibility of the dollar, why, of course we couldn't do that, of course we couldn't talk about it. We couldn't leak it, we couldn't hint it. If we had it would have been disastrous in the markets of the world.

Billions and tens of billions of dollars would have changed hands. So when, because an Administration changes its policies or enunciates a new—where it contains elements such as these, both in the international and the domestic front that require absolute secrecy—I think it's basically unfair to say, "Well, you misled us."

Q. Mr. Secretary, 1933 was one of the historic turning points in the Government getting involved in managing the economy. In the light of what you've just said, do you now feel that this is another one of those historic turning points, that hereafter the Government will have to continue playing an increasingly greater role in the economy.

A. Well, we would hope not. There are people in this country who call for a mandatory controlled wages and prices. Dr. Galbraith is the leading disciple of this theory. This Administration is committed to the opposite concept, that the progress of this nation as a democracy, the success of this system as conceived, has been the ingenuity, the imagination, the vitality of the private sector of this economy.

The very thing that we're trying to emphasize here is that the President wants to make abundantly clear that he's now willing to supplant the private initiative, the private vigor and vitality with Government, and the dead hand of Government.