

MEMORANDUM FOR HARRY DENT

Subject: Memo from Dick Garbett, "Wall Street Political Problems"

The stock market is down, people in Wall Street are unhappy, and they blame the President for the situation. That is natural, but also superficial, temporary and not very important. Certainly the decline in the market isn't due to lack of confidence in the President. The contrary is more nearly true. The financial community has finally acquired some confidence that the Administration means what it says about slowing down the inflation.

As for an "all-out depression" within the next two years, we don't see it, although we are looking continuously and intensively. There is a narrow line between slowing down the inflation and falling into a recession, and we can't promise to stay right on the line. But certainly everyone in the Administration is alert to the importance of not falling far on the recession side.

Secretary Kennedy, Federal Reserve Chairman Martin and I, and others, have explained our views on interest rates, including the prime rate, repeatedly. We believe that the present high rates are the consequence of a long inflationary boom colliding with the policies needed to cool it. We don't expect these rates to be permanent. The consequences of high interest rates would not be alleviated by disguising them in the form of unusually large compensatory balances. Of course, some people are hurt by high interest rates and by falling stock prices. But many more people are hurt by rapid inflation, and there is no way to stop the rapid inflation without some

hurt somewhere. We think it is better from every standpoint to try to turn the inflation around now and get some of the consequences of doing so behind us.

I am really surprised at the personal and political reaction Mr. Garbett reports. Our contacts with the financial community have been very friendly and we find great support for the general course we are following. I would say this is also true of the Wall Street Journal.

If you want to pursue this, let's get together and talk about it.

Paul W. McCracken