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BY

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BEFORE

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## A New Steadiness of Progress

I think this is a good time for some plain talk about the economy, the stock market, and the overall strategy of this Administration.

When I first came to Washington, there were those who said "What does a Wall Street lawyer know about being Attorney General?"

And when I discuss the economy today, I am sure there will be some who will say "What does an Attorney General know about Wall Street?"

I understand there is a movement afoot, based on the recent stock market decline, to revise the conflict-of-interest regulations. Under the new plan, government appointees would be required not to sell their stocks when they take office.

There seems to be a longstanding tradition in Washington that says that the securities markets are not a proper subject for discussion.

One reason for this tradition is this: Wall Street was once the habitat of men in silk hats and diamond stickpins, and no self-respecting political figure could afford to be associated with them.

Another reason is this: Communists propaganda for a century has been depicting Wall Street as the nerve center for all warmongering.

And finally, there was a practical reason: no soothing syrup manufactured in the corridors of power has any effect on a market that wants to go down.

The first two of those reasons are no longer valid.

With 28 million American stockholders affected by the market, a government that is compassionate about unemployment must also be concerned about "uninvestment."

And with peace the most bullish element in the market in our times, the myth of the Wall Street warmonger has been exploded forever. With no disrespect intended to the symbol of the Soviets, war is obviously bearish.

That third reason, though, remains cause for hesitation-- if government cannot do anything about market fluctuations, why should government say anything about them?

I believe there is a basic fallacy in that question. It assumes that when a bull market is roaring along, all a government can do is bask in reflected glory; and it assumes that when a bear market comes along, all a government can do is grind out statements of rosy reassurance.

But clouds of pessimism are never dispelled by statements of sweetness and light. Confidence is not issued, confidence must be built.

When I was on Wall Street, the degree of my own confidence was affected by the elements of certainty in any situation. The track record of management is a basic element of certainty, both in business and government, and the track record of this Administration in doing what it says it will do is worth your consideration.

Let me begin, then, by acknowledging this: investors large and small are suffering. And the Administration is properly quite concerned about it, especially since many decisions in the securities market are being based on fears rather than on facts.

In that regard, let me answer a question that has been often asked in the past few months: to what degree does government take the stock market into account in making its economic decisions?

The answer, in a word, is "some." Wall Streeters themselves know that the market is traditionally a notorious overreactor, where economic trends are reflected in wide and sometimes

irrational swings. They know, too, that the market is not always an accurate indicator; someone recently paraphrased Paul Samuelson by saying that the market has predicted "eleven out of the last four recessions."

At the same time, the market is an accurate measure of investor confidence, and has a real effect on both consumer and capital spending. To ignore this would be putting your head in the sand, and that is one thing this Administration does not do.

Therefore, it is important that the inflation psychology of last year not be replaced by any recession psychology, but by the psychology of price stability and economic growth. The key to this psychology of stability is confidence.

How is confidence earned?

First, by the establishment of a good track record over a period of time, as you do what you say you will do. Second, by the evidence of success in the goals you have set.

Let us examine the track record in its broadest perspective, because confidence rests on far more than economic matters alone. In essence, we are talking about a new steadiness of progress that will come with world order, economic order, and social order.

This Administration took office pledging to end the war in Vietnam in a way that would permit the people of South Vietnam to decide their own form of government. The basic measure of our involvement in that war is the number of our troops in that country. There are 115,000 fewer American troops there than were there before. That, I submit, is a track record; when the President pledges to withdraw 150,000 more in a year's time, you can look to that track record for full confidence that he will do what he says he will do.

Further, the President announced the limited scope and length of time of our action to clean out the Cambodian sanctuaries, and thereby make life safer for the troops not yet brought home. Some people here at home cast their minds back to the mid-Sixties and jumped to the conclusion that no President could be believed. Today, some of the U. S. troops sent into Cambodia have already returned, and the remainder will be out within the deadline that the President imposed. Again, the President is doing what he said he would do.

Let me turn now to the economic scene to examine the track record. As confidence is a function of progress toward world order, it is also a function of economic order.

The President said that to curb inflation, he would gain command over the powerful momentum of increased Federal spending. The revised budget figures which are to be released soon will vividly illustrate that the President is doing what he said he would do.

From fiscal 1965 until 1969, the average increase in Federal spending was over 13% every year. In fiscal 1970 which ends this coming June 30, that momentum was cut to about 7.4%; and in the coming year, the budget increase will be cut in half again. When you consider some rise in prices, that means there will be no increase in real Federal spending next year. That, I submit, is a track record that should convince even the most skeptical about our intention to redeem our pledges. It was achieved under the most intense pressure from some spenders in Congress to continue the policies of the past.

A small deficit, caused by a shortfall in revenues, is now projected for fiscal 1970 and 1971. We do well to remember that rapid expenditure increases and consequent huge deficits of the Sixties were the prime cause of inflation today; but a small deficit that comes as a result of the economy taking a brief breathing spell is, I submit, not a cause for concern, as long as we are keeping expenditures within the basic revenue capacity of the tax system.

Another example: at a time last year when inflation psychology was rampant, the President made clear that he intended to help cool the overheated economy. At the time, not everyone believed it would actually happen, but now-- to put it mildly--there seems to be universal agreement that the economy is no longer racing at an unsustainable pace. We have done what we said we had to do.

We also said, you will recall, that price indexes would be the last of the inflation indicators to slow down. Nobody will deny that the rate of increase, which had been steadily rising to over six percent, has leveled off; as a matter of fact, there is considerable evidence that the rate of increase of prices has been headed downward lately. This includes food prices, the most important component of all to the consumer. For those whose eyes are fixed on the financial tables in the newspapers, I would suggest they also glance at the food advertisements to see concrete progress in the fight against inflation.

The President also said that he did not believe it was necessary to induce a recession in order to curb inflation. He and his economic advisers pointed out that the time to ease restraints was well before the ultimate results of price-slowness became apparent.

Accordingly, in the past few months we have seen the predicted moves to ease restraints. The removal of voluntary restraints on Federally-aided state and local construction was a small step in this direction; more significantly, the independent Federal Reserve Board has been increasing the money supply at an annual rate of 4% since January, after a long period of no growth at all. Again, we have done what we said what we were going to do, and the Fed has now done what we said we hoped it would do.

We made it clear that we would not impose wage and price controls, since we were determined to deal with the causes rather than the symptoms of inflation. This is an especially hard ghost to lay to rest, since it offers what may appear to be a snap solution. But wage and price controls, with the rationing, black marketeering and government domination that follow in their wake, are not now and never have been a part of our economic strategy. Forget about them.

We said we were willing to trade off speed in reducing price increases in order to avert the hardships of dislocation and high unemployment. I believe that is a trade that the American people are willing to make. It takes longer, but no one group should have to bear all the burden of establishing a sound prosperity.

Now, after coming this far, some people are worried that we will throw away the progress we have made and let the economy go off to the races again. If they would only consider the track record, they would see how unlikely an eventuality that is. We did not cave in before, and we will not cave in now or later--on the contrary, we will encourage a sustainable rate of economic growth. That sustainable growth will be quite evident in the second half of this year. Sustainable is the key word, and steadiness of progress is the key concept.

Just as we do not intend to put the economy through the wringer so we do not intend to pump the economy into a booming inflation again. Our prudence on the budget, and the moderation of Federal Reserve policy show that.

It is interesting to note at this point that most of the worriers on Wall Street are divided into those who worry about whether our policy to curb inflation will be unsuccessful, and those who worry that the fight against inflation will be too successful. I urge both groups to consider the benefits that will accrue to the nation and to themselves when we bring about a new steadiness of progress.

No single industry is more harshly whipsawed by inflation than the securities industry. A runaway economy makes speculators out of many investors who should not be, induces

reputable firms to expand too rapidly to absorb the explosion of business, and threatens their stability when the bonanza turns out to be transitory, as it always does.

A new steadiness of progress, therefore, will offer stability of prices to the consumer, opportunity to the wage earner and the investor, and a less frenetic and more rewarding way of life to the people who make their living in Wall Street.

So far today, I have spoken of what we have done to bring about order in a divided world, and order in an inflated economy. As I see it, order is not an end in itself--it is the only democratic way to more freedom, more justice, more change for the better. In that spirit, let us examine briefly the third great area in which order is necessary: in the way we live with one another.

There can be no greater evidence of disorder in society than the sound of gunfire on a college campus. From Kent State to Jackson State, we have seen the citadels of reason turn into fortresses of force, and as a result the nation has witnessed the saddest semester in the history of American education.

I will not offer judgments now on matters under urgent investigation, but I will say this: this is a nation determined to live within the law, neither violent demonstrations nor

unrestrained reactions are part of that law. There are 200 million innocent bystanders in America who must be protected, and the first duty of the peacekeeping forces is to protect the innocent.

The hope for order in our society goes far beyond the intelligent use of restraint in keeping the peace; it draws upon the natural revulsion to violence on the part of the American people, which is making itself felt now within every group and each generation.

In this regard, it is a hopeful sign that the increase in crime in this country is beginning to come under some control. We are still far from our goal, but the explosive rate of increase has been cut in half. Moreover, one of the greatest contributors to crime, the drug traffic, is under an attack the likes of which it has never seen before. This attack is especially directed at the suppliers and pushers who prey most viciously on our young people.

There are times when the shock of tragedy awakens a people to the futility of violent actions and reactions, and I believe we are going through such a time. This Administration will do everything that responsive leadership and cool judgment can do, to hasten the return to the tradition of peaceful change.

Perhaps I have tried to do too much today, in relating our efforts as a nation to achieve international order, economic order, and social order.

But that is what the Federal government is elected to do--to see the problems of this nation as a whole, and to take action along a broad front, not benefiting one group or one area at the expense of others, but acting in a way that widens the horizons for all.

That is why I have not limited this talk to businessmen to the subject of business, and why we cannot deal with the pervasive idea of confidence in terms of money and markets alone.

This Administration has a strategy. Let me make it plain that it is a national strategy, a strategy of reform of national affairs to bring about a new steadiness of progress.

We are convinced that this strategy will work. We have some evidence that it is beginning to work already, especially in the economic field. We intend to persevere, and you as businessmen would do well to make your plans and investments on the basis of the elements of certainty provided by a government that already has a record of doing what it said it would do.

Our strategy is fallible, but it is not frantic; it is sounder, we believe, than any other strategy we have heard, and has certainly been better than the makeshift policy of the past.

Nobody can assure you that this strategy is perfect, but let me assure you here and now that it will be followed. We will be sensitive to trends, and will adapt our tactics, but there will be no flip-flops in the basic design.

The people put a man in the Oval Office to take the long view, and to act in the best interests of all the people. That is what he is doing now. I am confident that it will become increasingly apparent that--in our time and with this President--it is not a good idea to sell this country short.