

REMARKS OF SENATOR BOB DOLE  
KIWANIS CLUB - RADISSON HOTEL  
SEPTEMBER 5, 1969  
WICHITA, KANSAS

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A DOCTOR, ENGINEER, AND POLITICIAN WERE DISCUSSING WHAT WAS THE WORLD'S OLDEST PROFESSION. THE DOCTOR CLAIMED THE HONOR BECAUSE, HE EXPLAINED, A SURGEON MUST HAVE REMOVED THE RIB FROM ADAM TO CREATE EVE. HOWEVER, THE ENGINEER DISAGREED AND ARGUED THAT ENGINEERING WAS THE OLDEST PROFESSION AS IT WAS CERTAINLY AN ENGINEER WHO ORIGINALLY BROUGHT ORDER TO THE WORLD OUT OF CHAOS. THE POLITICIAN ENDED THE DISCUSSION BY POINTING OUT THAT AFTER ALL, IT WAS THE POLITICIANS THAT HAD CREATED THE CHAOS.

- INFLATION PROBLEM -

GENTLEMEN, I REGRET THAT THE POLITICIANS ARE LARGELY RESPONSIBLE FOR THE INFLATIONARY SPIRAL WHICH IS OVERHEATING OUR ECONOMY. AT HOME, IT TAKES A DOLLAR TO BUY WHAT 38 CENTS WOULD HAVE BOUGHT IN 1939. THE COST OF LIVING HAS RISEN FROM LESS THAN 3 PER CENT IN 1967, TO MORE THAN 4 PER CENT IN 1968.

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IN THE FIRST HALF OF 1969 THE COST OF LIVING REACHED AN UNPRECEDENTED HIGH OF 6.4 PER CENT. ABROAD, THE DOLLAR HAS COME UNDER INCREASING PRESSURE AS WE CONTINUE TO SPEND MORE MONEY THAN WE TAKE IN. IN THE FIRST HALF OF 1969, THE NET OUTFLOW OF DOLLARS WAS RUNNING AT AN UNPRECEDENTED RATE OF \$11 BILLION.

THROUGHOUT THIS PERIOD OF RAPIDLY RISING PRICES, THERE HAS BEEN GROWING CONCERN AMONG ECONOMISTS, BUSINESSMEN, AND GOVERNMENT LEADERS WITH THE ADVERSE EFFECT ON OUR ECONOMY.

BUT WHAT IS ACTUALLY BEING DONE TO STABILIZE PRICES? HOW MUCH LONGER MUST WE ENDURE THE EFFECTS OF DECREASING PURCHASING POWER? WILL WE EVER RETURN TO THE SIMPLE PLEASURE OF ONE PRICE TODAY AND THE SAME PRICE TOMORROW?

- ADMINISTRATION ACTION -

THE PRESIDENT RECOGNIZES THE NEED FOR AFFIRMATIVE ACTION TO STABILIZE PRICES. SOON AFTER THE INAUGURATION, THE ADMINISTRATION ANNOUNCED SIGNIFICANT BUDGET CUTS AND OTHER REDUCTIONS HAVE FOLLOWED. IT HAS FOUGHT SUCCESSFULLY FOR THE SURTAX

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EXTENSION. IT HAS ENCOURAGED -- AND OBTAINED -- A SLOWDOWN IN THE MONEY SUPPLY'S GROWTH.

- CAUSES OF INFLATION -

THESE ARE NOT POPULAR MEASURES. IN FACT, EVERYONE SEEMS TO PREFER THE OPPOSITE - FATTER GOVERNMENT CHECKS, LOWER TAXES, AND EASIER CREDIT. YET IT HAS BEEN THE FATTER GOVERNMENT CHECKS TO THE TUNE OF \$37.8 BILLION OF DEFICIT SPENDING IN THE LAST THREE YEARS OF THE JOHNSON ADMINISTRATION THAT HAS BROUGHT US TO THIS POINT.

INFLATION ITSELF IS SET IN MOTION WHEN THE GROWTH IN DEMAND FOR THE NATION'S OUTPUT - REFLECTED IN CONSUMER, BUSINESS, AND GOVERNMENT SPENDING - OUTSTRIPS THE GROWTH IN THE SUPPLY OF OUTPUT. ONE MEANS OF SUCH AN IMBALANCE OCCURRING IS FOR THE FEDERAL GOVERNMENT TO SPEND MORE THAN IT COLLECTS IN TAXES. WHEN SUCH AN EXCESS AMOUNTS TO \$37.8 BILLION IN THREE YEARS TIME - AND \$25.2 BILLION IN FISCAL YEAR 1968 ALONE - IT IS NOT DIFFICULT TO UNDERSTAND WHY PRICES ARE RISING.

TO COMPLICATE MATTERS FURTHER, ONCE INFLATION IS SET IN MOTION IT FEEDS ON ITSELF. ONCE PEOPLE - BUSINESSMEN AS WELL AS CONSUMERS - COME TO BELIEVE THAT PRICES WILL BE HIGHER

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TOMORROW THAN THEY ARE TODAY, THEY ACT ON THAT BELIEF. THEY BUY TODAY WHAT THEY WOULD HAVE BOUGHT TOMORROW. SPENDING NOW TO BEAT THE PRICE INCREASE FORCES THE VERY THING WE ANTICIPATE - THAT IS, IT FORCES PRICES UP.

IN ADDITION, RISING PRICES INVARIABLY MEAN RISING INTEREST RATES. BECAUSE SUCH A GREAT AMOUNT OF CONSUMPTION AND BUSINESS SPENDING IS FINANCED BY CREDIT, ANY INCREASE IN SUCH SPENDING MEANS AN INCREASED DEMAND FOR CREDIT. AS THAT DEMAND RISES, THE PRICE OF CREDIT - THAT IS, THE INTEREST RATE ON THE LOAN - GOES UP.

ON THE OTHER SIDE OF THE TABLE, THE LENDER WHO EXPECTS PRICES TO RISE REALIZES THAT INFLATION IS WIPING OUT PART OF HIS RETURN. TO PROVIDE INSURANCE AGAINST INCREASING PRICES, HE WILL DEMAND HIGHER RATES OF INTEREST.

THE PSYCHOLOGY OF INFLATION ENCOURAGES PEOPLE TO BUY NOW - AND BY SO DOING - PRICES RISE EVEN MORE. THE DEMANDS FOR CREDIT AND THE DEMANDS OF LENDERS DRIVE UP INTEREST RATES ALONG WITH PRICES. TO HALT INFLATION AND LOWER INTEREST RATES, WE

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MUST DO BATTLE WITH THE ENTRENCHED BELIEF THAT PRICES WILL CONTINUE TO RISE. SUCH A BATTLE CAN ONLY BE WAGED - AND WON - BY VERY REAL ECONOMIC MEANS.

- NECESSARY ECONOMIC ACTION -

SPECIFICALLY, SUCH ECONOMIC MEASURES AS THE SURTAX EXTENSION WILL WITHHOLD \$12.2 BILLION OF SPENDING POWER FROM BOTH THE CONSUMER AND THE BUSINESSMAN IN 1969.

FURTHER, REDUCED GOVERNMENT OUTLAYS MEAN REDUCED SPENDING ON GOODS AND SERVICES - AND; HENCE, LESS UPWARD PRESSURE ON PRICES.

FINALLY, MORE RESTRICTIVE CREDIT CONDITIONS - OR LESS CREDIT AVAILABLE - TRANSLATES INTO LESS SPENDING.

- NO IMMEDIATE EFFECT -

ANTI-INFLATION MEASURES, HOWEVER, DO NOT TAKE HOLD IMMEDIATELY - ESPECIALLY WHEN INFLATION IS AS WELL ENTRENCHED AS IT CURRENTLY IS. IN SUCH A COMPLICATED, SOPHISTICATED, AND MASSIVE ECONOMY AS OURS, A PUSH OF THE BUTTON TODAY WILL NOT REVERSE ALL GEARS TOMORROW. IN CONCEDED THAT PRICES WOULD

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PROBABLY CONTINUE TO GO UP FOR THE REMAINDER OF THE YEAR, PAUL W. McCracken, Chairman of the President's Council of Economic Advisors, compared the economy to a ship: "When you are steering a big ship" he said, "it does not turn immediately when you turn the rudder. It will continue in the same direction for quite a period before it starts to respond."

For example, when households and businesses are faced with a credit squeeze, they can, nevertheless, continue a high level of spending by drawing down their savings. And this they will do - and have been doing - if they believe prices will continue to rise. An indication of this fact is a recent announcement that the savings and loan industry lost \$1 billion in savings during the month of July.

Furthermore, bank loans made in the past are not all spent in the past. Spending of such loans can stretch out over a very long period of time. Thus a decrease in bank loans or available credit does not necessarily mean an immediate decrease in spending. The results of a credit squeeze will show up only after a considerable lag.

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THERE ARE, HOWEVER, LIMITS TO THE AMOUNT OF SAVINGS WHICH HOUSEHOLDS AND BUSINESSES CAN USE. THERE ARE ALSO LIMITS TO THE AMOUNT OF OUTSTANDING LOANS THAT CAN BE SPENT.

WE SEEM, FINALLY, TO BE APPROACHING THOSE LIMITS.

- INDICATION ECONOMY IS COOLING -

SEVERAL SIGNS INDICATE THAT THE ECONOMY IS COOLING AND THE PRICE SPIRAL SLOWING. THE WHOLESALE PRICE INDEX OF INDUSTRIAL COMMODITIES IS CURRENTLY INCREASING AT AN ANNUAL RATE OF 1.1 PER CENT. THE WALL STREET JOURNAL PREDICTED LAST WEEK THAT WHOLESALE PRICES FOR BEEF, PORK, CHICKENS, SUGAR, AND FRUIT WILL BE DECLINING BY AS MUCH AS 20 PERCENT WITHIN THE NEXT TWO WEEKS. IMPORTANT HERE IS THE FACT THAT THE CONSUMER PRICE INDEX GENERALLY FOLLOWS THE LEAD OF THE WHOLESALE INDEX. IF THE WHOLESALE INDEX FALLS SO, TOO, WILL THE CONSUMER PRICE INDEX. THUS WE CAN LOOK FOR CONSUMER PRICE INCREASES TO BEGIN SLOWING DOWN QUITE SUBSTANTIALY.

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THE COMMERCE DEPARTMENT ALSO RELEASED TWO NEW ECONOMIC REPORTS LAST WEEK THAT PROVIDE HEARTENING EVIDENCE THAT THE SEVERE ECONOMIC MEASURES ARE TAKING AFFECT. ONE WAS THE FIRST ANALYTICAL REPORT ON DEFENSE SPENDING AND <sup>THE</sup> OTHER WAS THE REGULAR MONTHLY SUMMARY OF THE "LEADING" ECONOMIC INDICATORS, WHICH HAVE A GOOD RECORD OF FORECASTING FUTURE BUSINESS CONDITIONS.

THE MOST IMPORTANT HARBINGER OF GAINS AGAINST INFLATION IS THE RECENT DOWNWARD TREND IN INTEREST RATES, EXPLAINED PRIMARILY BY DECREASED CORPORATE LOAN DEMAND. IN ADDITION TO DECREASES IN GOVERNMENT AND MOST PRIVATE BOND RATES, THE TREND TOWARD LOWER RATES IN GENERAL IS IMPLIED BY SCATTERED BANK ACTIVITY. TWO BANKS IN DALLAS AND CHICAGO, FOR EXAMPLE, RECENTLY REDUCED THEIR PRIME RATE FROM 8 1/2 PER CENT TO 8 PERCENT.

THOSE INDICATORS, HOWEVER, ARE STILL ONLY INDICATORS. INFLATION HAS NOT YET BEEN STOPPED. NOR, OF COURSE, HAVE INTEREST RATES RETURNED TO ACCEPTABLE LEVELS. THIS MEANS THAT THE PRESSURE OF CURRENT ANTI-INFLATION POLICIES MUST BE MAINTAINED.



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- RECESSION FEARS -

AT THE SAME TIME, THERE HAVE BEEN PREDICTIONS THAT THE ULTIMATE RESULT OF OUR FISCAL AND MONETARY POLICIES WILL BE A RECESSION BY EARLY 1970. THE COOLING OFF PERIOD MAY WELL BRING A PAUSE IN OUR ECONOMIC GROWTH. IN 1962 AFTER THE STOCK MARKET CRASH WHEN ALL LEADING FACTORS LOOKED BAD AND AGAIN IN 1966 WHEN A PAUSE OCCURRED, THE PREDICTIONS THAT A RECESSION WAS INEVITABLE DID NOT PROVE TO BE CORRECT.

THE EVIDENCE INDICATES THAT THE PUNDITS WILL AGAIN BE WRONG. THIS CONCLUSION IS REINFORCED BY AN ANALYSIS OF THE EFFECT THAT TAX REFORMS WILL HAVE ON THE ECONOMY. WHATEVER THE FINAL FORM OF THIS YEAR'S TAX LEGISLATION, IT WILL UNDOUBTEDLY PROVIDE MORE PURCHASING POWER FOR THE CONSUMER AT A TIME WHEN THE ECONOMY MAY NEED A STIMULANT.

1ST ALTERNATE CONCLUSION - 10 -

IN 1795, WHILE IN LONDON LOBBYING FOR THE AMERICAN COLONIES,  
BENJAMIN FRANKLIN RECEIVED A LETTER FROM CHARLES THOMPSON COM-  
PLAINING ABOUT THE PASSAGE OF THE STAMP ACT. FRANKLIN REPLIED,  
"IF CLOUDS ARE DARKENING THE SUN OF LIBERTY, WE MUST LIGHT THE  
CANDLES OF ENTERPRISE AND ECONOMY. GENTLEMEN, TODAY I ASK YOU  
AS BUSINESSMEN TO LIGHT THE CANDLES OF ENTERPRISE AND ECONOMY.

2ND ALTERNATE CONCLUSION - 10 -

PRESIDENT THEODORE ROOSEVELT WAS MAKING A SPEECH IN CHICAGO. AFTER THE SPEECH, A SMALL MIDWESTERN BUSINESSMAN WAS REPORTED TO HAVE APPROACHED HIM AND ASK. "BUT, MR. PRESIDENT, WHAT CAN I DO TO HELP THE COUNTRY?"

REPLIED THEODORE ROOSEVELT: "DO WHAT YOU CAN WITH WHAT YOU HAVE, WHERE YOU ARE, BUT DO IT."

GENTLEMEN, TODAY, I ASK YOU TO DO WHAT YOU CAN TO HELP US FIGHT INFLATION. YOU, AS BUSINESSMEN, KNOW MORE THAN ANYONE ELSE THAT YOU MUST LIVE WITHIN YOUR BUDGETS, YOU MUST WORK TO PREVENT SPECIAL INTERESTS FROM PROMOTING INCREASES IN WAGES AND PRICES THAT WILL UNNECESSARILY CONTRIBUTE TO INFLATION. YOU MUST FIGHT THE PSYCHOLOGY THAT HAS CAUSED BUSINESSMEN TO BORROW IN ANTICIPATION OF EVER-INCREASING COSTS AND PRICES.

AS THEODORE ROOSEVELT SAID, THAT IS WHAT YOU CAN DO WITH WHAT YOU HAVE AND IT MUST BE DONE NOW.

Dole = Bill

- Impression -

1. Federal Reserve
2. M-2 - energy
3. A.B.M. - Warrent
4. Tax Reform -
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Dole  
11/14/75

1975