Caddell, Patrick, [12/76-1/77]

Folder Citation: Collection: Office of Staff Secretary; Series: 1976 Campaign Transition File; Folder: Caddell, Patrick, [12/76-1/77]; Container 1

To See Complete Finding Aid:
http://www.jimmycarterlibrary.gov/library/findingaids/Staff_Secretary.pdf

C

MEMORANDUM

TO: Governor Carter, Bert Lance

FROM: Pat Caddell

RE: Consumer confidence

DATE: 20 December 1976

In most economic thinking - and in most of the models and projects that we will have to deal with in the next four years - the consumer is treated as some kind of mythical "rational" maximizer. Unfortunately, the real consumer does not even approximate this ideal. He may maximize, but he is just as inclined to maximize various psychological benefits as he is to achieve some perfect economic formula. In many cases the consumer's logic runs contrary to the economist's logic. He cuts spending where he rationally ought to increase - he's done the reverse as well. Even worse, from a "scientific" point of view, the consumer changes. Political and economic changes change the way he reacts to events and to government policy.

However, the aggregate behavior of consumers is one of the controlling forces in any economic strategy. Without the

ELECTROSTATIC REPRODUCTION MADE FOR PRESERVATION PURPOSES

participation of consumers - both as workers and as wage-earners - any strategy to change the business climate or the national income is futile. At the heart of any view of the consumer is consumer confidence - the basic outlook consumers have on the economy and their economic expectations for the near future. This memo seeks to examine three major points:

(1) the history of consumer confidence - where it's been in the recent past,

(2) a theory of how it functions, and

(3) the implications of all this for planning.

Looking first at the recent history, we see that since the early 1960's political and economic "shocks" have changed the attitudes of Americans toward both the government and the economic system. Of course, the consumer does not make neat separations of economic, political, and cultural changes. He tends to view them as unified and somewhat related phenomena. Most changes in both the economic and political sphere can be reduced to four major attitudinal changes:

(1) There has been a decline in long-term expectations for the country, people no longer expect the future to be automatically "better".

(2) Watergate and the War in Vietnam reduced confidence in the established institutions.

(3) Cultural changes produced changes in lifestyle that affect consumer behavior - new concerns over health and the environment had particular impact, and finally

(4) Double-digit inflation created both a new sensitivity and a new fear for Americans.

1. Change in long-term attitudes

One of the results of the set of national disasters - the war, assassination, urban riots, Watergate, and economic problems - has been a change in the basic framework of attitudes as well - attitudes toward specific problems. From the survey data that is available, we find that in the past a single political crisis or economic slump had little long-term impact on the views of people about the long-term future of the country. Americans were almost always optimistic; they believed that conditions today wre better than in the past and that conditions in the future would be even better. Temporary crises might exist but the future was secure. Part of this psychological overview was supported by tenets Americans hold dear:

(1) Americans fight only just wars and never lose a war

(2) American Presidents, while not always bright, tried their best; that the office was one of moral leadership; and that "the office makes the man"

(3) Assassinations were a way of life in other places but America was a land of the ballot not the bullet

(4) We had an abundance of cheap natural resources

(5) We had learned how to master the economy, there would not be serious economic bad times again; if there were problems, economists would fix them; and finally it was impossible to have massive inflation and massive unemployment at the same time.

Each of these basic tenets was overturned, resulting in unmatched pessimism. People no longer concerned themselves solely with small immediate problems, they now questioned the possibility of long-term success. The positive environment that had framed all issues and problems was shattered.

Table I shows the mean scores obtained from "ladder scale" measures which ask a respondent to place the country on the 0 to 10 scale - from best to worst - for five years ago, today, and five years from now.

TABLE 1
National Ladder Scales

	1959	1964	1971	1974	1975	1976
Past	6.5 ↘	6.1 →	6.2 ↘	5.9 ↗	6.1 ↘	5.6
Present	6.7 (.7)	6.5 (1.2)	5.4 (.8)	4.5 (.8)	4.6 (1.0)	4.9 (.9)
Future	7.4 ↗	7.7 ↘	6.2 ↘	5.7 —	5.6 ↗	5.8

As we can see, in 1959, even after the 1958 recession, and in 1964, people saw the present better than the past and expected a still better tomorrow. In 1970 that changed. People found the present worse than the past (bringing the rise of the nostalgia movement) and expected little of the future. By 1974 and 1975, the "present" had fallen to incredibly low levels and the future was now expected to be worse than the past. By 1976, perceptions of the past had declined, making the future "better," but at levels far below those of past surveys. This change in basic attitudes, coupled with some others, made the rise of an unknown former Southern Governor to the Presidency possible. It also undermined the "normal" reactions of consumers to the economy.

2. Decline of confidence in institutions

Over the course of these years there were steady declines in public confidence in governmental, social, business, military and religious institutions. A feeling of alienation increased to record levels and the public questioned the efficacy of political participation. Majorities came to feel that "politicians don't really care about people like you", while a quarter did so in the mid-1960's. By 1976, 69% of the people would agree "over the past ten years America's leaders have consistently lied to American people". While in the late 60's, majorities felt the government was run for the good of the average person, by the early 1970's, majorities disagreed. All of these attitudes and many more contributed to a belief that the government could not be relied upon.

In the economic area, these attitudes eroded the government's ability to "lead" the public on economic issues; the public became steadily more skeptical of policy pronouncements. Where in the past, the government could lead the consumer by discussion and argument, by the 1970's the consumer would not even listen. This combination of pessimisism and disaffection directly contributed to making consumers more cautious and economically defensive. Rebuilding confidence was hampered by the negative environment.

3. Lifestyle changes

The 1970's also saw changes in lifestyle. The generation of the "baby boom" grew up, and their surge into the adult population changed lifestyle views. Durable goods and cars, which had been "luxuries" became necessities. Oddly, this reduced the premium on comparative acquisition, i.e. a refrigerator was a refrigerator and the impetus to buy was predicted on the need for one rather than "keeping in style". The autos suffered somewhat as the young and the well-to-do deserted American cars for foreign imports -- in part due to efficiency/cost arguments, in part because of the social maxim "small is good, big is bad", in part due to the new "status" attached to foreign imports. Among many young upscale consumers a new ethic arose favoring downscale purchases of durables, autos and even housing and upscale purchases of leisure and entertainment. In addition, inflation pushed all consumers away from longterm planning of purchases to immediate gratification, trading the future for today.

In addition, we see women entering the job market in massive numbers. The new views of women not only liberated work, it liberated political and social thinking as well. The rise of the "growth versus no growth/less growth" issue can be traced to primarily women and to young people. The "quality of life" versus the "quantity of life" has produced a less traditional view of the world among large sectors of society which influences not

only growth/environment issues, but energy attitudes, political attitudes and most important economic and consumption attitudes.

These changes in values, altered the behavior of consumers and the structure of individual economic decision-making.

4. Impact of double digit inflation

No factor had a greater impact on consumer confidence than double-digit inflation. Except for occasional flurries in the distant past, Americans simply had never experienced sustained high levels of inflation. The impact was profound.

As consumers experienced inflation, coped with it and were battered again, the reactions constantly changed. As inflation continued, coupled with a serious recession, the initial public reaction underwent alteration. The period 1973-1976 can be viewed as a period in which the consumers struggled to adapt to inflation and in the process the nature of consumer confidence, already effected by the other factors discussed above, began to change as well.

During this period the failure of government policies in addition to the misleading and often outright lying by government officials forced the consumer to depend on his own instincts and his personal reading of economic signals to determine an individual economic response.

One has to consider the distance from Nixon's wage and price controls in the face of "intolerable" 6% inflation and 6% unemployment, to understand the extent of the most recent economic recession. The responses of consumers would forever be different. As our research proved in Spring 1975, recovery would not be led by housing as had almost all past recoveries. The criteria the consumers used for making judgements had changed as had the judgement themselves.

For the consumer as for the voter, perception was reality and the perception of runaway food inflation (often perceived as 50% or more!) forced consumers to lower the standard of living -- particularly in the food area. They saw a future haunted by an unseen energy that threatened their ability to plan for the future. The consumer became more confused, apprehensive, and cautious than at anytime since the Depression. Any economic scenario that depended on a traditional consumer involvement in a recovery was bound to be off base.

As inflation continued to haunt the consumer the result by late 1975 was for the introduction of fairly massive inflation psychology. Even in 1976 and early 1975 most consumers resisted European-style inflation psychology reacting with the traditionally conservative American fashion of saving money because of "bad" economic news - whether inflation or unemployment. Following the inflation sprint in July-August, 1975, the consumer finally moved toward the European model and by late in the year and the first part of 1976 the U.S. had experienced the broad impact of

inflation psychology. With it came the growing belief by almost half the country that it was no longer worth planning family purchases and indeed there began a movement away from long-term purchases.

Theory of consumer confidence

Our approach to consumer confidence is to regard it as a way of summarizing the generalized feeling that consumers have about the health of the economy and their own personal future in it. Each consumer is given a great mass of data each day about the economy. To be charitable most of that data can be described as imperfect. Furthermore, the consumer has neither the time nor the skills to do any kind of scientific analysis of all the facts that are available.

Yet to make economic decisions, the consumer needs some generalized sense of how the economy is working. We measure that sense with four questions: satisfaction with income (how are you doing?), comparison to a year ago (are you doing better or worse?), expectations for next year (will you be doing better or worse?), and finally, view of the economy (how is business doing?). It can be shown empirically that a scale based on these four questions correlates strongly to such things as objective economic status and to purchase intentions.

On another level of analysis we sought to determine what clues, which pieces of data, the consumer uses to get the answers to those four questions. In the end, after a great deal of searching we found that the strongest correlations at the current time are to prices, and particularly to food prices. A wide spectrum of clues are used - unemployment rates, prices in general, interest rates and so on - but food prices are the strongest correlate. It also is important to realize that the

consumer is far more sensitive to price change for small, frequently purchased items like food and gasoline than for larger less frequently purchased items such as durables. For the consumer it is the small items that are purchased which signal inflation, not large macroeconomic figures. Subsequent analysis has shown that people are even sensitive to the rate of inflation. People who see prices going up slowly are more confident than those who see prices going up quickly.

One problem that we have faced is that inflation produces declines in confidence - which should produce declines in purchase intentions. However, inflation also produces increases in inflation psychology - which should produce increases in purchase intentions. This essential conflict is one of the prime things we are continuing to try to unravel in our on-going research. At the moment it appears that when consumers meet cross pressures from these different motives they pull back; caution is the watchword in almost every situation. However, in late 1975-early 1976 and perhaps in 1973 we saw periods where the inflation psychology motivation caused rising purchases coupled with falling or stagnant levels of confidence.

Given the complexity of consumer reactions, however, it is vital to understand them before one glibly talks about "stimulating" them. They are quite capable in their reactions

of doing the opposite of what is predicted by "hard" economic theory. The goal of any economic program at this stage must be to increase confidence without creating the inflationary fears that will cause consumers to pull back. One obvious places to do this is at the point where consumers get their information - the market basket.

Few would argue that consumer confidence - how the consumer interacts with the economy - should be an important area of study. Yet in most economic analysis and forecasting the study of consumer confidence has been neglected. It is often relegated to a footnote in economic projections. In additon, consumer confidence has often simply been treated as an "index", as a number. Economists have shown little inclination to understand the composition of consumer confidence, how it changes, the impact of events on it, the signals that trigger response, or the changing responses consumers give to those signals.

Yet consumers have been better at predicting the general movement of the economy than many professional economic seers. When we study the analyses from our various Cambridge Reports, we find time and time again the aggregate perceptions and concerns about the economy were borne out remarkably well by events.*

Two "points in time" demonstrate this well.

(1) In the spring of 1975 there was a lot of talk about a "recovery", particularly in light of the tax rebate. However, consumer analysis indicated three points: (a) a tax rebate was going to be primarily used to rebuild depleted savings (b) the mini-recovery which was going on was primarily caused by a perception of consumers that inflation - primarily food

* The Cambridge Report is a quarterly national survey which interviews 1500-2000 respondents for two and a half hours on subjects of attitude structure, economic plans and intentions, social, cultural, and political attitudes. Understanding the interrelation of these areas is the goal of the analysis.

prices - was holding steady or declining (c) consumers were quite cautious - because recent past experience had been so bitter - that until there were sure signs that inflation would abate, purchases of durables and large items would be slow.

In short, the improved spirits in the spring of 1976 were not an indication of a full recovery. They were only a sign that if the news about inflation were better, a slow arduous recovery might take place.

(2) In late 1975-early 1976 we saw consumer confidence level off with a slight decline, yet purchase intentions skyrocketed. This historical occurrence was explained by inflation psychology. We joined consumer confidence with inflation psychology to produce a "buying power index" which partially explained the phenomenon. In addition, we found that unconfident consumers were likely to purchase at almost the same levels as confident consumers - also unusually. The data suggested that unconfident consumers might well spend themselves into a degree of confidence, less "real" confidence than "inflation-driven" confidence. This was reflected in the first quarter findings which found confidence and spending intentions to have increased. Yet there were signs that did not mean a full-blown consumer recovery. As the Cambridge Report stated at the time:

"Yet there are some disturbing signs. Confidence may be spreading across the country, but we're definitely not in the midst of an epidemic; it still hasn't infected the majority of Americans. Although economists have no doubt that recovery is in full swing, the majority of Americans still aren't convinced that the worst times are behind us. Fear of inflation is strong, and we're already getting signals of a new round of price increases. If inflation psychology gets additional impetus from rising food and fuel prices, it may boomerang and push consumers back into pessimism."

I think that this analysis of consumer sentiment proved clearly more accurate as a gauge to the economic situation in 1976 than were the massive number of economists predicting a strong recovery or even "boom".

A brief history

Five major points in time stand out in the recent economic history. Understanding their impact and their relationship to each other helps to understand both the course of the overall economy and some of the forces that are at play today.

The first major point was Richard Nixon's imposition of wage and price controls in 1971. Despite the irony that is now apparent in calling 6% inflation a "crisis" level problem, the initial imposition of wage and price controls was greeted very favorably. Consumers still believed that the government could make positive improvements in the economy and they had faith that the program would work. Confidence rebounded strongly in 1972 as did consumer purchases.

At the second point, in 1973, a number of forces came together to begin the process of shattering both consumer confidence and confidence in the government. Controls ended and inflation took off. Watergate began the process of demolishing a President. Consumer confidence plummetted. Oddly enough, though, purchase levels remained fairly high. In retrospect it is apparent from the survey data that one reason purchase intentions did not respond to the decline in confidence was a slight increase in inflation psychology -- anticipatory spending based on the idea that things are only going to get more expensive. On the other hand, it is also clear that consumer confidence was probably driven to artificially low levels by the Watergate syndrome.

Much of the decline in confidence was "political" rather than "economic". Consumer confidence was discounted by many, and indepth analysis, which indicated the confusion inflation was precipitating was ignored.

At the third point, in 1974 and early 1975, we come to a series of key events. The increase in oil prices has further weakened public confidence and we are entering the period of truly double-digit price increases. The public finds itself in the midst of both high inflation and recession -- something that was supposed to be impossible. By late 1974 it became apparent that food prices were emerging as the key signal for consumer judgment and that in a long-term sense consumers were beginning to question their own long-term success.

In reaction to the tax cut, the public -- still fearing the worst -- did more spending. They had learned to be cautious -- perhaps overly cautious. In the Spring of 75, a decline in food prices produced a temporary rebound of confidence. Consumers saw some positive evidence that things might get better. However, it was clear that without sustained good news at the cash register and the gas pump that large increased purchases reflecting sustained confidence were not likely.

This leads us to the fourth -- and perhaps most important turning point. In the summer of 1975, inflation bounced back to double-digit rates after consumers had, for several months, been lulled into feeling improvement was on the way. Our own research went wrong for a while at this point. For over a year we had been searching for signs of widespread inflation psychology or a growth of this sentiment. We hadn't been able to find it and we doubted that this would be the course undertaken by consumers. When consumers had gotten their hopes up and then had them dashed their was a momentary increase in inflation psychology which we discounted at the time. Subsequent surveys, however, have shown that from that moment the level of inflation psychology had doubled apparently. It seems that it was this unexpected recurrence even temporarily of double-digit inflation that finally brought the consumer to a new a significant set of responses.

This brings us to late 1976 and early 1976 - a period where the consumer strikes back. We can sum up the results in four major points:

(1) Inflation psychology becomes operational as a motivation for making purchases. We were moved to try to creat a "buying power" scale which unites the buying motivations of inflation psychology and consumer confidence in predicting total purchase patterns. The nature of inflation psychology combined with consumer confidence is to sometimes drive purchases up and other times

drive it down.

(2) In the last quarter of 1975 and the first quarter of 1976, despite declines in confidence, purchases move up - fueled by inflation psychology. Historically it is unheard of for purchases to move up while confidence declines. In fact we found the unusual circumstance that people who were unconfident were purchasing at the same level as those who were confident. We theorized that "unconfident" dollars might impact to build a surge of confidence.

(3) For a time, price increases were moderate. We find in the first quarter that there is a decline in the percentage of people who see food prices rising. Also, a decline in the perceived rate of inflation takes place. These factors and the inflation spending prompt a rise of consumer confidence in the first quarter although as the year before there are no signs that the recovery will continue upward unless "real" confidence as opposed to "inflation inspired" confidence takes hold; that is inflation is perceived to have been checked. In short it appears that a real sustained surge in confidence and thus purchasing would depend on a long-term resolution of the doubt and and fears of the past few years.

(4.) By the end of the second quarter it was clear that confidence was not rising at any sustained rate. In some areas purchasing intentions leveled off and in others declined. Consumers get conflicting and contradictory data at the price front and from the news. The result was caution and stability. Consumers who saw the rate of inflation decreasing became more confident and increased purchases. Those who saw the rate rising became less confident and lessened purchases. The outlook, despite much general economic expectation, was for a leveling movement or even a decline in purchasing.

An appendix containing excerpts from various analyses prepared over the past few years which elaborates on this history of consumer attitudes has been attached. I have thought that these actual excerpts unvarnished by hindsight provide a summary explanation over time, and I think bring further understanding to the consumer confidence problem as well as some insight into the relative predictive power of in-depth consumer analysis.

The present situation

Right now we are on a plateau. For the last three quarters, we have seen consumer confidence basically stagnate. Consumers are no longer certain where the economy is going amidst the conflicting signals that they are getting from the economy.

Yet there is some reason to believe that there is considerable slack in the current situation - that a great number of consumers are poised on the brink of purchasing. For one thing, actual purchase intentions turned downward in August, while many consumers actually became a little confident. Our buying power index has actually increased slightly in the past quarter - which should be a sign that intentions are moving up. Consumers should be perceiving the further declines in the inflation rate, particularly for food, that have just been reported. The percentages of Americans who feel that now is a good time to buy various things - houses, autos and durables - has been at a relative high for the last two years, though it is well below some historical levels. The tables are shown below.

Do you think now is a good time to buy a house?

	Good time	Not sure	Bad time
R8 – 1976 III	34%	14	51
R7 – 1976 II	35%	15	51
R6 – 1976 I	30%	16	54
R5 – 1975 IV	23%	14	63
R4 – 1975 III	24%	15	60
R3 – 1975 II	26%	11	63
R2 – 1975 I	12%	6	82
R1 – 1974 IV	20%	8	72
*1972	51%	22	27

Generally speaking, do you think now is a good time, or a bad time to buy a car?

	Good time	Not sure	Bad time
R8 – 1976 III	37%	18	44
R7 – 1976 II	36%	19	45
R6 – 1976 I	29%	19	52
R5 – 1975 IV	29%	16	56
R4 – 1975 III	23%	16	61
*1972	46	29	25

Generally speaking, do you think now is a good time to buy any large household items?

	Good time	Not sure	Bad time
R8 – 1976 III	38%	22	40
R7 – 1976 II	40%	25	36
R6 – 1976 I	36%	25	39
R5 – 1975 IV	30%	25	48
R4 – 1975 III	27%	22	51
R3 – 1975 II	28%	18	54
R2 – 1975 I	17%	12	71
R1 – 1974 IV	33%	16	51
*1972	57	33	10

*Peak of highest consumer confidence rating since 1970.

It is likely that consumers might be poised on the edge of confidence and an increase in purchases might be attained with relatively less "push" than might be needed in some other times. However, achieving anything at all will require two things:

(1) Some additional reassurance on the price front. While we have not presented figures, research on the point shows most consumers think that prices are still going up; indeed, the third quarter shows perceptions have gotten worse than they were in the second quarter. Fear of inflation causes consumers to pull back from spending.

(2) Some stimulus to convince consumers that things are moving.

There is evidence in other surveys - the Sindlinger work - that there was in fact a post-election jump in confidence. Our own post-election work, a fuller analysis of which will be ready in several weeks - shows signs that nearly two-thirds of the voters feel a Carter victory will be good for the economy and a plurality of those with an opinion feel Carter will improve their own situation. The Sindlinger figures did stop rising at the "steel" crisis, but they remain higher than in the post-election period. Indeed, it can be speculated that the uncertainty surrounding the election may itself have prolonged the failure of positive perceptions to translate themselves into purchase intentions or real purchases.

Given the fact that so many consumers seem poised on the verge of purchasing, it might very well be the short sharp stimulus such as a rebate that would be more stimulative than a longer term tax-cut. The rhetoric of a rebate also lends itself to the "fighting inflation" theme since one can always say that the reason for not having a permanent tax-cut is <u>because</u> one wants to keep in sight the goal of balancing the budget.

A few additional points

(1) Seasonal adjustment and other government data problems - There seem to be serious problems with the seasonally adjusted figures. I had an extended conversation with the chief economist and other analysts at Sears, Roebuck, several of whom are advisors to the Census Bureau. They made a quite persuasive case that there are serious problems in the calculation of the seasonally adjusted figures when there have been sharp movements up and down in the business cycle. Similar complaints are being lodged in other circles as well, most notably by Professor Modigliani, the outgoing President of the American Economics Association. The largest area of criticism is over the unemployment figures.

There appear to be other problems as well. The initial monthly retail sales figures are consistently off from the final figures. For example, for September the initial Retail Sales Figures (RSF) says sales were increasing when in fact they were decreasing. October's figures (RSF) indicated a decline in sales when actually there was an increase. These figures were corrected a month or so later, but the impact had already taken place. The problem seems to be in the recovery of the initial sample, only 70%, and in the composition of the sample itself. In addition, the samples have other problems as well. Many of the samples in retailing and consumer prices are nearly fifteen years old. In men's clothing there are items no longer being sold still in the sample! It appears that it is

taking the Census Bureau anywhere from 8 to 15 years to ready new samples for the Price Index, Retailing, etc! There are important figures from the 1970 Census that have still to be run. I have further looked into the problem and I must say it seems rather incredible.

In the employment area some of the figures have serious problems. The monthly U.S. Labor Department's estimates of "real", spendable income underestimates by 35% to 40% actual earnings.* The figures in the annual survey which comes out a year later steadily have shown the descrepancies. The reason is that the monthly figures are based on an assumption that the average worker who supports a family of four has the same weekly earnings as the average of all workers! Thus the average includes people working part-time, people adding to family income, etc. The Bureau of Labor Statistics admits the monthly figures are wrong and footnotes every release, but noone seems to take notice. Few outside the BLS have any sense there are problems of this magnitude. The horror stories could go on.

One point that does need to be made is that with the tremendous increase of women working and employment at record levels, the unemployment figures are masking several points. For one, a person who works to supplement family income when laid off is counted with the same weight as a single family bread-winner that is laid off. Second, of course, are the people who have given up looking for work and who are not

*From articles by Geoffrey H. Moore, Director of business cycle research at National Bureau of Economic Research and Senior Research fellow at Stanford University.

counted as unemployed. Another problem is workers who are on SUB benefits and receive 95% of their weekly salaries - they will often seek to be laid off temporarily for vacations when things are slack. The problems flow back and forth with regularity.

(2) Conference Board and Sindlinger - I have talked to Fabian Linden at the Conference Board, who runs their Consumer Confidence Index, and to Sindlinger. The Conference Board will have results next week and will get them to me immediately. Sindlinger provided me his weekly figures on confidence which are below.

June 20	55.5	
Sept. 15	51.6	
Oct. 13	49.8	Recession level 64.0
Oct. 27	49.0	
Nov. 3	46.8	
Nov. 10	49.7	
Nov. 17	56.7	
Nov. 24	58.0	
Dec. 1	57.7	
Dec. 8	57.3	
Dec. 15	57.1	

These figures confirm our own impressions that there was a slight drop from September to early November, and a rise after the election. Sindlinger says the rise stopped the day

after the steel announcement. He will provide new figures this week. It also describes the seasonal adjustments as "malpractice" and "sadistic" and has been arguing the point for a year, he claims.

Notes on the appendix

As indicated these are actual excerpts from the summaries of the Cambridge Report over the last seven quarters. Read quarter-to-quarter I think they provide an understanding of how the consumers moved over the lat two years as they attempted to evaluate and react to economic situations. I would urge a careful reading of the excerpts from Reports 4, 5, 6, and 7.

Below is an index to the reports:

	Cambridge Report	Quarter	Survey taken	Historical point
A.	Cambridge Report 2	1st, 1975	January, 1975	Lowpoint recession
B.	Cambridge Report 3	2nd, 1975	April, 1975	Mini-recovery
C.	Cambridge Report 4	3rd, 1975	August, 1975	Impact New Inflation
D.	Cambridge Report 5	4th, 1975	November, 1975	Confidence down, spending up
E.	Cambridge Report 6	1st, 1976	February, 1976	Confidence rise - inflation psychology takes hold
F.	Cambridge Report 7	2nd, 1976	May, 1976	Confidence levels off, recovery to stall
G.	Cambridge Report 8	3rd, 1976	August, 1976	Recovery stalled

Appendix A

EXECUTIVE SUMMARY
Cambridge Report #2 FIRST QUARTER 1975 - January 1975

"Today, however, we see distinct signs that consumers are beginning to lose faith not only in the prospects of the country and the economy but in their own long-term well-being as well. Unemployment has joined inflation as a major concern, but worries about inflation have not faded at all. The number of consumers planning to buy everything has been cut just about in half from the already depressed fall levels."

"This point becomes very significant when we look at potential government moves to stimulate the economy, such as a tax cut. In Report 1, we demonstrated that consumer confidence - or short-term economic expectations - is strongly related to what we labeled the "super market" perception of inflation. Simply translated, this means that small increases in items consumers buy frequently are psychologically more important than large increase in items they rarely purchase. Supermarkets have recognized this for a long time, and often sell "image" items - bread, milk and meat - at or even below cost in order to create a "low price" image for the store itself and thereby attract shoppers. Of course, the difference is made up on thousands of infrequently purchased items.

What we are arguing is that "image" items also play a large role in the overall economy. Indeed, given our hypothesis about frequency of purchase, image items for both the economy and the supermarket may be exactly the same. As the analysis of Section 2 of this Report tries to show, the consumer reaction to moves to stimulate the economy, such as a tax cut, will be determined to some extent by whether or not the government can restore confidence, not by public relations but by guaranteeing that the prices of these image items are going to be stable or even decline. If not, much of any tax cut or rebate will be saved or used to reduce debt. While eventually the money will filter back through the economic system into productive investment, the positive impact will be delayed."

Appendix B

EXECUTIVE SUMMARY
Cambridge Report #3 SECOND QUARTER 1975 - April 1975

"Throughout this Report, we will see what may seem like a baffling mix of optimistic directions and pessimistic levels, Almost every measure in the Report has recovered slightly from the lows we saw in the winter; but at the same time, few figures have reached the levels of expectations we saw in the fall. If one covers up the winter figures and looks only at the absolute values of the spring response, it's clear that substantial fear and pessimism remain. Thus, our survey seems to have found Americans right on the threshhold as far as confidence in recovery is concerned.

One fundamental reason seems to underlie this uncertainty about recovery: the signals people have been getting from the economy - primarily food prices, though changes in unemployment and interest rates seem to have some impact as well - are neither clear enough nor strong enough yet to increase their confidence. Many have come to believe that business will get better in the coming year; at the same time, a lesser number feel that their own income will improve, and the past still looks better than the present.

What all this adds up to is that although the people have seen some good signs, they've also had some bad experiences. They are a little more ready to spend and to buy than they were before, but they are still wary of overcommitting themselves. They want to see prices and unemployment start to decline before they will be convinced that the economy is, in fact, headed for recovery. If they are disappointed in either - like the proverbial groundhog who sees his shadow - they will surely slam the door on recovery for several more months."

Despite this shift in concerns, however, the figures - particularly those in Section 6 of this Report (which presents the results of our first panel-back survey) - seem clearly to show a stronger relationship between perceptions of price changes and consumer confidence than between awareness of unemployment and consumer confidence. This is only logical, since inflation affects 100% of the people while unemployment affects only the unemployed and, perhaps, those who worry about being unemployed - a relatively small percentage of the population.

Furthermore, as we have hypothesized in earlier Reports, people seem to be differentiating between food prices and other prices. At the time of the survey, 41% of the people felt food prices were stable or falling while "only" 57% felt they were rising. However, only 28% thought prices in general were stable or falling while 69% saw them rising. What is even more important is that despite the fact that food prices actually fell over most of the country in the few months preceding this survey, slightly over half the people still felt they were rising. And those who saw food prices rising experienced a much larger decrease in confidence than those who felt they were declining - 56% of the first group were less confident than last winter versus only 31% of the second group.

The figures on perceptions of food prices actually represent a massive improvement when stated in the reverse. For the first time in a long while, nearly half the people felt food prices were either stable or falling. However, even as the analysis for this Report was being finished, government figures were released showing a modest upturn in food prices in April. While many feel this was only a temporary aberration, given the strong correlation that exists between food prices and consumer confidence,

it could certainly help reverse the weak positive trends we've just begun to see in our consumer confidence measures. And - since there is also a clear relationship between changes in consumer confidence and changes in purchase plans (see Section 6) - this negative impact would reverberate throughout the economy.

At this point, it is important to note that although we've only looked at food prices, the same conclusions would apply equally to gasoline prices. As we have demonstrated starting with Report 1, small increases in the prices of frequently purchased items have a greater impact on consumer awareness - and on consumer confidence - than large increases in seldom bought big-ticket items. And gasoline certainly fits into the first of these categories."

Appendix C

EXECUTIVE SUMMARY
Cambridge Report #4 THIRD QUARTER 1975 - August 1975

"The cautious optimism that characterized the mood of the American people three months ago is gone, replaced by a pervasive uncertainty that might well be labelled "cautious pessimism". Thus, the data show that many Americans feel they have made progress over the past quarter, reversing three straight quarters of decline. (If is probably their readings of this feeling that have mislead public opinion analysis who claim that consumer confidence is still climbing.) However, the American people anticipated this progress last spring. Now when they look ahead, they expect little further improvement, either in their personal lives or in overall business conditions. Furthermore, many Americans are finding their disappointment a little hard to swallow."

"A close analysis of the data shows that the mood swing we see in this Report is related directly to people's perceptions of inflation - particularly food and fuel inflation. Last spring, many Americans saw food prices falling or stable, and some even saw prices in general stabilizing. Over the summer, however, people quite correctly perceived an upward turn in prices. This perception has dampened their confidence, curtailed their spending, and fueled their anger.

This analysis only re-emphasizes one of the key conclusions that came out of Report 3: the movement of prices is crucial to the course of the economy. The failure of consumers to participate in the recovery could make it no recovery at all. Tax cut dollars - this year's and, possibly, next year's - can only spur a recovery if they are used to buy durable goods or stimulate the economy in other ways. Yet consumers are weary of price increases; they will do very little so long as the threat of inflation hangs over their heads."

"In response to the questions we asked in early August on inflation, we see almost total unanimity among consumers that the prices they were paying were going up. Furthermore, when we asked respondents to estimate the size of price increase, we found those estimates rising for the first time in three quarters. In the spring, the average estimate was an 8% increase overall prices for the coming year; the August estimate was more than 12%.

We also see evidence that consumers are beginning to give up hope of a halt in inflation. Larger numbers than ever before agree with the statement that we may have to learn to live with inflation because prices will never be stable again. Does this mean that we will finally see the emergence of a so-called European-style inflation psychology? Does it mean a birth of anticipatory spending?

We think not. Everything we have seen in the last four surveys suggests that Americans tend to react conservatively when they seen prices moving up. Rather than spending to hedge against future prices that may be even higher, they cut back their purchases to accumulate reserves against future troubles that may be even worse."

Appendix D

EXECUTIVE SUMMARY
Cambridge Report #5 FOURTH QUARTER 1975 - November 1975

"In terms of general economic developments, Report 5 shows two almost contradictory trends. Confidence has leveled off or fallen for most consumers. More Americans than ever before feel that the year ahead won't be much better than the one just past, and majorities of every group in the population feel that the worst of the recession is right now or still ahead of us. At the same time, however, the responses to other questions we use to assess the mood of the American people seem to show less panic.

For example, while consumers are unanimous in seeing prices for both food and general commodities rising, they have lowered their estimates of the rate. Moreover, a slightly higher proportion, though still a minority, of Americans feel they are keeping up with inflation. The tone of our respondents' "hopes and fears" about their personal lives has also become less emotional; economic worries still predominate, but fears of a "Great Depression," complete with soup lines, have been replaced by more conventional worries about financial well-being. Similarly, when we look at the reasons people give for saving money, "economic security" - a more confident response - has edged ahead of "emergencies," which was the dominant theme of the past year.

The most positive finding to emerge from the current survey was the increase in consumers' purchase intentions. Although plans to buy housing and automobiles remained basically stable over the last quarter of 1975, intentions have risen for almost every category of durable goods. Purchase intentions for clothing are also strong. The current levels don't set any records, but they do indicate a basic recovery in consumer buying from the recession lows.

Yet, despite all these positive signs, consumer confidence itself has slipped slightly. The reason, which the panel analysis in Section 7 of this Report makes clear, is persistent inflation. Even proceeding at a more modest rate, inflation continues to sap confidence and make consumers nervous. If this picture doesn't change, we - and all other consumer researchers - will have no other choice but to re-evaluate the basic assumptions underlying the whole concept of consumer confidence."

"Until now, two basic assumptions have provided the underpinnings for most studies of consumer psychology. First, it was assumed that the majority of people expected long-term "progress" for themselves and for the economy. Second, consumers were believed to view economic problems as - in the language of our ladder-scale categories - "temporary crises" that could be solved. Thus, every economic development was perceived as having a direction, and the times were either "good" or "bad." Simple-minded as these assumptions may seem, they did have roots in empirical reserach and they did reflect the most typical way of viewing the world.

It seems clear that the general notion of consumer confidence, which reflects the "direction" in which consumers think their lives and the nation are moving at any particular time, does help to explain the ebb and flow of purchase plans as well as decisions on how much to save, to borrow and to spend. On both the individual and the aggregate level, rising confidence has been associated with increased plans for spending and

other economic activity, while falling confidence has been linked to reduced consumer spending and efforts to reduce debt and accumulate a nest egg in the bank.

However, to reiterate a critical point that every Report, including this one has made in one way or another, perceptions of price increases - partiuclarly for frequently purchased items such as food and fuel - have a far greater impact on consumer confidence levels than any other economic indicator. The most decisive upturn we have seen in consumer confidence (documented in Report 3) followed several months of actual price stability and, because it was experienced at the cash register, enormous consumer awareness of this stability. Since that time, there have been periods when the key economic indicators have moved up fairly strongly, but consumer response has lagged."

"It appears that many, if not most, consumers have chosen to watch inflation as their key economic indicator in the same way that the government watches a host of indicators, leading, lagging or otherwise. Although consumers may take other factors into account - news reports, the unemployment rate, interest rates and so on - the data all point to the primary importance of the experience at the supermarket and the gasoline station.

While we can only speculate, a number of things may explain the consumers' choice of inflation as their leading indicator. First of all, inflation is easy to see and to understand. Even if you can't calculate percentages, you know when the price of hamburger goes up. However, they may be exaggerated, perceptions of inflation are highly reliable. Unlike news pronouncements or political speeches, you know that what you're seeing is the truth; you don't have to wonder whether someone lied to you or you misunderstood."

"This theory about the way consumers view the economy - a theory that, in our judgement, is fully supported by both reason and fact - leads to troubling questions for both consumer researchers and those who have to appeal to the American people as customers or as voters. The most fundamental question is, quite simply, this: What are consumers going to do if the relationship between general economic health and the inflation rate breaks down? (This assumes, of course, that we can have economic health with the 6% to 7% per year inflation many economists now predict as "normal" for the next decade.) Will they, or can they, adopt an alternative basis for making personal economic decisions?

Inflation psychology, for example, dictates a purchase strategy of buying as much as possible as quickly as possible. If they truly come to accept rising prices as a fact of life, Americans may simply abandon consumer confidence and shift to a strategy based on these dictates. On the other hand, a "steady-state" view of the economy - where the past, the present and the future are essentially the same - might suggest a strategy that places more emphasis on competition with other consumers for a bigger share of the pie (since people can no longer rely on the economy to lift them up with the general mass of consumers), and "bargin hunting" in the marketplace to stretch limited incomes as far as possible."

"The picture need not necessarily be gloomy since the consequences of individual economic action do not always produce the macro-economic consequences the individuals themselves desire. We must not lose sight, for example, of the very real increase in purchase intentions that has taken place. While part of this increase can no doubt be attributed to the growth of an inflation psychology; another part to the simple acceptance of the idea that things are not getting either better or worse; and a much smaller part to increased consumer confidence - the resulting purchases will have the same effect on the economy as "confident" purchases would in terms of producing jobs and fueling industry. And, if in turn, this increase economic activity produces more jobs and income without sending prices skyrocketing again, a restoration of real confidence may take place."

Appendix E

EXECUTIVE SUMMARY
Cambridge Report #6 FIRST QUARTER 1976 - February 1976

"This Report stands out from those that have gone before it because of the new highs set by the key measures we use to understand the mood of the American people. Consumers have become markedly more optimistic about the health of the economy and the prospects for both their own and the nation's well-being. In fact, the total number of confident consumers is the highest we've found in any Cambridge Report survey, and the total number of unconfident consumers the lowest.

Inflation psychology has taken an even bigger jump than consumer confidence, and it, too, is at the highest level we've seen since the start of The Cambridge Report program. Today, despite their experience of stable or falling prices over the last quarter, nearly half the population believes prices will never be stable again. This acceptance of inflation has combined with consumer confidence to boost purchase plans for some items - in particular, automobiles - to their highest level in over a year, and sustain others at the same record level they set last quarter.

So,looking at the growing confidence of our respondents and the way they plan to spend their money, it's hard to resist the conclusion that the country is back on the track again. Yet there are some disturbing signs. Confidence may be spreading across the country, but we're definitely not in the midst of an epidemic; it still hasn't infected the majority of Americans. Although economists have no doubt that recovery is in full swing, the majority of Americans still aren't convinced that the worst times are behind us. Fear of inflation is strong, and we're already getting signals of a new round of price increases. If inflation psychology gets additional impetus from rising food and fuel prices, it may boomerang and push consumers back into pessimism.

In understanding the economy today, the history of the last few years is of vital importance. The massive and unprecedented inflation of 1974 and 1975 set the stage for both a different kind of recession and a different kind of recovery. And unless that point is understood, it is hard to follow the developments of today. It is clear that complex interactions exist between price changes and confidence, between price changes and inflation psychology, and between both confidence and inflation psychology and purchase plans. Inflation is contributed to an extra decline in the economy during the recession as it scared consumers away from spending. Now, as the recession ends, it is aiding the upturn as more confident consumers are encouraged by inflation psychology into additional spending, particularly for luxury-type goods. We can envision several possible scenarios for the coming months. (1.) If prices remain stable or falling in many sectors, as they were last quarter, confidence should continue to increase and, sooner or later, inflation psychology will abata. In this scenario the nation should experience a stable and sustained economic recovery. (2.) On the other hand, a resumption of rising prices could fuel inflation psychology and proportionately weaken confidence. Rumblings from the farms already indicate higher food prices are on the way; similar increases can be expected in industrial commodities. If prices rise rapidly, consumer confidence could fall dramatically. Our findings in this Report indicate that while inflation psychology would continue to rise, it is not strong enough by itself to keep purchase intentions up in the absence of wage increases that sustain real income. Indeed, in times of falling confidence, inflation psychology

may actually work against increase in purchase plans. Worried consumers who see their standard of living falling may view inflation as just one more bad sign, one more reason to pull back and save. (3.) A third scenario, which exemplifies the last quarter, is also possible. Prices resume their climb and inflation psychology marches onward. However, the rise of prices is moderate and wage inflation cushions or negates any impact on real income. The consumer thus finds inflation an unreliable planning tool - as we saw in Report 5 - and remains confident until some more decisive clue to the future of the economy appears. A marriage of hope and fear continues to fuel economic progress for at least the rest of the year."

"What is more interesting than the absolute level of purchase plans this quarter are the patterns of these plans. In the case of automobiles, for example, we are seeing a shift back to medium-size, American-made vehicles. However, this is due less to any change in preferences than to the fact that many middle-income, middle-aged Americans have reentered the auto market after a year's absence. Similarly, the seeming shift that we saw over the past year to smaller, imported cars was produced largely because higher-income and younger consumers, who prefer such cars, accounted for a disproportionate share of all auto purchases.

In the case of consumer durables, our buying power scale shows that inflation psychology not only encourages both confident and unconfident consumers to purchase more than they otherwise would, it also affects the types of goods they purchase. Thus, confident consumers who believe prices will never be stable again tend to make luxury purchases, such as televisions, stereos and dishwashers. Unconfident people who have an inflation psychology, on the other hand, are more inclined to make investment-type purchases, such as clothes washers and dryers and refrigerators."

Appendix F

EXECUTIVE SUMMARY
Cambridge Report #7

SECOND QUARTER 1976 - May 1976

"Three months ago, we found cause for considerable optimism in our consumer confidence readings. People were clearly getting positive signals from the economy. But at least part of our good feeling was based not on the objective level of the figures but on the apparent burst of enthusiasm they represented compared to the preceding quarter. In this Report, we are confronted with the same objective data, and thus, with little or not growth of confidence. Without such growth, it is easier to look at the basic facts and see that the majority of Americans still have doubts about the future of the economy and their own well-being. The small decline in purchase plans for many consumers goods this quarter reflects this ambivalence. People think the times are right to buy, but they aren't sure enough to actually make plans.

In the midst of what has been termed by "hard" economists a strong recovery, this is a disappointing picture. Consumer confidence is stable - or stalled - at a level that looks good only in relation to the worst economic times this country has experienced since the Great Depression. And purchase plans, if they haven't actually softened, certainly haven't firmed up.

Yet future stability isn't guaranteed by the current figures either. The failure of consumer confidence and spending plans to increase this quarter doesn't mean they won't decline next quarter. Significant groups of consumers clearly expect their personal economic circumstances and business conditions to get worse. In the past, there have been hints that consumers might move toward a "steady state" view of the economy (an idea we discussed in detail in Report 5), but this Report doesn't show people expecting things to be stable so much as it indicates confusion on the part of many consumers. It's one thing to say, "Things won't get much better or worse, they'll stay basically the same," and another to say, "I can't tell whether things are getting better or worse."

We have noted before that for many, if not most, consumers, inflation seemed to be the key indicator of the health of the economy. From past experience, consumers knew that inflation and economic progress did not go hand in hand. Today, however, this is exactly what is happening, and at least for the time being, consumers have no reliable planning tool. The response to a new question we asked this quarter shows that this inability to plan is strongly related to consumer confidence - that is, those who feel the most frustrated in their efforts to plan are the least confident.

To make matters more confusing, the inflation picture itself is hard for consumers to decipher. Because of the important role inflation plays in consumers' attitudes toward the economy, this quarter we explored the question of whether consumers differentiate between the presence of inflation and the rate of inflation. A series of questions demonstrates that consumers are, in fact, very sensitive to the rate of inflation, and furthermore, that there is a strong correlation not only between perceptions of inflation in general and consumer confidence, but also between perceptions of the inflation rate and consumer confidence. Thus, more people saw prices rising in the second quarter than the first, but most of these people also gave lower estimates of the rate of price increases.

And those who saw inflation slowing were far more confident than those who saw it speeding up.

Our buying power index, which measures the combined impact of consumer confidence and inflation psychology on spending plans, helps make some sense out of this confusion. After continuing up last quarter, this quarter it points slightly downward. Furthermore, the group of people who are theoretically most inclined to purchase - people who are both confident and inflation-oriented - has shrunk since the first quarter."

Appendix G

EXECUTIVE SUMMARY
Cambridge Report #8 THIRD QUARTER 1976 - August 1976

"This Report documents the third straight quarter of sagging buying intentions and relatively low expectations for the future. Our consumer confidence index rose slightly, but any thought that a resurgance is underway disappears when we look beneath the numbers at the actual responses. Most Americans - a full two-thirds - don't think they are any better off today than they were a year ago and don't expect next year to be any better, either for themselves personally or for the economy in general. Our long-term ladder scales show a paradoxical kind of optimism. More people feel the future will be better than the past, but this is because they have lowered their assessment of the past, not because they have raised their expectations for the future. The future looks better only in comparison to the past."

"Thus, consumers remain reluctant to engage in the kind of activities that would get the economy moving again. This foot-dragging has been noted by many observers. In the final days of the Presidential campaign, part of the debate centered on how serious the "pause" in the recovery, or the "consumer yawn," was and what steps were needed to counter it. Commentaries ranged from near panic cries of imminent recession to protestations that the "pause" was actually an improvement over the frantic economic activity of the first quarter.

One point on which all the analysts seem to agree, however, is that the failure of consumer spending to pick up reverberates throughout the economy. Storeowners become more cautious; they may not buy as much for the Christmas inventory or hire as much help. Factory managers, noting lower orders, may not actually cut back, but they may delay the purchase of new machinery. Machine tool firms...and so on.

An obvious lesson in economics need not be repeated at great length here. The central message is clear: without more positive activity by consumers, a certain sluggishness is sure to presist throughout the economy. The danger of "yawning consumers" is that they will put the economy to sleep. The essential questions, then, are: why are consumers hanging back, and what can be done to change things?"

"The survey data offer explanations on both the objective and the subjective levels. Objectively, it seems clear that over the past few years consumers have lost real income. Many consumers - particularly those in the middle-income groups, who do a considerable amount of the total purchasing - have less purchasing power today than they did 4 years ago; the response to our standard question on satisfaction with current income shows that they recognize this. Thus, one explanation for current consumer behavior is that people simply don't have the money to make purchases."

"Turning to the subjective factors underlying the "pause," it is clear that a simple lack of funds cannot entirely explain the failure of consumers to participate in the recovery. Americans hold substantial savings, credit is available and not being used, and even higher-income people, with clearly adequate incomes, have reduced their purchase intentions over the course of the past few quarters. Other factors are clearly at work.

EXECUTIVE SUMMARY
Cambridge Report #8

Not surprisingly, we find this quarter that Americans are again picking up negative signals from the economy. Right or wrong, they see all four of their key indicators taking a turn for the worse. Two-thirds see food prices moving up - though, in fact, food prices have been relatively stable for the past few months. Three-quarters see prices in general moving up - a correct perception. Whereas last quarter, a plurality saw unemployment declining, today nearly half our respondents see it increasing again - a very discouraging perception. Even for those who have jobs, a rise in unemployment is a bad sign; they worry about losing them. Finally, a plurality also see interest rates as increasing, though, in fact, they've been relatively stable for the past few months. So, two of the negative perceptions - interest rates and food prices - are somewhat mistaken, but two others, prices in general and unemployment reflect legitimate concerns about the economy."

C

MEMORANDUM

TO: Governor Carter

FROM: Pat Caddell

DATE: 21 December 1976

RE: Additions to December 10 Working Paper

Reviewing my working paper on politics, I found several points that I wanted to address in more detail. The first is the need for an inflation offensive, a short reference to which is made on page 46. The second is the need for a vigorous effort to visibly involve government, business, and consumers in a dialogue on problems and solutions. This expands on the "new accommodations" material on pages 39-40. Appendices are attached on each point.

Two further points about the overall political situation also need emphasis:

(1) Governor Carter's political situation is precarious for a Democrat. Any loss that he sustains among the nontraditional groups which supported him in 1976 that is not compensated for among other groups would put his political future in danger.

(2) The Democratic party is in serious national trouble - with a shrinking and ill-defined coalition. We need a new and broader political coalition that can attract new support. It would be a mistake, however, to try

ELECTROSTATIC REPRODUCTION MADE FOR PRESERVATION PURPOSES

to create an all-inclusive coalition. Indeed, one decision that must be made is which groups ought not to participate in the coalition. A decision on who to exclude will make clearer both who should participate and how - strategy should be formed.

Let me reemphasize that those serving in the Administration, at all appointed levels, must be educated to Governor Carter's philosophy and to the political realities that exist. We cannot have a situation where substantive experts deal in a political vacuum. If the Administration is to be successful, all its officials need to have a working understanding of Governor Carter's goals and his philosophy. Also, they must be made sensitive to the implicit contract made during the campaign between the Governor and the electorate. Finally, they must realize both the grounds upon which public approval will be won or lost and the strategy for ensuring a positive result.

Appendix I - The need for an inflation offensive

As mentioned in the working paper, the current low level of consumer confidence results from a fear of inflation. Double-digit inflation has deeply scarred the American consumer. As the concurrent memo being prepared on consumer confidence will show, it is not the general rate of inflation that disturbs the consumer as much as the inflation in his or her household budget - the money that goes for food, gasoline, health care, housing, and taxes. The economic signal to which the consumer responds most is food costs, followed by gasoline costs, price increases for health, housing, taxes, and finally unemployment and interest rates. And for three-quarters of the population 70% of their purchases are in these four areas. If consumer confidence is to rise - thus increasing consumer spending - then fears of inflation must be alleviated.

I think it is possible to move both consumer confidence and consumer purchases. However, the success of any new stimulus will depend in great part on how the consumer assesses the potential inflation - any impact of that stimulus as well as his expectations of rising or falling food prices. The Republicans have succeeded in convincing the consumer that higher deficits mean more inflation. To the degree the consumer judges that any new stimulus will increase the deficit and thus increase inflation/food costs, the success of the stimulus in motivating him to purchase will be decreased.

Therefore, whatever fiscal package is undertaken, President Carter must also concurrently address the basic fear of inflation. If he succeeds in convincing the public that he understands their concern with inflation (particularly food prices) and will address that concern, then the consumer perched on the edge of increased spending will be more likely to take the plunge.

There is already a belief that the new President will be good for the economy; therefore he has a better than average chance to stimulate confidence by statements and symbolic actions. In announcing any economic stimulus package, therefore, I strongly urge that the President also announce an "inflation offensive" targeted at the family budget. A strategy which emphasized and dramatized efforts and programs to substantially stabilize prices in the household sector would be understood and positively received by every consumer. It would probably have both positive impact on consumer confidence and on our political standing. Tax reform might also be added to the question of inflation in the household sector. A strategy which focussed public attention on controlling the price of frequently purchased basic necessities would help shift the public away from the politically explosive idea of wage-price controls.*

Of course, any household inflation strategy requires the issues staff to formulate some proposals and programs in

*The Exploratory Project for Economic Alternatives co-directed by Gar Alperovitz has initiatied studies in this area which I have drawn on heavily.

the immediate future. Reforms in housing, food, health, energy and taxes which are likely to be proposed at some point anyway could be united in an appealing framework, however, if we focus them into an anti-inflation package.

All in all, we need to view inflation from the citizen-consumer point of view rather than simply from the statistical-economic point of view. This will help us build public support for all our economic proposals and provide a political framework for achieving economic action. While some may criticize the approach, as it sometimes has little relationship to "real" economic theory, I feel strongly that any economic effort that fails to deal with consumer reality is in jeopardy. While any real program would take several years to formulate and accomplish, the statement of intent and purchase could have an early impact and would be the key first step.

Appendix Two - The need for an accommodation framework

Throughout the campaign, one of the major themes Governor Carter raised was the need to unify the country by drawing directly on the strength of the American people in solving the country's problems. Our surveys revealed a desire for unity and for public order. Exhausted by the passionate quarrels of recent years, there exists a willingness right now to establish a framework which would permit various groups to come together and resolve differences. In almost every sector non-negotiable demands have been replaced by a greater willingness to compromise and accommodate. The public has become dissatisfied with the stagnation that results from the mutual mistrust of business, which it dislikes, and government, which it fears.

Traveling the country in recent weeks, I have been impressed by the strong desire of major corporate executives to find ways to reach an accommodation with the government and the public. The pressures of consumerisim, increased regulation, and our changing society have reached people who only a couple of years ago displayed little more than contempt for any notion of responsibility. Now I find an almost desperate desire to contribute some kind of order that permits both economic success and social responsibility. Of course they are motivated to some degree by selfish economic concerns, but I feel altruistic motives also play a part. These people want to find a way to contribute to a national understanding that lays out the nation's

goals and a course of action which accomplishes those goals. They are frustrated by the environment of accusations, suspicion, and recrimination that we've had.

After a recent speech I was asked to sum up in a word or phrase what relationship I thought the average person wanted between government and business. I had to respond with two words: If it were a relationship between just the two sectors then the average person wanted "hostility", so that a balance of tension would protect him from both. If he could benefit, however, the average person wants a "partnership".

Though most Americans believe in the free enterprise system, they mistrust business. And, although they believe deeply in the political system, they have little faith that the government really represents people. The average person, worried about the future, scarred by the past, unable to find any clear national goals, fearful of a changing society, desires a process where clearcut roles are defined and processes are agreed upon which accommodate these roles. However, citizens do not trust any group or person to represent their interests. All in all, they want a new "social contract".

With this preamble I think President Carter could substantively and symbolically produce an accommodation between leaders of government, business, the consumer movement, labor, the environmental movement, farmers, and, or course, ordinary citizens. The goal would be to produce a national agenda

with clear goals and a definition of responsibilities. A national group, picked by the President, could be formed to begin talking about the problems. It could meet regularly, supplemented by some staff work and subgroup meetings. Under no circumstances should it be a "commission" that gets one-day media notice and disappears, with a staff doing a "report". Instead, it should be comprised of the principal officers of various groups and of ordinary citizens, who actually do the work. The President would have to be active in the effort since he could give it the legitimacy it needs.

The group should be made up of serious, goal-oriented individuals more interested in an end-product than in personal aggrandizement. The national group could be the model for similar local and state groups and perhaps for special task forces that would involve (as did the Johnson secret task forces) bright, young, little-known figures, coming together on special projects and providing new ideas and new faces to the Administration. We would have a kind of national "town meeting" providing both a "dialogue" on problems and hopefully some answers.

I don't believe the idea is as crazy as it seems. There's a national yearning for some kind of effort to bring us together. A success would strike a deep and significant chord in the country.

THE FOLLOWING MEMO HAS BEEN RETYPED BECAUSE WHEN IT WAS TRANSMITTED, THE COPY WAS SO BAD THAT WE FIGURED IT WOULD NOT TRANSMIT AGAIN AND BE CLEAR TO ANYONE. MAXIE AND CAROLYN

* Indicates Gov. Carter's notations on memo.

MEMORANDUM

*To Pat

TO: Governor Carter

cc Ham
Jody

FROM: Pat Caddell

J

RE: Further thoughts on strategy discussions

DATE: 10 January 1977

I have only a couple of points I want to raise with you in this hectic period, and I'll list them as follows:

(1) If we are really going to develop an effective political strategy and a timetable, it is important that we formalize the process as I recommended in my memo. I hate to keep harping on the problem, but unless you give specific instructions for the formation of such a group, it will not happen and there will not be any ongoing consideration of strategy, goals, or the implementation of timetables.

* Ham do this J

(2) In the appendix to my working paper I raise the point about the need for an accommodation process between the people, the government, and various groups. I am anxious to know whether or not you think that's a viable point that ought to be pursued by some of us in greater detail.

* Yes

(3) Some Cabinet officers have asked about the working paper sent to St. Simons'. Do you want me to prepare a summary paper of that document for their use?

* Yes

(4) At the Inaugural a number of receptions are planned, including one for the Democratic National Committee. I think it is crucial that you either have a separate reception - or include at the DNC reception - a gathering of your state coordinators and other key political people, so that you will have the opportunity of personally thanking them for their efforts during the campaign. There have been some grumblings that there has been no appreciation expressed for the

* Ham -- Try to do this or equivalent J

ELECTROSTATIC REPRODUCTION MADE FOR PRESERVATION PURPOSES

efforts of these people in the fall. This can be alleviated rather easily, and it would also help strengthen your political posture in the states.

(5) The first fireside chat - As I mentioned to you at the conclusion of the St. Simons' Cabinet meeting, I am quite concerned with the fact that the press seems determined to portray your administration as one that's not going to keep its campaign promises. Every slight deviation they perceive is being blown into a giant incident by the press. Since the credibility of the administration is critical to your success and to the political process in general, I recommend that you go "over the heads" of the press in the near future to deal with this problem. As you yourself suggested after the election, there's a good reason to have a fireside chat which would focus on a delineation of your campaign promises, an explanation of how you're going to accomplish them, and a timetable for accomplishing them, to give people a general sense that you're committed to what you've promised. I think this could be extraordinarily effective with the people, and diffuse this continual harping by the press. The best of circumstances would be to have it before the Inaugural. If this is not realistic, however, then it should be done almost immediately after the Inaugural, before you get into the process of proposing substantive programs. If this constant questioning of your campaign promises is not checked, it could lead to serious problems almost immediately. You have the opportunity for tremendous positive results. I've mentioned this to Jody; perhaps you might want to talk to him and the others about it.

* Jody suggestion? J

CAMBRIDGE SURVEY RESEARCH INCORPORATED

12-14 Mifflin Place Cambridge Massachusetts 02138 617/661-3212

To Pat
cc Ham
Jody
J

MEMORANDUM

TO: Governor Carter

FROM: Pat Caddell

RE: Further thoughts on strategy discussions

DATE: 10 January 1977

I have only a couple of points I want to raise with you in this hectic period, and I'll list them as follows:

(1) If we are really going to develop an effective political strategy and a timetable, it is important that we formalize the process as I recommended in my memo. I hate to keep harping on the problem, but unless you give specific instructions for the formation of such a group, it will not happen and there will not be any ongoing consideration of strategy, goals, or the implementation of timetables.

Ham do this
J

(2) In the appendix to my working paper I raise the point about the need for an accommodation process between the people, the government, and various groups. I am anxious to know whether or not you think that's a viable point that ought to be pursued by some of us in greater detail.

yes

(3) Some Cabinet officers have asked about the working paper sent to St. Simons'. Do you want me to prepare a summary-paper of that document for their use?

yes

(4) At the Inaugural a number of receptions are planned, including one for the Democratic National Committee. I think it is crucial that you either have a separate reception - or include at the DNC reception - a gathering of your state coordinators and other key political people, so that you will have the opportunity of personally thanking them for their efforts during the campaign. There have been some grumblings that there has been no appreciation expressed for the

Ham-
Try to
do this
or
equivalent
J

efforts of these people in the fall. This can be alleviated rather easily, and it would also help strengthen your political posture in the states.

(5) The first fireside chat - As I mentioned to you at the conclusion of the St. Simons' Cabinet meeting, I am quite concerned with the fact that the press seems determined to portray your administration as one that's not going to keep its campaign promises. Every slight deviation they perceive is being blown into a giant incident by the press. Since the credibility of the administration is critical to your success and to the political process in general, I recommend that you go "over the heads" of the press in the near future to deal with this problem. As you yourself suggested after the election, there's a good reason to have a fireside chat which would focus on a delineation of your campaign promises, an explanation of how you're going to accomplish them, and a timetable for accomplishing them, to give people a general sense that you're committed to what you've promised. I think this could be extraordinarily effective with the people, and diffuse this continual harping by the press. The best of circumstances would be to have it before the Inaugural. If this is not realistic, however, then it should be done almost immediately after the Inaugural, before you get into the process of proposing substantive programs. If this constant questioning of your campaign promises is not checked, it could lead to serious problems almost immediately. You have the opportunity for tremendous positive results. I've mentioned this to Jody; perhaps you might want to talk to him and the others about it.

For my suggestion? J

IMM
PRECEDENCE

UNCLAS
CLASSIFICATION

FOR COMMCENTER USE ONLY

FROM: MAXIE WELLS

TO: "GOVTO 34"
HAMILTON JORDAN

INFO: PAT CADDELL

DEX _____

DAC 126

GPS _____

LDX _____

PAGES 2

TTY _____

CITE _____

DTG: 150140Z JAN 77

RELEASED BY:

TOR: 150151Z

SPECIAL INSTRUCTIONS: