

The Economic Club of New York

The Honorable Walter F. Mondale
Vice President of the United States of America

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Introduction

Chairman Tim Dunleavy

....has pretty good material too. He said they're dying to hear from me. Let me tell you, the facts of Mr. Mondale's public life and his rise to our nation's second highest elective office are well known. As a young lawyer in Minneapolis, who at age 32 became the Attorney General of his state, as a U.S. Senator following in the footsteps of his longtime friend and political mentor, Hubert Humphrey, and as a champion of reform legislation for 12 years in the U.S. Senate where his voice was always heard while improving the lot of the poor and the underprivileged, youth, senior citizens, minorities, and all those who seek equality and justice and opportunity.

Mr. Mondale's abiding concern for the preservation of a government of law as well as a government of human values sprang from his earliest years. Early on, he gained insight into the plight of working people and the underprivileged. He was poor. It was no accident that when he worked summers to help finance his education, he chose to work as a migrant laborer in the Minnesota fields and canneries. One summer he even helped to organize workers in an unsuccessful bid for better wages. And when he chose to take a year off from college, it was to work in Washington, D.C. for the youth wing of the Americans for Democratic Action. At age 20, he managed the successful senatorial campaign of the Mayor of Minneapolis, at that time Hubert Humphrey. When Mr. Humphrey declared the politics of joy, he left a legacy of the highest order to this country. In Walter Mondale, that legacy lives on.

As you know, Mr. Mondale has just returned from a 28,000 mile, 12-day journey throughout Southeast Asia and the Pacific. When he returned, he would hear some good news here at home. Despite earlier concern about a drop in the GNP during his 1978 first quarter, employment has risen and unemployment fallen. Order backlogs have continued to expand since last September and new orders are rising at a higher rate than the same time last year. In many ways, the landscape of economics appears to be changing. We are indeed fortunate to have the vice president with us at this time to give us his view from the economic bridge.

I must remind you again that the vice president is no stranger to economics. He served on the Finance Committee, the Budget Committee, and other financially-oriented committees in his term in the Senate. It is indeed an honor for me to introduce the Vice President of the United States, Walter F. Mondale. Mr. Vice President.

The Honorable Walter F. Mondale
Vice President of the United States of America

Thank you, Tim, for that very, very kind introduction. It's an honor to be introduced by one of the most respected business leaders in America today. To your President, Ed Locke, the officials of the Economic Club, and friends, I am delighted to have this chance to address you on the issue of economics before one of the most important and thoughtful economic fora in the United States today. As I looked over this audience, I was very impressed. It occurred to me, we may have

today in this room more vice presidents than have ever been together in a single room before in American history.

Tim mentioned that I've just finished an exhausting trip through Southeast Asia and the Pacific and also through five states of our country. But I don't complain. I recently talked to the President of American Express and he said of all the professions, yours is the best training ground for credit card sales, and so I realized I'm building myself as I go along.

When I returned from the trip I learned that the stock market had gone on a buying spree and so I called Bob Strauss to ask the reason. He said there were two basic reasons. One, the president made me his chief inflation fighter. And secondly, he sent you to the other side of the earth. (Laughter) Bob Strauss is a conscientious anti-inflation fighter and we're very proud of him. And when he heard that the stock prices had gone up, he grabbed the telephone. He said; get me that Dow Jones fellow on the phone right now.

Just before I left this morning, I stopped by to see the president. I said, Mr. President, I'm going to be speaking to the Economic Club of New York, is there any special message that you'd like me to bring? He said, not really. But he said, you'll find that they'll be wondering what government intends to do to bring down prices. And he said, I think you ought to consider proposing a permanent freeze forever on vice presidential salary increases. I could do that, but on the way up I found the speech was so long, I couldn't work it into my remarks. (Laughter)

I'm pleased to have this chance to discuss with you the central economic issues facing our country today. By definition, these issues are complex. And as we begin I'm reminded of what John Gardner once said, there are no easy solutions to the problems we face as a people. We want a simple answer, but the pat formula will never appear. Many things are wrong and many things must be done.

Nowhere is this more true than in the arena where political leadership must confront the intractable economic realities of our time. The overriding objective of our administration must to be wisely manage and sustain the nation's recovery from the worst recession in the post-war era. Yet achieving this success will require success on many fronts – inflation, energy, capital investment, productivity, and resolution of complex international questions which sharply influence our balance of trade.

Under our administration, we have established several major economic objectives and they are, first, to sustain private growth and employment and a healthy agricultural economy. Two, to reduce inflationary pressures driving private and government action. Three, to fully implement a sound national energy program. Next, to pursue policies which strengthen our position in international trade. And finally, to enhance capital investment and help increase the productivity of our workforce.

We will do so in the firm belief that modern economic management requires, above all, the

accurate and honest definition of our problems and the fashioning of remedies with a pragmatism which recognizes the complex interplay of forces at work in today's economy. It is in that spirit that our economic policies have been and will be fashioned. Our commitment to sustained growth is therefore matched by an equal and complementary commitment to fight inflation with all the resources at our command. In the most fundamental of ways, inflation eats at the heart of a democratic society threatening the economic security of our citizens, creating division, and undermining the essential trust in our common future upon which we all depend.

For many Americans, inflation means an erosion of real income. And for nearly all it means an uncertain future of running faster and faster just to stay in place. For business, inflation means increased costs, distorted financial reports, shadowy horizons for planning, rising interest rates, and reduced investor and consumer confidence. If not checked, inflation is certain to strangle growth with recession. We will not accept inflation as the price of increased growth because inflation is in itself unacceptable and because in the long term inflation is the certain enemy of growth. Nor will we accept economic stagnation as the price of controlling inflation.

Between 1973 and 1975, this country went through a shattering recession triggered in large part by an inflation which reached 12%, and we learned firsthand the profound cost of negative growth, collapsing investment, and high unemployment. I'll never forget visiting the city of Detroit during this period. An announcement had appeared in the paper that one of the auto plants was considering new hires. They weren't calling for applications, but simply considering

it. The previous evening for those interviews, nearly 5,000 citizens got into line and started to fight with each other just for the chance to apply for possible work. History tells us that a democracy is only as strong as the conscience of its people, and America's conscience will not tolerate millions of able-bodied workers unable to support their families because there are no jobs.

We learned as well that recession does not cure modern inflation which is fueled largely by forces independent of demand. Recession cannot end food shortages, nor can it rescue us from the threat of increased world prices for oil. Recession does not resolve the major underlying cause of our inflation, the pervasive expectation of continuing cost escalation which survived 9% unemployment and remains a self-fulfilling prophecy.

The need to reject old ideas and to implement new approaches is therefore clear. We have been asked by both business and labor to reject the concept of wage and price controls and we completely agree. We have all learned from the experience in the 70s that controls distort and disrupt market decisions, stifle incentives, create severe inequities, threaten to straight-jacket the economy and bureaucracy, and produce benefits which are temporary at best. But we also believe that the people of this country have the right to expect full cooperation of business and labor and a flexible, carefully coordinated effort to reduce inflation.

We have placed the highest priority on this effort to combat inflation. We have asked every

American to sacrifice his share of the proposed tax reduction. We will not hesitate to invoke the full range of presidential powers to preserve and defend the budgetary discipline and carefully considered priorities that we've proposed. Responsible leadership demands that. We will continue our efforts to eliminate wasteful regulations. We will set an example by freezing the pay of high level federal executives and by a reduction in pay increases for civil service workers. We will press for airline deregulation and containment of hospital costs as a high legislative priority and will increase timber production on federal land.

We have asked the Council on Wage and Price Stability to actively monitor wage and price activity and to assist business and labor in reaching decisions consistent with overall national policy. And we will not hesitate to bring selfish action, whether by business or by labor, before the court of public opinion. The administration has pledged its full efforts to a practical strategy and we expect cooperation in return. From business, we expect price moderation. We are asking that the rate of increases in individual markets decline significantly below the '76 - '77 average. From labor, we expect comparable restraint. And if we achieve the cooperation which we believe we have the right to expect, real wages and profits will benefit.

This will be a long and excruciatingly painful effort. It relies fundamentally on the good sense and patriotism of American business and labor and on the full support of the public. It can be far more successful than arbitrary bureaucratic controls, and it is our most important bulwark against yet another cycle of cruel and wasteful recession.

I believe that we can and will succeed and that we must. We have been given assurances of cooperation from many industries. And in cases such as autos and aluminum, we have already received early this year commitments that are objectives will be met. Since the president's recent speech, we have met with businesses and professional groups including doctors, dentists, and major manufacturing industries and the results have been strongly encouraging.

Just this week the National Association of Homebuilders adopted a resolution pledging to hold down price increases in housing, and the National Retail Federation has also pledged their cooperation. And I firmly believe that we will, in fact, receive cooperation from the leadership of our labor movement which has publicly recognized inflation as the number one economic problem today. And I would like to say at this point that we are very pleased by the leadership that Bill Miller is providing as the new Chairman of the Federal Reserve Board.

We do not live in a simple world as you well know. And as you know our economy relies on a complex web of labor management relations, consumer and investor behavior, independent regulatory activity, and government policies. And our economic health is in many ways linked to the decisions of foreign government which we can influence with skill and persistence but cannot dictate. In both the foreign and domestic arenas, we must retain the flexibility to pursue long-term objectives of economic stability even at some cost in the near term.

In that spirit, we have proposed a balanced national energy program to promote conservation,

stimulate domestic production of energy, and encourage conversion from scarce oil and gas to plentiful supplies of coal. A sound national energy policy will have a near-term impact on prices. Yet enactment of an energy plan is absolutely critical to the long run future of our economy. It is necessary to strengthen our dollar, to preserve and improve the relationships with developed and developing nations on which our export markets depend. To guard against loss of the independence and leadership which characterizes our position in the world, and to bolster business and investor confidence, enactment of energy legislation is critical. And I confidently predict that a sound energy bill will be on the president's desk for signature this year.

We face the future from a position of enormous strength. This country, with its vital economic system and unmatched human resources, has within itself power to solve the problems we face and provide the leadership which is expected of us in this world. Over the past 16 months, we have enjoyed the highest rate of real economic growth of any of the major industrialized nations in the world. We have added over five million jobs to our labor force – a record for that interval. Real income after taxes has grown by nearly 6 ½% and corporate profits are up by 18%. And our inflation rate, while still unacceptable, was lower last year than a majority of our major trading partners.

I have just returned, as I said earlier, from a five-nation tour of Asia and the Pacific. And everywhere I went, I found there was enormous confidence and belief in the American economy. Our free enterprise marketing system is still seen as the strongest, most hopeful force for

economic progress in the world today. The nations I visit look to us to exercise world leadership, to sustain economic recovery, and to build a better framework for growth in international trade. Nations throughout the world still believe that we offer the best hope for developing new technologies to meet growing needs for equipment, renewable supplies of energy and food, and for a whole range of other needs.

And despite the challenges and the problems we face, our country also has the limitless reserve of individual talent, imagination, and commitment which has always been our greatest strength. The task before us is to apply that strength to the overriding goals that unite us all. As Robert Kennedy once said, our problems are common because we are one people for all of our difficulties and disagreements. We are bound together as brothers in the blood and sweat of our past and in the dreams and dangers of the future. I'm confident that we can see and meet those dangers and work together to fulfill the promise of our beloved country. Thank you very much.
(Applause)

QUESTION AND ANSWER PERIOD

CHAIRMAN TIM DUNLEAVY: Mr. Vice President, you've touched a lot of bases on a lot of these questions that have been asked, but one of the things this questioner asked is – he says, with all the things you said but without the leadership and the coordination with Congress, and therefore effectiveness, how are we going to increase that effectiveness in the coming months

ahead in order to be able to do the things you're saying?

THE HONORABLE WALTER F. MONDALE: Well, coordination is essential. As you know, there are certain inherent difficulties in absolute efficiency under our constitutional system. The founders created this system which, as they said, was designed to pit ambition against ambition. And if they failed in many things, they certainly succeeded abundantly in achieving that.

(Applause) And I think that that's a strength of the system, that before we act in basic ways to affect America, the policies that are being proposed must be ventilated, subject to debate, and challenged, and reviewed. It's at the heart of the strength of our country. My colleague, or my late friend Hubert Humphrey used to say, you can read The Bible from the first page to the last, you can read the Declaration from the first page to the last, you can read the Constitution all the way through, and never once will you see the word efficiency mentioned. (Laughter and

Applause) But having said that, a little efficiency doesn't hurt. We are trying through – in the Executive Branch – the institution of what's called the Economic Policy Group, which is chaired by Mike Blumenthal, a very able and gifted Secretary of the Treasury if I may say, to coordinate the Executive side of economic policy. We have had extraordinarily good working relationships with former chairman Arthur Burns and now with the new Chairman of the Federal Reserve, Bill Miller. And I believe that we're going to see and are beginning to see a new level of cooperation between fiscal and monetary policy that we haven't had for some time. I served on the Budget Committee and the Finance Committee for some years and it was always my notion that if you could strike some kind of generalized bargain between fiscal and monetary policy, we could do a

better job. Many times we'll have the fiscal engine going in one direction and the monetary engine in the other, and both overcompensating because they don't trust the other engine. And I believe under Bill Miller we're going to have – there's some demonstration of it already – a level of cooperation that we haven't had and need. For example, the recent proposed reduction that we made in our tax proposals by which we reduced the tax cut for this year by nearly \$10 billion was done in part on the basis of the strong recommendation of the Chairman of the Federal Reserve Board that if we would reduce the fiscal pressure on the economy, he could then be more accommodating on the monetary side. And I think that coordination is crucial and I believe that we have kind of working relationship. We are also working closely with the congressional leadership with such people as Russell Long, Chairman of the Finance Committee and Al Ullman, Chairman of the Ways and Means Committee, Ed Muskie and Bob Giaimo, Chairmen of the respective Budget Committees and so on. We have now established the budget mark for this year. I think it is a wise and a sound budget for this next year, both on its own merits, but just as importantly because of the impact of that budget and its relationship to total macroeconomic policy. So I do believe that we have a level of cooperation that is impressive, but I think you can never expect absolute prompt time schedule coordination matters such as this, nor should you.

CHAIRMAN TIM DUNLEAVY: Very good. Senator, speaking of that, or Mr. Vice President, speaking of that cooperation, Senator Church said at the Bankers Association for Foreign Trade Convention last Tuesday that the deficit in the federal budget is not inflationary. Would you

agree or not agree? (Laughter)

THE HONORABLE WALTER F. MONDALE: You may have heard that story by Bismarck. He said that he who likes sausages and laws should never watch either being made. (Applause) To be serious about it, there are times – first of all, the federal budget is always relevant to macroeconomic policy. It can be a drag. It can be a stimulus. It can be neutral. It can drag too much. It can stimulate too much. And unfortunately, the measures and the tools we have for predicting or knowing are crude and we have to do the best we can within that limit. We have had an interval here now for some months and even years where there is scant evidence that we are in an excess demand, inflation-producing era, but that the inflation has been primarily stemming from cost push factors. In circumstances like that, a deficit in the federal budget can in fact have a healthy impact on the economy if it's carefully shaped to produce the kind of prudent growth and stimulation that we all need. And I think it has been an important source of strength from that standpoint. But we are arriving at the point where we can soon have a resumption of demand pull inflation stemming in part from the federal budget if we're not careful. And that's why we have this year tried to bring that budget deficit down and have substantially from the original prediction and would hope to do some more. We have set a target in this next four years of coming as close to a balanced budget as possible, and our target is to reach that. And in order to do that, we have to make some progress in each of those years. And we have established that goal of reducing the total federal burden on the federal economy down to a 21% level. When we assumed office, it was about, just under 23%. We reduced it in real terms this year, and it's our

objective to continue to do so.

CHAIRMAN TIM DUNLEAVY: Mr. Vice President, you can see how August a Club this is, the very first person who rushed up here to give me a card raised this important economic question. He said, should the cost of the luncheon be only 50% tax deductible to the host? (Laughter) He also gave me a suggested answer. Only if you've had three martinis. (Laughter) I think the last question, because the Vice President has to go and we're sorry we probably haven't gotten enough for everybody because there's a lot of questions here on energy. What are we going to do about our energy policy? But I think another one that came in is what direct support do you see this administration giving to the United States biggest investment in Southeast Asia? We understand it is our policy to play a role in that economic region.

THE HONORABLE WALTER F. MONDALE: And it's essential that we do. When I met with the representatives of the American Chambers of Commerce in Jakarta, I was amazed at the range of U.S. business presence throughout that area. And as each described what they did, it occurred to me that in many ways U.S. business touches more of Southeast Asia than government ever will. And that what U.S. business has to offer these countries and these people in many ways is exactly what they most need, and I was surprised to find, most want. Most of the leaders I talked to would begin discussing security, their internal security, but I was surprised at the degree to which they discussed it in terms of economics. In other words, they felt if they could get their economies growing faster, if they could produce more jobs, if they could make

those jobs available in rural areas as well as in the large urban areas, their chances of stabilizing and strengthening their political system and the affection of their people toward their system was enhanced. And they were all, in practically every stop I made, they were asking specific questions about various business opportunities and in almost every case an American business or businesses were involved. Much of it was energy but many other areas as well. I would like to see a broader presence of American business than we've seen today. And I would like to repeat something I said at the Business Council the other day. We hear a lot about multi-nationals. Actually in most cases that's a code name for American business. And we need more American business all over the world and not less of it, and we should be encouraging and standing behind American businesses to engage and expand their operations in international affairs. In many ways, they're the best investors we have anywhere. (Applause) We are taking several steps. We've established an Export Expansion Commission under Juanita Kreps, the Secretary of Commerce, to sit down with not only governmental agencies such as the Ex-Im Bank, the Export Administration, federal tax officials and so on, but also with American businesses to see what we can do to eliminate red tape, to correct other policies that stand as a barrier, whether they're trade barriers, lending barriers, tax barriers, non-tariff barriers, and the rest, to assist American businesses to more actively engage in international commerce. We are proposing a major increase, for example, in the lending authority of the Ex-Im Bank. I found out when I was in Asia that we were losing substantial amounts of business to foreign competitors even where we had a superior and a preferred product because lending institutions from other nations were underbidding us on credit terms. Well, that is a no-win proposition and I think the quickest way

to stop cutthroat credit terms is to match it. And then they can all consider how to civilize it.

(Applause) I see we have some people over here who have tried it. And we're trying to assault these restrictions that interfere with the ability of American business to grow and compete and I believe we can make great progress on it. Thank you very much. (Applause)

CHAIRMAN TIM DUNLEAVY: Mr. Vice President, it's been an honor to have you with us and to share with us some of the goals and plans of the administration. Gentlemen, I think you have to agree he did it very well. (Applause) And now we'd ask that you all please remain at your seats until the vice president has left the hall. And we'll call this meeting adjourned.